

Annual Report 2006

Year ended December 31, 2006 ● ● ● ●



Measuring the Unknown

Profile

Aiming to Be a First-Class, Global Company by Executing “One Company” Management

HORIBA is a global group of companies consisting of 6 companies with 2,028 employees in Japan and 37 companies with 2,669 employees overseas. The core businesses are R&D, the production and sales of analytical and measurement equipment in the fields of environment, health, safety and energy.

Management policy at HORIBA is focused on establishing a “win-win” relationship: It is based on the belief that all stakeholders can benefit from its business activities. With this belief, we strive to cultivate the value of our brand, human resources and technology, and to foster our unique corporate culture — as expressed in company mottos such as “Joy and Fun.”

We are pursuing an active M&A program to expand our business operations, and promoting “One Company” management based on respecting our corporate culture to increase our corporate value. As a result of these efforts, from 1997 to 2006, net sales and operating income increased 10% and 15%, respectively, on an annual basis. In our Mid-Long Term Management Plan, we are targeting net sales of ¥150 billion, an operating income ratio of at least 10% and return on equity (ROE) of at least 11% in the year ending December 31, 2010.

Financial Highlights

HORIBA, Ltd. and Consolidated Subsidiaries
The years ended March 20, 2005, March 20, 2006 and December 31, 2006

	Millions of yen			Thousands of U.S. dollars (Note)
	2005/3	2006/3	2006/12	2006/12
For the Year:				
Net sales	¥ 92,492	¥ 105,665	¥ 116,099	\$ 974,721
Operating income	9,373	11,275	11,707	98,287
Operating income to net sales (%)	10.1	10.7	10.1	10.1
Income before income taxes	6,105	10,748	10,588	88,893
Income taxes	2,290	4,214	4,028	33,818
Net income	3,524	6,473	6,510	54,655
Capital expenditures	3,956	5,664	5,059	42,473
Depreciation and amortization	2,944	3,173	3,246	27,252
Research and development expenses	5,636	6,553	6,136	51,515
At Year-End:				
Total assets	¥ 99,913	¥ 119,976	¥ 129,236	\$1,085,014
Property, plant and equipment, net	18,481	20,223	21,700	182,185
Net assets	52,263	65,446	72,375	607,632
Per Share Information:		Yen		U.S. dollars (Note)
Net income	¥ 98.33	¥ 154.27	¥ 154.23	\$ 1.29
Net assets	1,415.75	1,548.08	1,710.75	14.36
Cash dividends	16.00	28.00	26.00	0.22
Financial Ratios:				
Return on assets (%)	3.7	5.9	5.2	
Return on equity (%)	7.4	11.0	9.4	

Note: The U.S. dollar amounts are provided solely for convenience at the rate of ¥119.11 to US\$1.00, the rate prevailing on December 31, 2006.

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Change of Fiscal Year-end

HORIBA changed its fiscal year-end from March 20 to December 31, effective from the fiscal year under review. As a result of the change, the following irregular fiscal periods have arisen: The fiscal period for HORIBA, Ltd. and HORIBA Advanced Techno Co., Ltd. comprises the 9 months and 11 days from March 21, 2006 to December 31, 2006; and the fiscal period for HORIBA STEC, Co., Ltd. comprises the 9 months from April 1, 2006 to December 31, 2006. As the fiscal year-end of other consolidated subsidiaries was already December 31, the length of their fiscal periods remains unchanged at 12 months.

Disclaimer Regarding Future Plans and Forecasts

This annual report contains certain statements describing HORIBA’s future plans, strategies, and performance forecasts. These statements reflect management’s assumptions and beliefs based on current information available. Therefore, actual performance may differ significantly from the forecasts due to various factors in the operating environment.

To Our Stakeholders

**HORIBA begins this new fiscal period with a challenge:
to achieve ¥150 billion in net sales while maintaining more than a 10%
operating income ratio and a return on equity (ROE) over 11% by
the fiscal year ending December 31, 2010.**

Results for the Fiscal Year Ended December 31, 2006

The nine-month fiscal period ended December 31, 2006, was the first term of our current Mid-Long Term Management Plan. Since we changed our fiscal year-end from March to December during this business year, the fiscal period for three principal domestic companies was shortened to nine months. Despite the shortened period, HORIBA achieved a year-on-year increase in net sales, surpassing the ¥100 billion mark.

With regard to our business segments; integrating the automotive development test systems (DTS) business, acquired from Germany's Carl Schenck AG in 2005, into HORIBA's Automotive Test Systems segment caused a drop in segment profitability. However, this acquisition has laid the foundation for strong future segment growth. Earnings in the Analytical Instruments & Systems segment rose significantly as demand for environmental instruments increased. A continuous stream of new product launches in Medical/Diagnostic Instruments & Systems helped the segment recover its profitability. We steadily increased production in the Semiconductor Instruments & Systems segment by successfully leveraging the market boom to realize strong performance.

For the period's results, we posted ¥116.0 billion (US\$974.7 million) in consolidated net sales, up 9.9% from the previous year, while operating income was ¥11.7 billion (US\$98.2 million), up 3.8%. Despite the shortened fiscal year, net income rose 0.6% to ¥6.5 billion (US\$54.6 million) as a result of a decline in special losses and a decrease in the effective tax rate.

During the current fiscal year ending December 31, 2007, we expect to maintain the increase in income and earnings realized by the HORIBA group companies in recent years by focusing management efforts on ensuring that we achieve the targets of the Mid-Long Term Management Plan.



Atsushi Horiba Chairman, President & CEO

Review of the First Year of the Mid-Long Term Management Plan

After the announcement of the current Mid-Long Term Management Plan in June 2006, the HORIBA's top management, the heads of its business divisions, and other corporate executives gathered for a global strategy meeting. A host of topics including business strategies and measures to improve brand value and asset efficiency led to lively discussion. During this meeting, I gained a strong sense that our management principle adopted in 2005, "the HORIBA Group is One Company," had transcended traditional barriers between countries and business segments to become firmly embedded within the HORIBA group companies. The most important driving forces that have been carefully cultivated in "the HORIBA Group is One Company" principle are corporate culture, technical capabilities, and, the hardest to foster, communication. However, the fact that our global communication is improving shows we are making good use of our many business resources—resources with the potential to multiply in value. This experience has enhanced my confidence in the long-term growth of HORIBA.

During the fiscal period under review, we also moved to strengthen our management structure and increase operating efficiency. In Japan we merged two group companies, Schenck-TKS Test Systems Ltd. and HORIBA Biotechnology Co., Ltd., into HORIBA, Ltd. Overseas we began operating a second production plant in Shanghai, China with the ability to produce products for all HORIBA group companies and business segments. In Korea, HORIBA, Ltd. made the production facility, HORIBA Korea Ltd., a wholly owned subsidiary and acquired its product sales company.

In this first year of the Mid-Long Term Management Plan, we executed intensive actions to enhance efficient operation by consolidating companies and expanding production capacity. Another measure we took fosters a sense of unity by promoting acceptance of the HORIBA philosophy within all worldwide HORIBA group companies.

Principal Measures for 2007

The slogan adopted for the fiscal year ending December 31, 2007, is "Increase in the HORIBA brand value." We have experienced rapid worldwide growth in recent years by adding companies to HORIBA through M&A, new facilities and implementing other global strategies. Our international growth during these years has raised our foreign employee percentage to 57%. To achieve continued corporate growth, not just in terms of scale but also in a way that maintains quality, it becomes even more important for each and every employee to embrace the "Joy and Fun" motto



HORIBA Training Center (FUN HOUSE)

HORIBA's training center in Kutsuki, Shiga Prefecture, is known as the "Fun House," and provides the backdrop for the photographs of the president and top management in this annual report. For more details about the training center, see pages 20 and 21.

and our unique corporate culture and spirit. Employees embody the HORIBA culture and spirit into their personal “Omoi” (conviction), and find tangible ways to express and implement our culture and spirit into their daily jobs. One of the tools they use to accomplish this is the HORIBA Brand Book, published in January this year and distributed to all employees worldwide. (See page 19 for more information on the HORIBA Brand Book.)

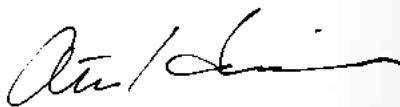
In business operations, HORIBA has significantly strengthened its business activities in the U.S. A key region, the U.S. accounts for around 40% of our market for analytical and measurement equipment, but only 20% of our global sales. I believe that successfully expanding our presence in the U.S. market—the home ground of powerful competitors—is an essential prerequisite to growth as a truly global company. We have, therefore, implemented the “U.S. Strategy Project,” to which we are devoting some of our best people. As part of this strategy, we have established a new facility for our semiconductor business in Santa Clara, California, the heart of Silicon Valley, to focus marketing and product development on our U.S. customers.

Message to Stakeholders

As our performance has improved over the last few years, HORIBA has attracted considerably more attention from capital markets and the general public, and the aggregate market value of our stock—the leading indication of our corporate value—has been increased. Personally, I am extremely pleased by these developments, while at the same time I feel as if I'm being placed under even more pressure, albeit in a good way. The extent to which employees share this feeling of greater expectation, and whether we are all facing the same way and moving in the same direction, will be key to ensuring the continued growth of HORIBA. Viewed from that perspective, I feel that cultivating globally-oriented, high-quality human resources is indispensable. Short-term performance is significantly impacted by external factors such as markets and the state of the economy. Nonetheless, the value of personnel is an absolute, and holds the promise of continued growth and the creation of value for a company over the medium to long term.

At HORIBA, we will continue to manage with a long-term perspective. I sincerely hope that all our stakeholders understand and agree with our management policies, and will remain with us for many years to come.

April 2007



Atsushi Horiba
Chairman, President & CEO



HORIBA's Mid-Long Term Management Plan (2006–2010)

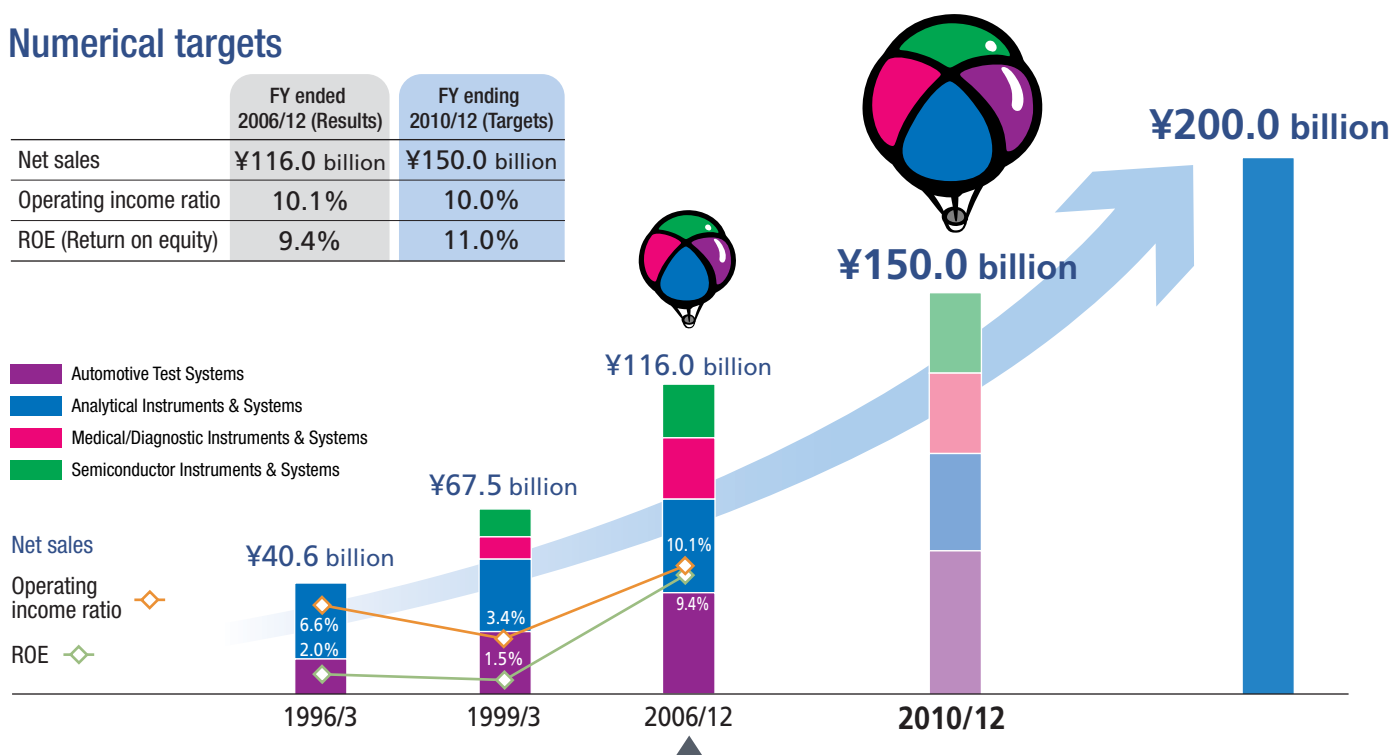
Achieving “One Company” Management and Becoming a First-Class, Global Company

Priority Measures



Numerical targets

	FY ended 2006/12 (Results)	FY ending 2010/12 (Targets)
Net sales	¥116.0 billion	¥150.0 billion
Operating income ratio	10.1 %	10.0 %
ROE (Return on equity)	9.4 %	11.0 %



HORIBA has established the management principle of “the HORIBA Group is One Company,” and introduced a variety of reforms, such as commencing management on a global business basis and eliminating between HORIBA group companies. However, to enhance our corporate value and become the leader in the analytical and measurement equipment market, we must execute our “One Company” Management principle, increase speed and efficiency, and make the leap to become a first-class, global company. Our goal is to sustain well-balanced growth among our four business segments, and in the fiscal year ending December 31, 2010, achieve ¥150 billion in net sales, an operating income ratio greater than 10%, and a ROE of over 11%.

Progress toward targets of the Mid-Long Term Management Plan (MLMAP)

(Millions of yen)

Business Segment	Net Sales			Operating Income		
	2010/12 Targets	2006/12 Results	Progress toward targets	2010/12 Targets	2006/12 Results	Progress toward targets
Automotive	50,000	37,945	75.9%	6,500	3,680	56.6%
Analytical	40,000	35,054	87.6%	2,200	2,668	121.3%
Medical/Diagnostic	33,000	22,989	69.7%	3,300	1,404	42.5%
Semiconductor	27,000	20,111	74.5%	3,500	3,955	113.0%
Total	150,000	116,099	77.4%	15,500	11,707	75.5%

About the Mid-Long Term Management Plan (MLMAP) Logo



The MLMAP logo is based on a high-altitude balloon powered by clean energy. The four colors of the balloon represent our four business segments (Automotive Test Systems, Analytical Instruments & Systems, Medical/Diagnostic Instruments & Systems, and Semiconductor Instruments & Systems). It symbolizes HORIBA's aspiration to ascend higher still by lightening the load in the basket (our assets) as the balloon (our businesses) achieves well-balanced growth.

Building a Platform for ¥200 Billion in Sales

Priority
Measure

Taking “One Company” Management to a Higher Level

As a corporation grows, its operating systems and structures must grow with it to maintain control of the organization. HORIBA is taking action now to establish a foundation that will support sustainable growth as we continue to develop and seek to achieve the next target of ¥200 billion in sales.

The Core Components of Our Strategy

Pursuit of global business strategies

Effective management on a regional basis

Introduction of the ERP System

Pursuit of global business strategies ▶▶▶

The introduction of “One Company” Management has led to the breakdown of barriers between countries, regions and companies, and the reform of the business structure to one in which business strategies and plans are formulated on a business segment basis. This allows for quick and varied responses to market trends in each business field, as well as the pursuit of globally unified business management.

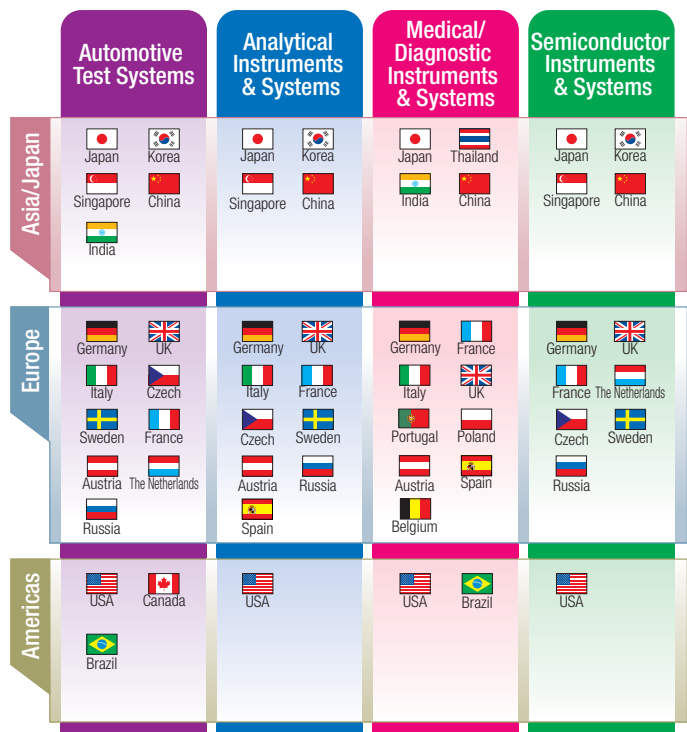
Effective management on a regional basis ▶▶▶

HORIBA is introducing shared services on a regional basis for Europe, the Americas and Asia, consolidating certain operations common to numerous group companies, such as accounting and finance, legal affairs, intellectual property management, human resources and IT. This structure will allow us to bring together a small number of personnel with first-class skills, which will improve the quality of our operations, as well as help raise productivity while lowering costs throughout all HORIBA group companies.

Introduction of the ERP System ▶▶▶

The Enterprise Resource Planning (ERP) system has been developed since 2005, which is being introduced in stages at the HORIBA group companies in 2007. The implementation of this system will require a substantial investment, but by utilizing the system's high-quality information to stimulate growth and become more efficient, we anticipate a rapid return on this investment and also additional benefits from the system which will contribute to higher earnings.

“One Company” Matrix Operation



HORIBA at a Glance

Automotive Test Systems

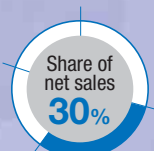
Extend the business by providing a wide range of automotive development test systems, focused on leading products



HORIBA's emission measurement systems command an 80% share of the global market. They have been adopted as standard equipment by many emission gas certification organizations throughout the world, and are used worldwide in the automotive industry for R&D and quality control in manufacturing plants. Looking ahead, HORIBA will go beyond providing emission measurement to respond to leading-edge technological developments and offer a more diversified range of automotive tests. Our overriding goal will be to offer total solutions that enhance the efficiency of the development process for our customers.

Analytical Instruments & Systems

Aim to become the world leader in niche markets while further refining analytical and measurement technology



HORIBA manufactures over 500 types of instruments; the development of which is supported by the parent company's broad base of analytical and measurement technology, and the advanced optical measurement technology of HORIBA Jobin Yvon SAS (France). These products command leading shares in niche markets and are used in a wide range of applications, including R&D and production facilities of public sector and private sector organizations, as well as organizations that monitor environmental pollution. The segment also invests in the development of basic technologies to provide new analytical and measurement technology to other business segments.

Medical/Diagnostic Instruments & Systems

Strive to become a core business by expanding market share through aggressive product development



This segment is active in the in-vitro diagnostics market, which amounts to over ¥2 trillion in annual sales globally. The segment's business model provides a stable earnings stream due to the sale of replacement reagents following the initial sale of testing equipment. In the past, HORIBA was successful in expanding market share for small- and medium-sized hematology analyzers. In recent years, however, we have expanded our operations by progressively launching large hematology analyzers and new products in the clinical chemistry market. The product development and marketing prowess of HORIBA ABX SAS (France) has been instrumental in these efforts.

Semiconductor Instruments & Systems

Generate consistently high profits by providing high value-added analytical and control technologies to the burgeoning semiconductor industry



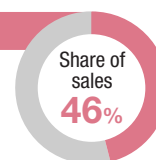
Mass flow controllers—devices that control gas and liquid flows in the semiconductor manufacturing process—account for around 70% of sales in this segment. As a result, the business is susceptible to trends in the semiconductor industry. HORIBA is therefore targeting stable profits by leveraging our technological resources to respond to demands in the 300mm semiconductor wafer market. Such demands focus on improving yield rates through total solutions relating to the control and analysis of process chambers.

Business Outlook by Region

For its operating areas in Asia, Europe and the Americas, HORIBA maintains a regional balance in sales, production and other business aspects in order to minimize the impact of differing economic cycles in each region. Another benefit of this arrangement is the ability to avoid foreign exchange risk associated with fluctuations in currency exchange rates and country risks stemming from natural disasters, political turmoil or other factors.

Asia

To this point, HORIBA's Asia focus has been mainly in Japan. We have many products that command high market shares, particularly those for R&D applications and environmental regulations. Going forward, we will develop products tailored to local market needs and build supply structures incorporating production bases in rapidly expanding markets such as China and India.



With a view to breaking away from its earlier reliance on the Automotive Test Systems segment for profits, HORIBA is targeting well-balanced growth among all business segments. This will include the Semiconductor Instruments & Systems segment and Medical/Diagnostic Instruments & Systems segment, in which aggressive investment is beginning to yield results, as well as the Analytical Instruments & Systems segment, which is posting strong growth. Moreover, we are also pursuing regional diversification. We are expanding beyond the developed countries that have been our principal markets to date, and are actively investing in the fast-growing Chinese market, as well as in emerging markets such as India and South America.

Principal products:	emission measurement systems, in-use automotive emission analyzers, on-board emission measurement systems, fuel cell evaluation systems, driveline test systems, engine test systems, brake test systems, drive recorders	Main risk factors More than half of the products in this segment are used for the R&D or production of automobiles. There is a possibility of a significant impact on earnings resulting from a reduction in R&D investment, a shift in investment priorities, cuts in the number of production facilities or other negative developments in the global automotive industry.
Major customers:	automobile manufacturers, motorcycle manufacturers, automotive component manufacturers, multi-purpose motor manufacturers, government agencies, oil companies, automotive maintenance and repair centers	
Product applications:	development of new car models and engines, finished vehicle certification and QC, in-use vehicle inspections	
Principal products:	scientific analysis instruments (particle-size distribution analyzers, X-ray fluorescence analyzers, Raman spectrophotometers, diffraction gratings); environmental measuring instruments (pH meters, stack gas analyzers, water quality analysis and examination systems, air pollution analyzers)	Main risk factors There is a possibility of a significant impact on earnings resulting from a sudden fall in product retail prices due to the fiercely competitive nature of the business, or from significant shifts in demand resulting from changes in environmental regulations.
Major customers:	manufacturers, national research institutions, universities, government agencies, electric power companies	
Product applications:	R&D, product quality testing, measurement of wastewater and gas emissions, environmental pollution monitoring, criminal forensics	
Principal products:	equipment for blood sample analysis (hematology analyzers, equipment for measuring immunological responses, clinical chemistry analyzers, blood sugar measurement systems)	Main risk factors There is a possibility of a significant impact on earnings resulting from fluctuations in profitability caused by changes in medical insurance systems in various countries, or by product recalls related to the strict standards of performance and quality demanded of medical devices.
Major customers:	medical testing centers, small- and medium-sized hospitals, medical practitioners	
Product applications:	health and diagnostic testing, disease diagnosis	
Principal products:	mass flow controllers, chemical concentration monitors, thin-film analyzers for semiconductors and LCD inspection, reticle/mask particle detection systems, residual gas analyzers, vacuum meters	Main risk factors There is a possibility of a significant impact on earnings resulting from rapid fluctuations in demand due to the effects of the "silicon cycle" in the semiconductor industry.
Major customers:	semiconductor production equipment manufacturers, semiconductor device makers, semiconductor cleaning equipment manufacturers	
Product applications:	control of gas flows and monitoring of cleaning fluid concentrations in semiconductor manufacturing processes, semiconductor and LCD quality control inspections	

Europe

HORIBA has rapidly expanded its European sales in the automotive, analytical and medical fields through several M&As in recent years (HORIBA ABX SAS (France), HORIBA Jobin Yvon SAS (France), and the DTS business of Carl Schenck AG (Germany)). Looking ahead, we expect consistent increases in demand backed by growth in the East European and Russian markets.

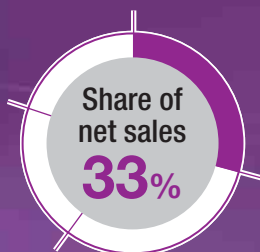
Share of sales
31%

Americas

The Americas account for 40% of the global demand for analytical and measurement instruments, so sales expansion in this major market is essential to HORIBA's global development. We are particularly focused on product development and marketing for the medical and semiconductor fields, where our market penetration is still low.

Share of sales
23%

Automotive Test Systems

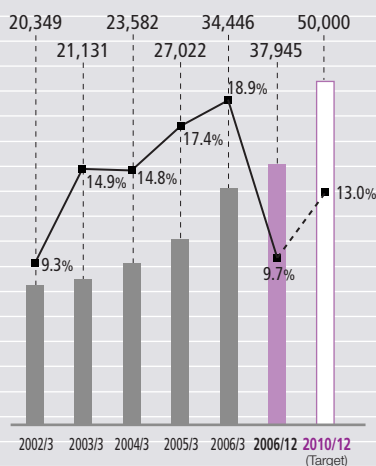


Review of Operations by Business Segment

Automotive Test Systems

Net Sales and Operating Income Ratio

(Millions of yen/%)



Results

(Millions of yen)

	2006/3	2006/12	Change
Net Sales	34,446	37,945	+10.2%
Operating Income	6,509	3,680	-43.5%

Targets for the Mid-Long Term Management Plan (2010/12)

(Millions of yen)

Net Sales	50,000
Operating Income	6,500

Note: HORIBA changed its fiscal year-end from March 20 to December 31.

Achieving the Goals of the Mid-Long Term Management Plan ▶▶▶

The fiscal year ended December 31, 2006, was the first full fiscal period after integrating the automotive development test systems (DTS) business, acquired from Carl Schenck AG in Germany in September 2005, into HORIBA's Automotive Test Systems segment. This acquisition has allowed us to move from a business centered on existing HORIBA automotive emission measurement operations to an expanded framework capable of offering a wide range of solutions for automotive R&D and testing facilities.

Frequently corporate integrations and business alliances incorporating two different corporate cultures are expected to cause post-acquisition internal friction. However, the integration of HORIBA and DTS business achieved significant progress in a short time. This was due to natural synergies, including business domains and technological fields that perfectly complemented each other, existing global operations in both companies, and shared customers. As a result, marketing, services, project management, design and development are now all operating worldwide under a unified organization. This integration is already bearing tangible results—the segment has been successful in winning contracts and supplying large turnkey projects, including installation of entire testing systems for important European, North and South American, and Asian customers. Before the acquisition these projects were beyond our reach with just the emissions product line.

In recent years, the automotive industry has been characterized by ongoing technological reforms focused on cutting costs, improving environmental performance and improving automotive safety, that is to say, manufacturers are constantly faced with new challenges for their R&D. At HORIBA, the segment now has in place a framework to deliver broad-ranging solutions to these challenges which should increase the size of our target market for this business approximately five-fold to ¥200 billion.

The segment will continue to offer internationally oriented solutions in which HORIBA already excels, while ensuring that firmly established systems in the new business domain provide flexible response to local requirements. With this approach, the Automotive Test Systems segment is steadily moving toward increased customer satisfaction and greater market share.



The Automotive Test Systems management team

HORIBA aims to be the leading worldwide provider of testing systems to the automotive industry by utilizing our wide ranging technical knowledge, global development/customer support capabilities and strong brand identity.

Results for the Fiscal Year Ended December 31, 2006 and Business Strategies

Although Automotive Test Systems segment sales benefited from the full year's contribution of ¥8.8 billion from the DTS business, the segment's operating income ratio declined. This was primarily due to lower profit margins for DTS products than for existing products and the amortization of goodwill relating to the business acquisition. Sales to the U.S. of mainstay large automotive emission measurement systems recorded a slight decline after the super strong demands for new automotive emission regulation requirement in the previous fiscal year.

To promote efficiency and bolster domestic sales during the fiscal period the segment's domestic business strategy merged Schenck-TKS Test Systems Ltd., previously the domestic operating base for the DTS business, with HORIBA, Ltd.

Outlook for the Fiscal Year Ending December 31, 2007

We expect that accelerating the DTS business integration will hasten the emergence of our synergy benefits. This should lead to increased DTS earnings and strong performance in existing HORIBA automotive emission measurement operations.



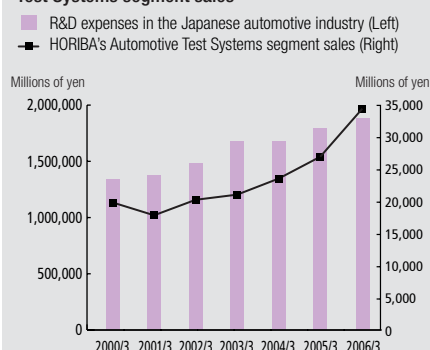
Engine Test Cell

Synergy Matrix of integration of HORIBA and DTS

Business field	Market scale (Billions of yen)	Product Overview	HORIBA	DTS business	After integration
Emissions	40.0	Equipment to measure the concentration/mass of components in exhaust gas from automobiles and engines			
Engines	100.0	Equipment for engine testing such as dynamometers for all aspects of engine performance			
Drivetrains	30.0	Equipment to test the performance, durability and other aspects of vehicle drivetrains such as noise, vibration, and passenger comfort			
Vehicles	20.0	Equipment to conduct various environmental tests on assembled vehicles, such as chassis dynamometer tests			
Wind tunnel balances	1.0	Large-scale equipment to simulate actual vehicle operating conditions, such as for measuring wind resistance			
Brakes	5.0	Equipment to test overall brake performance such as durability, braking force, temperature, noise and vibration			

Weak ← → Strong

Comparison of R&D expenses in the Japanese automotive industry and HORIBA's Automotive Test Systems segment sales



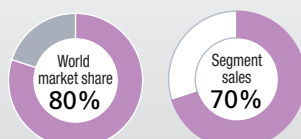
Source: 2005 Survey of Research and Development, R&D Expenditures by Industry (Ministry of Internal Affairs and Communications)

Major Products and Market Share



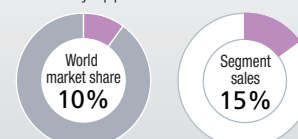
Emission Measurement Systems

These systems continuously and simultaneously measure gases and particulate material in automotive exhaust gas over a broad range of concentrations. They are widely used in R&D and product certification in the automotive and other industries.



Engine Test Systems

These systems are used for a wide variety of tests on engines and can integrate a large range of instrumentation for emission gas and performance assessments. Within the typical small space of an engine test cell, these systems can simulate the worst operating conditions that an engine might experience in any application.



Note: Market shares quoted are estimates by HORIBA, Ltd.

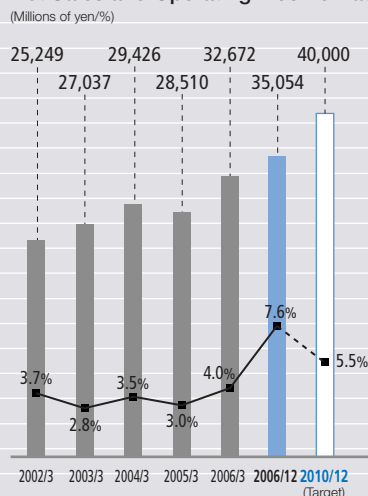
Analytical Instruments & Systems



Review of Operations by Business Segment

Analytical Instruments & Systems

Net Sales and Operating Income Ratio



Results

	(Millions of yen)		
	2006/3	2006/12	Change
Net Sales	32,672	35,054	+7.3%
Operating Income	1,322	2,668	+101.8%

Targets for the Mid-Long Term Management Plan (2010/12)

	(Millions of yen)
Net Sales	40,000
Operating Income	2,200

Note: HORIBA changed its fiscal year-end from March 20 to December 31.

Achieving the Goals of the Mid-Long Term Management Plan ►►►

During the fiscal year ended December 31, 2006, the scientific instruments business benefited from product development targeting the requirements of new environmental regulations. In particular, the X-ray fluorescence analyzer business demonstrated buoyant sales thanks to demand from worldwide electrical equipment manufacturers for analyzers meeting the requirements of the RoHS Directive regulating levels of harmful heavy metals. There was significant demand for general-purpose analyzers; in particular molecular spectrometers used for fluorescence spectroscopy and Raman spectroscopy, as well as elemental analysis instruments for sulfur content in oil analysis and atomic emission spectrometry. As a result, the scientific instruments business achieved a high level of net sales and improved profitability.

To maintain this momentum during the fiscal year ending December 31, 2007, we will promote the integrated management of the scientific instruments business as part of the "One Company" management initiative under the Mid-Long Term Management Plan. We are scheduled to launch new products designed to be future mainstays in particle-size distribution. These analyzers will launch with a full range of options and accessories and an exciting new sample preparation tool for electron microscopy users. We are also expecting increased orders for high-energy gratings and OEM spectrometers as those businesses grow.

In the process & environmental business, HORIBA has developed advanced analysis technologies and fostered many experts over the past 40-plus years. The process & environmental business has consistently responded to new and challenging market needs in response to environmental regulations enacted in Europe, the U.S. and Japan. These new technologies represent assets that are currently in demand in China and other emerging markets, where they are earning us high market shares. We will continue to expand our operations by providing advanced measurement technologies which integrate HORIBA's core technologies with the continuous analysis technology it has developed for the environmental field. Our strength lies in our ability to provide high-quality products that address the increasing number of risk management-related needs, measure productivity and sustain quality control.



The Analytical Instruments & Systems management team

In the scientific instruments business, HORIBA is seeking to increase its role as a provider of leading-edge technical resources to establish a highly profitable business structure. In the process & environmental business, we are broadening our operating base to include the industrial process measurement field, and are pursuing aggressive expansion in the environmental regulation field in emerging countries.

Results for the Fiscal Year Ended December 31, 2006 and Business Strategies

Thanks to substantial increases in private-sector capital expenditure for environmental regulation-related analytical and measurement equipment, the segment achieved high levels of net sales and operating income. By product, particularly strong domestic and Asian sales were recorded for X-ray analytical instruments targeting compliance with the European RoHS Directive regulating hazardous substances. In addition, demand for other analyzers increased, including U.S. demand for sulfur content in oil analyzers and Japanese demand for stack gas analyzers. Meanwhile, HORIBA Jobin Yvon SAS in France, with considerable expertise in nanotechnology measurement, leveraged its advanced technological capabilities to expand sales in related cutting-edge scientific fields.

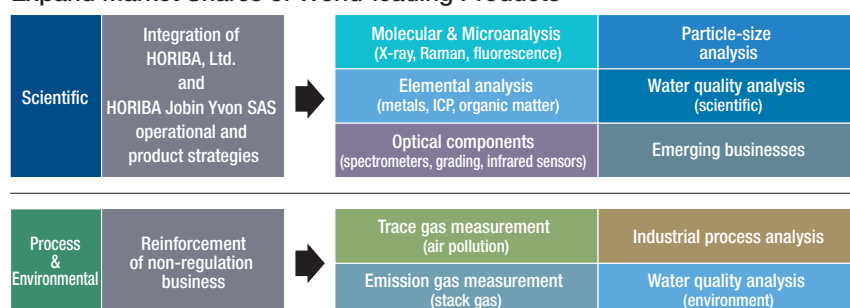
Outlook for the Fiscal Year Ending December 31, 2007

A cyclical downturn in the demand generated by European hazardous substance regulations is expected to lead to lower sales of related analytical products. In this context, the segment will take measures to put in place a framework capable of responding to demand from advanced technological fields as well as environmental regulation-related businesses, which offer good prospects for continued growth in the medium and long terms. One measure in this regard has been to improve the sales network in China and the U.S. during the fiscal period under review.

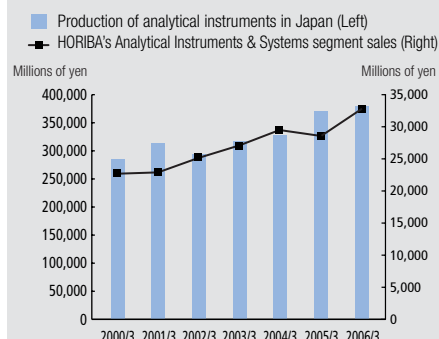


Air pollutant monitoring system in Pakistan

Expand Market Shares of World-leading Products



Production of analytical instruments in Japan and HORIBA's Analytical Instruments & Systems segment sales



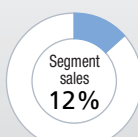
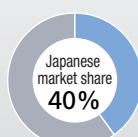
Source: Statistical data, Japan Analytical Instruments Manufacturers Association

Major Products and Market Share



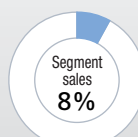
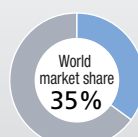
Stack Gas Analyzers

These analyzers provide highly sensitive and precise measurements of the NO_x, SO₂, CO, CO₂, and O₂ content of gases emitted by boilers and furnaces in thermal power stations. This single unit can simultaneously and continuously measure all five compounds.



Spectrographs/Diffraction Gratings

Spectrographs separate light into colors, and record them as a spectrum. Gratings are the heart of a spectrograph. Spectrographs from HORIBA Jobin Yvon (France) meet a wide range of market demands, from plasma emission spectroscopy and fluorescence spectrum measurement to image dispersion, and quality management to production management.



Note: Market shares quoted are estimates by HORIBA, Ltd.

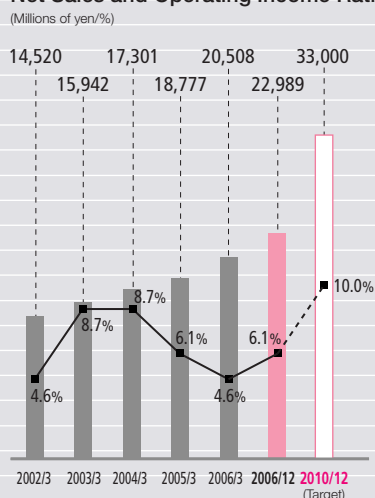
Medical/Diagnostic Instruments & Systems



Review of Operations by Business Segment

Medical/Diagnostic Instruments & Systems

Net Sales and Operating Income Ratio



Results

(Millions of yen)

	2006/3	2006/12	Change
Net Sales	20,508	22,989	+12.1%
Operating Income	953	1,404	+47.3%

Targets for the Mid-Long Term Management Plan (2010/12)

(Millions of yen)

Net Sales	33,000
Operating Income	3,300

Note: HORIBA changed its fiscal year-end from March 20 to December 31.

Achieving the Goals of the Mid-Long Term Management Plan ▶▶▶

The Mid-Long Term Management Plan (MLMAP) targets the net sales of ¥150 billion by the end of December 2010 fiscal year. This would represent growth of 42% compared with the March 2006 fiscal year. However, as the Medical/Diagnostic Instruments & Systems segment is central to the growth and earnings expansion of HORIBA, this segment has been set minimum targets higher than the average growth rate for MLMAP—the sales growth target is at least 61% (average annual rate 10% or more) and the operating income ratio target is at least 10%.

To realize these targets, the segment is steadily rolling out new models—from simple to high-end—of hematology analyzers, new versions of reagents and new products for expanding the line. At the same time, we are developing and supplying a comprehensive management system for a range of testing devices, samples and results. This new management system targets both the clinical laboratory market and the market for POCT/NPT (Point Of Care Testing or Near Patient Testing—simple and quick testing conducted close to the patient). We expect these measures to lead to an increased operating income ratio led by higher sales of reagents which will accompany growth in the number of in-use, high-end hematology analyzers and clinical chemistry analyzers.

Looking ahead, large-scale M&A activity centering on the in-vitro diagnostics analysis market and extending into other business areas will generate fierce competition. In response,

the segment will work to increase sales of high-end hematology analyzers to Japanese and Asian markets, as well as to expand our market of clinical chemistry analyzers and reagents to the Americas and Asia, which have been primarily sold in Europe. With these measures the segment is targeting a 10% annual sales growth, as well as higher operating income and an improvement in the operating income ratio.

We are aware that a vital improvement to our operations in the U.S., the largest, most-advanced market in the world, is necessary if we are to achieve the targets of the Mid-Long Term Management Plan. We are therefore focusing investment on U.S. operating centers to improve marketing and product development and to train personnel.



The Medical/Diagnostic Instruments & Systems management team

HORIBA seeks to raise sales and earnings in the in-vitro diagnostics market by enhancing its product line and optimizing regional strategies (product, sales and service), based on global product strategies.

Results for the Fiscal Year Ended December 31, 2006 and Business Strategies

Sales of large hematology analyzers increased in the European and American markets, while sales of testing reagents also expanded, reflecting strong growth in the number of analyzers in use. In the domestic market, last spring revision of the fees for treatment paid to medical institutions under the medical insurance system caused concern about a potential negative impact on the segment's results. In retrospect, the impact was small. Meanwhile, the shortened fiscal year effect on sales was countered by strong sales of small, automatic blood cell and CRP counters. Resulting consolidated net sales for the segment were up 12%, and the operating income ratio was 1.5 point higher than it was in the previous fiscal year ended March 20, 2006.

Outlook for the Fiscal Year Ending December 31, 2007

The segment will continue to focus on expanding sales of high-end hematology analyzers and clinical chemistry analyzers which will increase the number in use within the market. We also plan to expand reagent manufacturing facilities at HORIBA ABX SAS in France in response to higher demand.

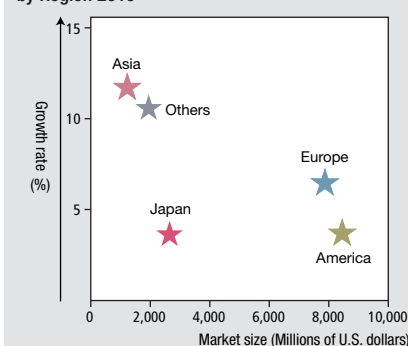


Hematology analysis in a hospital

Product Development in the In-vitro Diagnostics Analysis Market

Test category		Hematology		Immunology
		Clinical chemistry	Hematology analyzers	Coagulation
Market scale		¥1 trillion	¥0.2 trillion	¥0.1 trillion
Hospitals	Large hospitals testing centers		Hematology analyzer systems (Developed by HORIBA)	
	Medium-and small-sized hospitals	Clinical chemistry (Developed by HORIBA)	Middle- and small-sized hematology analyzers	
Private practitioners		Blood sugar measurement systems (purchased from Sankyo Co., Ltd.), small-sized clinical chemistry analyzers		Coagulation reagents (BIOPEP)
Hospital units and surgery rooms (POCT)				CRP counters for asthma medication (for inflammation diagnosis)

Estimated Size of In-Vitro Diagnostics Analysis Market by Region 2010

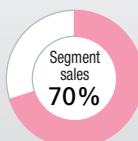


Note: The above market size indication is estimated by HORIBA, Ltd.

Major Products and Market Share

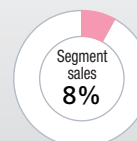
Automatic Hematology Analyzers

Blood tests are essential for assessing the health of people and animals. These analyzers check red and white blood cell counts, as well as hemoglobin concentrations and platelet counts.



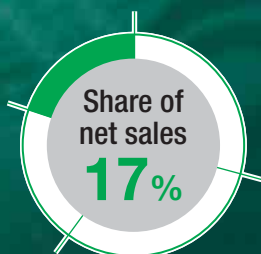
Automatic Blood Cell Counter plus CRP

These are the first counters in the world to simultaneously measure blood cell counts and C-Reactive Protein (CRP), which the body produces in response to internal inflammation, thus facilitating faster and more accurate diagnosis.



Note: Market shares quoted are estimates by HORIBA, Ltd.
*Segment sales include sales of testing reagents.

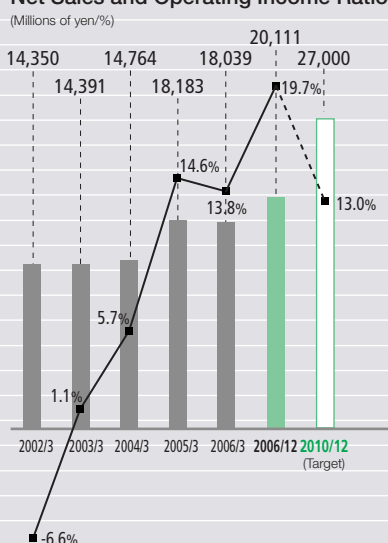
Semiconductor Instruments & Systems



Review of Operations by Business Segment

Semiconductor Instruments & Systems

Net Sales and Operating Income Ratio



Results

(Millions of yen)

	2006/3	2006/12	Change
Net Sales	18,039	20,111	+11.5%
Operating Income	2,491	3,955	+58.8%

Targets for the Mid-Long Term Management Plan (2010/12)

(Millions of yen)

Net Sales	27,000
Operating Income	3,500

Note: HORIBA changed its fiscal year-end from March 20 to December 31.

Achieving the Goals of the Mid-Long Term Management Plan ►►►

The semiconductor manufacturing equipment market, which moved into a recovery mode in the second half of 2005, enjoyed its best year ever in 2006, surpassing even the IT bubble experienced in 2000. This was the result of rapid expansion centering on large-scale investment in DRAM and NAND flash memory production facilities that began at the start of the year.

The Semiconductor Instruments & Systems segment achieved significantly higher sales during the fiscal period under review. This was partly due to the commencement of operations at the Aso Factory in Kumamoto prefecture, which completed capacity expansion in October 2005 to become the segment's main production facility. As a result, the segment was able to manufacture significantly higher volumes of its mainstay mass flow controllers and other fluid control devices as well as chemical monitors for cleaning equipment. This expanded manufacturing in combination with market expansion and a higher market share, particularly in the U.S., contributed to the much higher sales.

During 2007, the semiconductor manufacturing equipment market is expected to experience further expansion, particularly in equipment for memory production. The launch of the new Windows Vista PC operating system, together with increasingly sophisticated mobile phones, higher-capacity digital cameras and MP3 players are all expected to fuel this growth. However, prices for semiconductor memories and digital home electronics are falling rapidly, and as a consequence, manufacturers have

become increasingly demanding with regard to the performance, cost and lead times of semiconductor manufacturing equipment. To respond to this market situation, the segment is planning a number of initiatives: in its after-sales service operations it is opening a support center to cover the south of Taiwan, as well as increasing the number of personnel in South Korea and establishing additional support center in Shanghai, China. On the product development front, it is opening up a technology center in Silicon Valley California to augment the existing centers in Kyoto and Nevada in the U.S.. The new center will serve as a base for developing measurement techniques that can contribute cutting edge semiconductor technology. In these ways, the segment is implementing a whole host of proactive measures to increase the pace of business development in 2007 and, ultimately, to increase profits.



The Semiconductor Instruments & Systems management team

HORIBA seeks to become a leader in gas and liquid flow rate measurement and control for semiconductor manufacturing processes by establishing strong positions in the analytical and measurement fields for R&D and production equipment.

Results for the Fiscal Year Ended December 31, 2006 and Business Strategies

The segment achieved strong results due to a number of factors, most notably increased demand stemming from the booming semiconductor market and the development of products meeting the specific needs of our customers. A successful ramping up of production at the Aso Factory in Kumamoto prefecture also contributed to the segment's performance. By product, sales of the segment's mainstay mass flow controllers, used in semiconductor manufacturing equipment, were significantly higher in Japan and North America. The higher sales resulted from expanded demand and greater market share. Sales of chemical concentration monitors also improved due to the increase in demand from manufacturers of cleaning equipment.

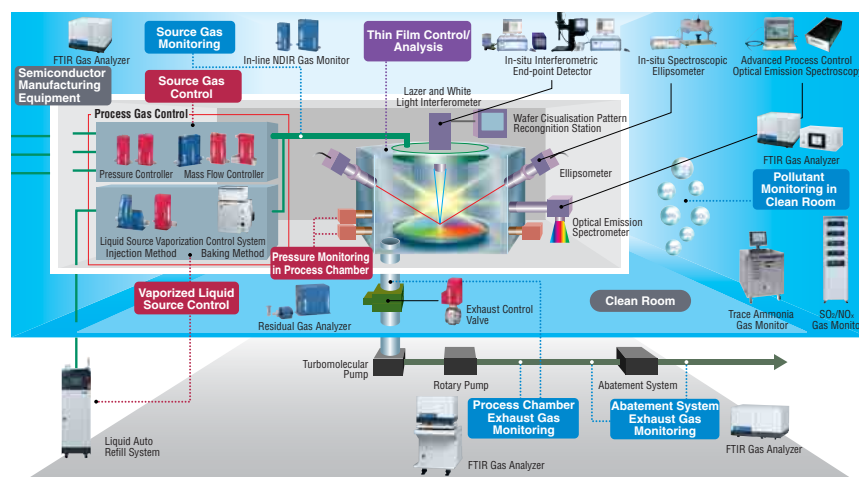
Outlook for the Fiscal Year Ending December 31, 2007

The advent of digital differential pressure-type mass flow modules which enable more precise gas flow control and the move to 300mm semiconductor wafers has created a growing demand for all types of yield-enhancing monitoring systems. In response, the segment aims to take advantage of the booming semiconductor market by launching products necessary for leading-edge semiconductor processes. New hydrofluoric acid concentration monitors for the interconnecting process and ultra-low concentration ammonia monitors for the lithography process will enter the market.

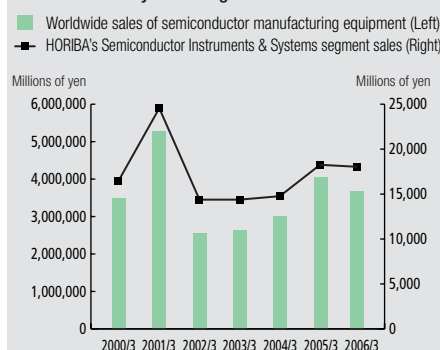


Product assembly in the clean room

Measurement Solutions in Semiconductor Dry Process



Comparison of worldwide sales of semiconductor manufacturing equipment and HORIBA's Semiconductor Instruments & Systems segment sales

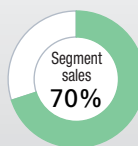


Sources:
LCD/OLED Manufacturing Equipment Statistical Data (2005 edition)
Semiconductor Equipment Association of Japan

Major Products and Market Share

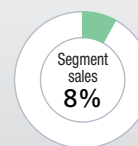
Mass Flow Controllers

These high-precision controllers are used to regulate gas and liquid flow rates in semiconductor manufacturing processes such as thin-film formation processes. They are thus a key component in the production of high-quality semiconductors.



Chemical Concentration Monitors

These compact units are used in semiconductor manufacturing to monitor cleaning chemical concentrations. They ensure that no cleansing fluids are wasted, which optimizes the cleaning process, and helps boost production yields.

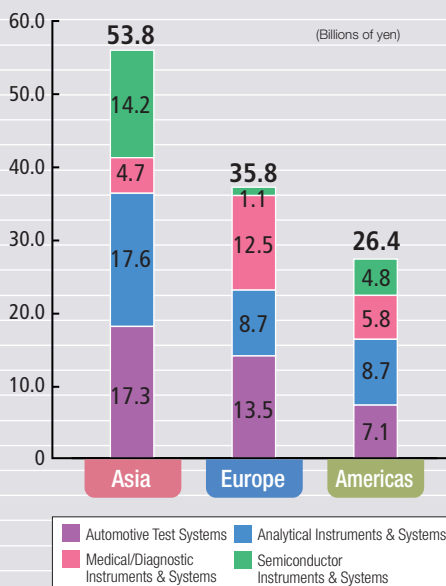


Note: Market shares quoted are estimates by HORIBA, Ltd.

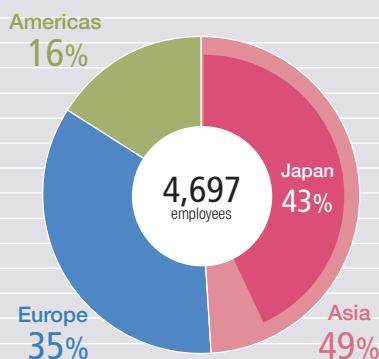
In the analytical and measurement equipment market, successful products that have become the standard in specific countries or regions are sometimes difficult to sell globally. Success requires a network able to provide comprehensive sales, service, engineering and other support functions in all areas of Asia, Europe, and the Americas, and to flexibly respond to the needs of local customers. At the same time, there is a need to improve quality and efficiency. This requires unifying on a regional basis the services common to all divisions, such as accounting and finance, legal affairs, intellectual property management, human resources and IT.

Review of Operations by Geographic Segment

Net Sales by Business and Geographic Segment



Employee Ratio by Region



Note: Net sales by region; sales value on a destination basis

Asia

2,315 employees (including 2,028 in Japan)

Japan

HORIBA, Ltd.
HORIBA STEC, Co., Ltd.
HORIBA Advanced Techno Co., Ltd.
HORIBA ITECH Co., Ltd.
HORIBA TECHNO SERVICE Co., Ltd.

Korea

HORIBA Korea Ltd.
HORIBA Automotive Test Systems Ltd.
HORIBA STEC Korea, Ltd.

Singapore

HORIBA Instruments Pte. Ltd.

China

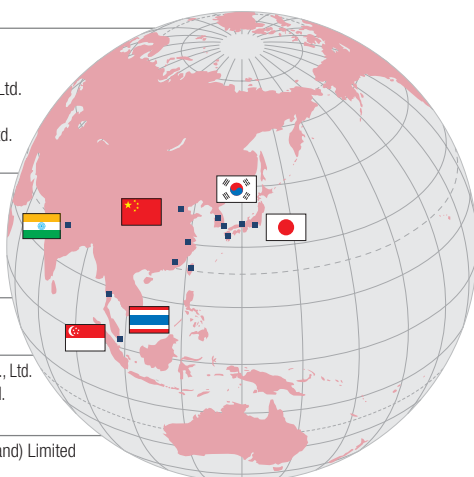
HORIBA Instruments (Shanghai) Co., Ltd.
HORIBA Trading (Shanghai) Co., Ltd.

Thailand

HORIBA ABX Diagnostics (Thailand) Limited

India

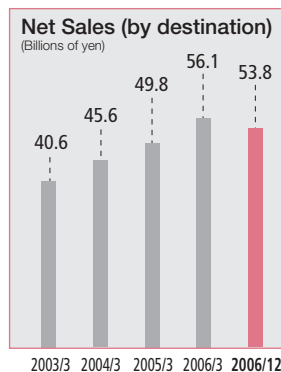
HORIBA India Private Limited



■ Group locations, including branch and resident offices

Net Sales in the Fiscal Year Ended December 31, 2006

As a result of the change in the 2006 fiscal period for HORIBA, Ltd. and key domestic subsidiaries, net sales decreased compared to the previous fiscal period. However, the Analytical Instruments & Systems segment achieved higher sales—primarily to the electronics industry—of X-ray Analytical Microscopes meeting the requirements of European Restriction of Hazardous Substances (RoHS) Directive. In addition, products in the Semiconductor Instruments & Systems segment also achieved robust sales reflecting a strong semiconductor market.



Note: HORIBA changed its fiscal year-end from March 20 to December 31.

Regional Overview

In Japan, the central company is HORIBA, Ltd., established in 1953 and serving as the head office for the corporate group. Operations have steadily expanded. HORIBA STEC, Co., Ltd., which concentrates on control devices for semiconductor manufacturing, was established in 1974. HORIBA Advanced Techno Co., Ltd., specializing in water quality analysis, was established in 1975. The service division was spun off in 2000 to form HORIBA TECHNO SERVICE Co., Ltd. Outside Japan, HORIBA-owned companies were established in South Korea in 1988, Singapore in 1997 and China in 2002.

Featured product:

X-ray Analytical Microscope

This instrument uses X-rays to perform nondestructive elemental analysis. Demand from electronic equipment manufacturers in Japan and component manufacturers in Asia has increased rapidly, following the enactment of the European Restriction of Hazardous Substances (RoHS) Directive in July 2006.



Europe 1,647 employees

France

HORIBA Jobin Yvon SAS
HORIBA ABX SAS
HORIBA France Sarl

Germany

HORIBA Europe GmbH
HORIBA Europe
Automation Division
GmbH
HORIBA Automotive
Test Systems GmbH

Austria

HORIBA GmbH

U.K.

HORIBA Instruments Limited



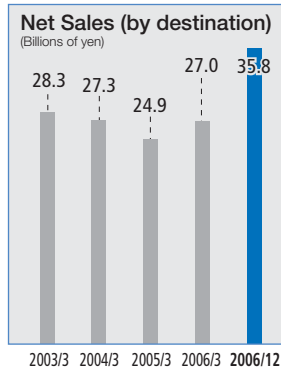
■ Group locations,
including branch and resident offices

Regional Overview

Full-scale business operations in Europe began with the establishment of HORIBA Europe GmbH in Germany in 1972, which provided sales and service for HORIBA-manufactured products. The product line and marketing capacity have been significantly improved in recent years with the addition of HORIBA ABX SAS in France in 1996, HORIBA Jobin Yvon SAS in France in 1997, and the automotive development test systems (DTS) business of Carl Schenck AG in Germany in September 2005.

Net Sales in the Fiscal Year Ended December 31, 2006

Net sales in Europe benefited from a full year's results recorded for the DTS business. Meanwhile, the Medical/Diagnostic Instruments & Systems segment recorded higher sales of testing reagents and testing equipment such as large hematology analyzers and medium-sized clinical chemistry analyzers. Sales of HORIBA Jobin Yvon SAS in France products also increased, primarily in cutting-edge scientific fields.



Note: HORIBA changed its fiscal year-end from March 20 to December 31.

Featured product:

Clinical Chemistry Analyzer

Used in testing to verify internal organ function by quantifying and analyzing blood components including proteins, oxygen, lipids, minerals and hormones. The analyzer is proving useful for diagnosing and assessing treatment efficacy for diseases, as well as for early discovery and diagnosis of lifestyle-related illnesses.



Americas 735 employees

U.S.A

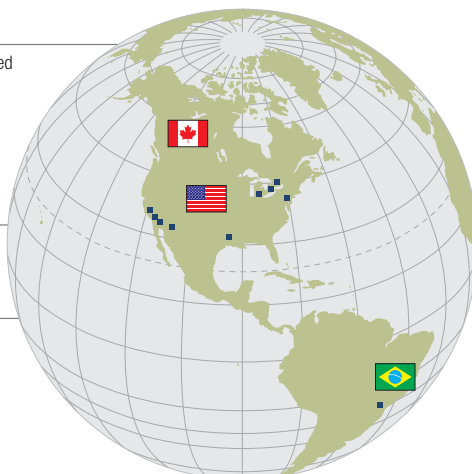
HORIBA Instruments Incorporated
HORIBA/STEC Incorporated
HORIBA Jobin Yvon Inc.
HORIBA ABX Inc.
HORIBA Automotive
Test Systems, Corp.

Canada

HORIBA Automotive
Test Systems, Inc.

Brazil

HORIBA ABX Ltda.



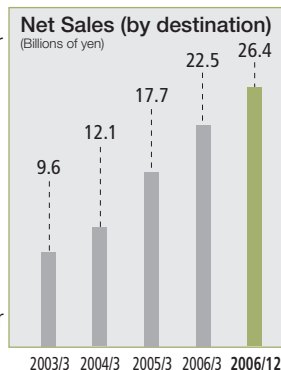
■ Group locations,
including branch and resident offices

Regional Overview

In the Americas, HORIBA established a local corporation in 1972 to conduct overseas business activities, including activities both in the U.S. and in Europe, and gather market information, and its operations began by focusing mainly on emission measurement systems. In 2005, HORIBA purchased the DTS business, further bolstering its lineup of products and services provided to the large North American automotive industry. Also by utilizing the sales and marketing forces of HORIBA ABX SAS (France) and HORIBA Jobin Yvon SAS (France), stronger sales forces for medical and analytical equipments were provided in the Americas.

Net Sales in the Fiscal Year Ended December 31, 2006

In the Automotive Test Systems segment, sales were relatively lower compared to the previous fiscal period, when there was unusually high demand due to U.S. automotive emission regulations. In the Analytical Instruments & Systems segment, sales of analyzers for measuring sulfur in oil were higher to the petroleum industry, while in the Semiconductor Instruments & Systems segment, sales increased for mass flow controllers used in semiconductor manufacturing equipment.



Note: HORIBA changed its fiscal year-end from March 20 to December 31.

Featured product:

On-Board Emissions Measurement System

This in-car instrument measures the exhaust of vehicles while they are operating. Developed under license from the U.S. Environmental Protection Agency, this system tests real-time emissions while operating on the road, a measurement not possible until now. The system also collect data on the environmental impact of automobiles that more accurately reflects actual operating conditions.



Increasing the “Invisible Values”

Use our corporate culture as a guide for all corporate activities

Under HORIBA's Mid-Long Term Management Plan, we aim to make effective use of the “invisible values” that do not appear on the balance sheet. By enhancing their value, we intend to use these values as the basis for achieving dramatic improvements in profitability and return on investment. To this end, we are promoting the following measures:

The Core Components of Our Strategy

Use our corporate culture as a guide for all corporate activities

Increase in the HORIBA brand value

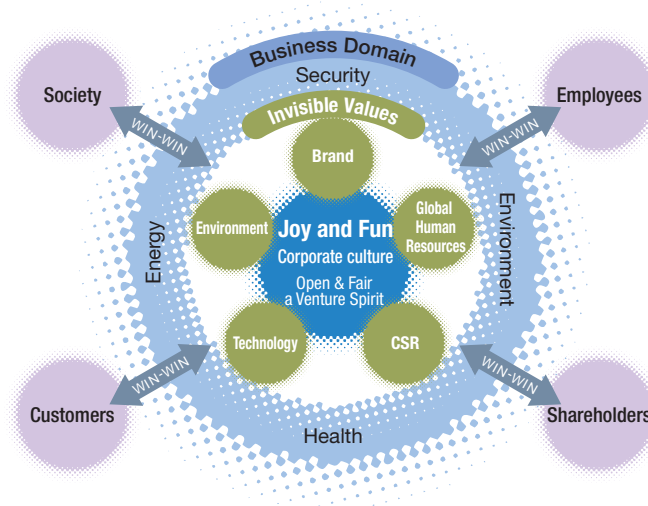
Foster the development of people with a global perspective

Upgrade capabilities involving technologies

Make CSR and environmental protection part of all corporate activities

Use our corporate culture as a guide for all corporate activities ▶▶▶

HORIBA believes that by putting this corporate culture into practice in our business activities, we can build a win-win relationship with all our stakeholders that spurs further growth and development for all parties. As a full-line manufacturer of analytical equipment, we will continue our contribution to creating sustainable societies and uncovering the root causes of a range of environmental and social problems by fulfilling our mission of enabling any type of substance to be analyzed and measured.



The HORIBA Motto: “Joy and Fun”

“Joy and Fun” represents our desire to see all employees performing work that is rewarding and allows them to lead happy and fulfilling lives. We want our people to put “Joy” into their work through their own efforts at making the most of the time they spend in the workplace.

“Open & Fair” and “a Venture Spirit”

Our policy is to openly provide employees with challenges and evaluate their performances with fairness. The goal is to establish a transparent corporate culture that encourages creative work and prevents improper behavior. To drive us forward, we retain the same “a Venture Spirit” that led to our establishment. Through this spirit, we will continue to create innovative technologies that respond to emerging market needs.



These Japanese characters mean “Joy and Fun,” and are HORIBA's motto, originally penned by our founder, Dr. Masao Horiba. “...if we take interest and pride in the work that occupies most of the active time in our lives, in the place where we spend the large part of each day, then, as a result, our satisfaction with life will increase, and we will be able to enjoy our lives even more. Taking interest and pride in our work leads us to “Joy and Fun.” (Extract from Corporate Philosophy)

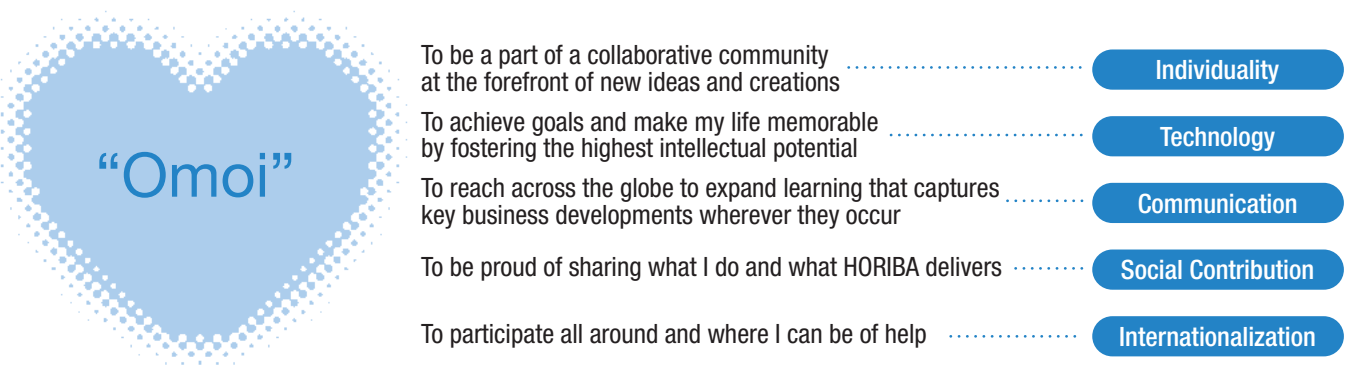
Increase in the HORIBA brand value

Increasing the “invisible values” in the HORIBA brand value ▶▶▶

One of the priorities of HORIBA's Mid-Long Term Management Plan is increasing the HORIBA brand value. Striving to meet quantitative targets for net sales and earnings is of course also a focus, but at the same time, we are careful to cultivate the “invisible values”—such as our corporate culture, people and technical capabilities—that are the source of future earnings and that will ensure HORIBA's durability as an enterprise. The HORIBA brand embodies all these “invisible values,” and we are implementing measures to increase our value.

“Omoi”: five pillars to phrase the HORIBA way

“Omoi” means an emotional feeling, passion, thoughts, enthusiasm, desire, aspiration, ambition, commitment, mission, and objective. We encourage our employees to have the following “Omoi,” which is the essence of acting on “Joy and Fun” through their work.



The HORIBA Brand Book

The fiscal year ended March 20, 2006 was a landmark year in which HORIBA celebrated its 60th anniversary, as well as achieved net sales of ¥100 billion. In the past few years, the number of our employees all over the world has increased dramatically as a result of acquisitions alliances and the establishment of new operating bases. With the company growing in size and conducting its operations on a global scale, it will be necessary to invest even greater effort to preserve and nurture the HORIBA corporate culture. This was what spurred us to publish the HORIBA Brand Book as the “bible” for the HORIBA group companies, enabling our employees to reconfirm their understanding of what the HORIBA brand is, and offering a basis for sharing and passing on that understanding. The HORIBA Brand Book was published on January 26, 2007 and distributed to about 4,700 employees around the world.



In addition to the HORIBA mottos “Joy and Fun” and “Omoi,” the HORIBA Brand Book also includes 36 contributions from HORIBA employees, and is available in six languages: Japanese, English, French, German, Chinese and Korean.

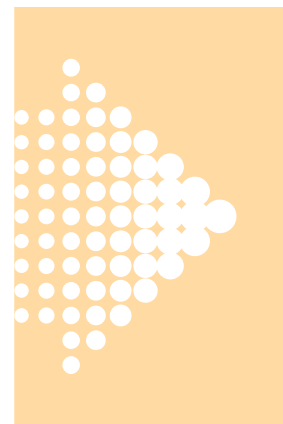


HORIBA's Human Resources Development ►►►

The Company provides the stage; the employees are the actors who express themselves freely on it.

We believe that new concepts and innovations start with people. We also believe that to consistently generate corporate value and grow it is necessary for every employee to embrace and practice the HORIBA corporate culture, as expressed in the mottos "Joy and Fun," "Open & Fair" and "a Venture Spirit."

A workplace could be likened to a theatrical stage. A company must provide the actors—its employees—with the opportunity to perform their role in their own way. The stage directors—management—must cast and direct these actors to perform a scene (corporate strategy) that expresses the essence of the company's culture. In this way, the company can put on a well-orchestrated and lively performance. And as a result, the audience—customers—are satisfied, and the theater owners—shareholders—get a good return on their investment. Within this scenario, the company's ability to produce good actors can make or break its performance. At HORIBA, this perception of its employees as being actors on a stage is an intrinsic part of the management approach.



FUNHOUSE



What is it?

The "Fun House" is a name for the HORIBA training center. Located an hour and a half by car from the head office deep in the forest in the mountains of Kutsuki, Shiga Prefecture, the center gives our people the chance to get away from the stresses of the work routine and relax as they take part in training.

Offers a change of venue that allows employees



A Forum for Global Communication

The center hosts a variety of international meetings, during which the days are filled with in-depth debate, and the nights with karaoke.



A Forum for Learning

Most of the training is conducted by HORIBA employees. The rapport between students and instructor makes for lively discussions, and the instructor is also able to learn a great deal from being in a teaching position.



A Forum for Networking

Participants in training courses come from different departments and different companies within the HORIBA group companies. The Fun House provides a forum to extend personal networks in HORIBA, encouraging effective communication.

**Develop individuals who
can think outside the box**

**A source of
new corporate value
and growth for HORIBA**

to reconfirm their “omoi” and experience new insights

What Makes the Fun House Special?

The Fireplace

People are often inspired with new thoughts and ideas while looking at an open fire. For this reason, there is a large fireplace in the center of the common room.



No Lights-Out

A set “lights-out time” is common practice in Japanese training centers, but we believe that people should be free to manage their own time, allowing them to socialize and reflect on what they have learned. However, attendance at breakfast is compulsory.

A First-Class Environment

With luxuries such as cypress-wood baths, heated floors, feather quilts and high-quality meals, we have taken great care to create an environment that offers the utmost in off-duty relaxation so that training participants can concentrate when they are on-duty.



HORIBA Is Among the Best Companies to Work for in Japan

HORIBA was placed among the top 20 companies to work for in a survey conducted by the Great Place to Work® Institute in Japan, and published in the February 19, 2007 edition of Nikkei Business magazine.

The definition of a good company to work for according to the Great Place to Work® Institute comprises five elements: trust, respect, fairness, pride and a sense of community. This particular ranking is distinguished by the fact that employee responses account for two thirds of the points allocated in the assessment process. Worldwide, the trend now is toward employee-centric management, on the belief that creating a rewarding work environment leads ultimately to a more competitive company. The Great Place to Work® Institute's ranking is attracting attention as a measure of achievement in this regard.

Upgrade capabilities involving technologies ▶▶▶

"A Step Ahead in Hi-Tech: HORIBA"

In keeping with this slogan, we consistently pursue the development of original core technologies to support analysis and measurement. At the same time, we strive to provide total solutions through the creation of innovative measurement technologies, to achieve revolutionary improvements in function, size, and production cost, and to develop new products to help reduce the burden on the environment.

Developing Basic Technologies and Products

Infra-red measurement technology

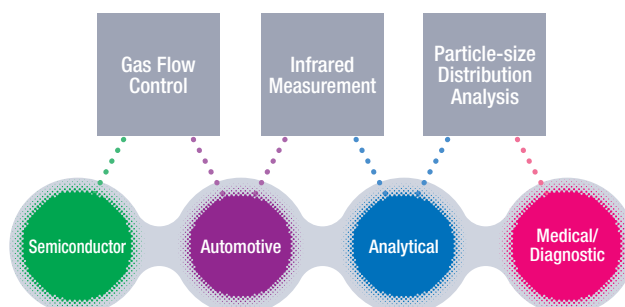
Technology for real-time analysis of elements in gases

Particle-size analysis technology

Particle-size and quantity distribution analysis technology

Gas flow control technology

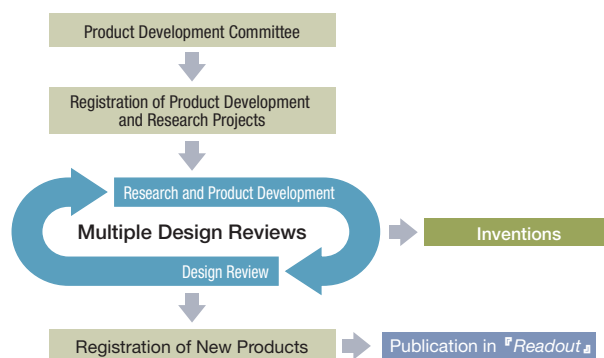
Technology to measure and instantly control the flow of gases



Research and Development Activities

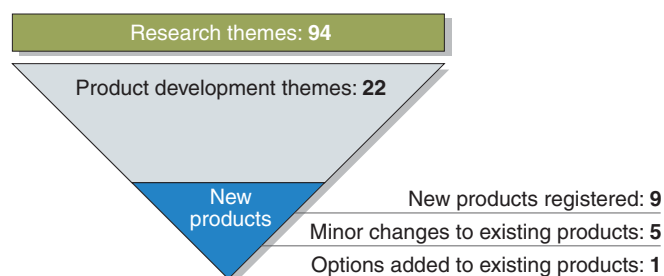
HORIBA conducts R&D activities based on the product development flowchart opposite. The most significant feature of our R&D process is the system of multiple design reviews, which allows us to generate inventions and file patent applications in a comprehensive manner.

HORIBA's policy regarding intellectual property is to file a wide range of high-quality patent applications to ensure the technological added value that secures market superiority. At the same time we actively utilize our own intellectual property rights, we respect those of other companies.

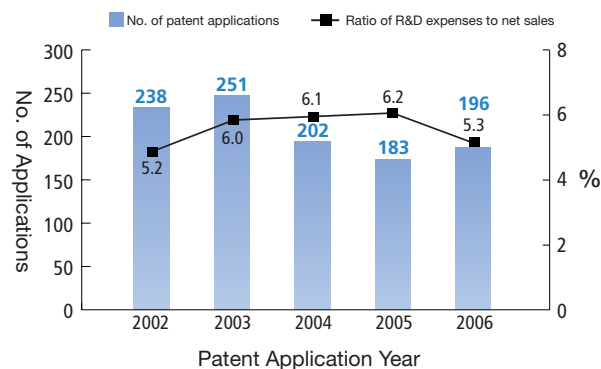


* During a design review, the status at each stage of product development, including the planning, analysis, design, manufacturing, and inspection processes required for quality design and commercialization, are examined to confirm that the project can enter the next phase of development.

Number of research and product development themes and new products registered annually (HORIBA, Ltd. only)



Number of HORIBA's Patent Applications & Ratio of R&D Expenses to Net Sales



Disputes Related to Intellectual Property

HORIBA, Ltd. and its group companies were involved in several disputes related to intellectual property at the end of the fiscal year ended December 31, 2006, though none of these are likely to have a significant impact on our business. HORIBA takes a flexible approach to licensing its intellectual property, in line with its management policies.

Major Inventions

TENSEC – A Device for Rapid Preparation of Microscope Specimens

Product Details

Developed through collaboration between HORIBA and Professor Kenichi Shimizu of Keio University, TENSEC prepares the surface of specimens for observation through electron microscopes or optical microscopes in only 10 seconds. Conventional preparation methods start by smoothing the surface to be observed, however, the process of abrasion often causes damage or contamination. Obtaining a clean surface for observation required a high level of expertise. With TENSEC it is now possible to conduct extremely precise microscopic observations quickly and easily, while the use of low-energy argon plasma^{Note 1} prevents damage to the specimen. As a result, TENSEC is attracting attention as a revolutionary preprocessing device.

A Dramatically New Concept

For some time, HORIBA has been selling a product that uses argon plasma to perform element profiling^{Note 2} quickly and simply within nanometers of a specimen's surface. The idea of using the same technology to preprocess specimens for observation by microscope was the inspiration that spurred the development of a groundbreaking and unique product.

The Product Development Process and Future Prospects

Electron microscopes and optical microscopes are essential for the development of materials and in the defect analysis field, and the types of specimens observed are wide-ranging. Looking ahead, HORIBA intends to make the most of the attributes of argon plasma to extend its applications to cover all types of specimens.

Note 1: When argon gas is depressurized and subjected to high-voltage, the result is low-energy plasma that avoids damage to specimens when used with TENSEC.

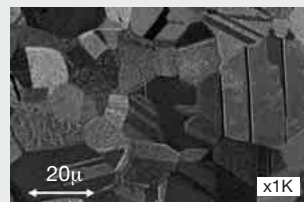
Note 2: Element profiling continuously graphs the relative abundance and concentration of each element from the surface of the specimen inwards.

Stainless steel surface



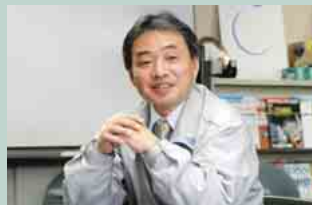
Conventional finishing

Contamination makes it difficult to observe the specimen itself



After use of TENSEC

The composition and structures of the specimen become clearly visible



We believe that TENSEC's capacity to ensure a clean specimen surface will make it invaluable for research and development purposes. Moreover, we intend to respond to the wide-ranging requirements of our customers by continuously honing our technologies to facilitate research and development in other ways.

Akihiro Hirano, leader of TENSEC development project
HORIBA, Ltd., Analytical Technology Products R&D Dept.

Introduction to 『Readout』 (HORIBA's Technical Reports)

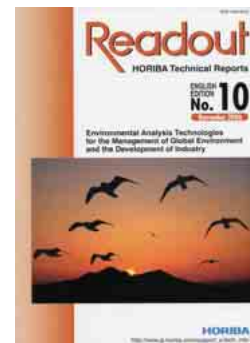
Readout is a collection of technical reports published to introduce the products and technologies created and developed by the HORIBA group companies. The title "Read Out" incorporates our hopes as a manufacturer of analytical and measurement equipment that the products and technologies created and developed by HORIBA will become widely known through this publication. The content of *Readout* is also available online, where entire texts can be searched and back issues and articles are available by product type or measurement application. In this way *Readout* helps build a closer relationship between the HORIBA group companies and its clients.

Readout can be accessed on the Web at the following URLs:

Japanese version http://www.jp.horiba.com/support/tech_info/
English version http://www.jp.horiba.com/support_e/tech_info/



Japanese version



English version

Make CSR and environmental protection part of all corporate activities

HORIBA's CSR Policy: Promote CSR in the course of day-to-day operations▶▶▶

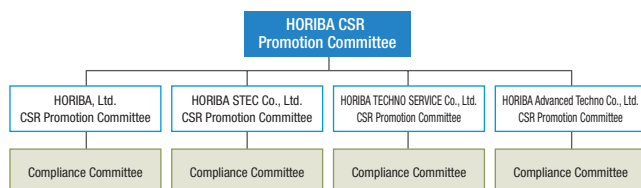
HORIBA conducts its businesses with an emphasis on the key issues of global environment, human health, public safety, and energy, contributing to the creation of a comfortable and pleasant society.

HORIBA products play a behind-the-scenes part in many aspects of our lives, helping to conserve the global environment and ensure our health and safety. Our products are used for a wide range of purposes, including measuring and analyzing hazardous substances in gas emissions and the atmosphere, analyzing the quality of factory wastewater, detecting heavy metals or other harmful substances, making medical diagnoses through blood analysis, and conducting quality control for foods and pharmaceuticals. Our four business segments (automotive, analytical (environment/science), medical, semiconductor) are, therefore, intimately linked with the key issues of the global environment, human health, public safety, and energy—areas that are indispensable to providing all forms of life on earth with a comfortable and rich existence. We will maintain the focus on our core business, continually seek genuine technological innovation, and work to provide high-value-added, high-quality products and services that will lead to the creation of a comfortable and pleasant society.

HORIBA CSR Promotion Committee

In accordance with its “One Company” management principle, HORIBA and its major domestic group companies convene the HORIBA CSR Promotion Committee. This committee discusses and decides on the group's CSR strategies, priority policies and other matters.

HORIBA CSR Promotion Structure



As part of its environmental education and awareness activities, HORIBA regularly holds Head Factory tours and offers classes demonstrating scientific experiments for local elementary, junior and senior high school students. HORIBA employees actually visit schools and other facilities to offer lessons on their premises. They use HORIBA products and readily available materials to demonstrate experiments, giving easy-to-follow explanations of the effects toxic substances have on the environment and on the human body. Through these activities, we try to help children understand the extent to which environmental issues are linked to their daily lives.



A HORIBA employee giving a lesson at the Kyoto Municipal Science Center For Youth

Head Factory Tours and School Visits

	Year ended Mar. 2006		Period ended Dec. 2006 (9 months)	
	Tours/Visits	Participants	Tours/Visits	Participants
Head Factory tours (school and other groups)	46	967	33	614
Open house tours	7	405	5	272

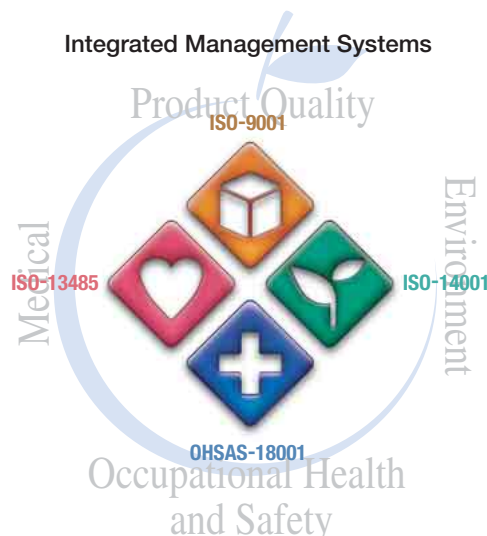
Compliance and Risk Management Structure

Compliance Committees have been established under each CSR Promotion Committee. These committees work to raise awareness of compliance, as well as discuss and decide on measures for promoting compliance. They also investigate, report, and make recommendations for rectification regarding matters raised through internal whistle-blowing.

Specific measures include formulating Compliance Management Provisions and Ethical Guidelines, strengthening the compliance framework, and introducing an internal whistle-blowing system in an effort to either prevent, or quickly detect and rectify, illegal activities. A point-of-contact to consult with attorneys outside the company has also been established, along with a dedicated e-mail address for employees to communicate any compliance-related concerns. These and other measures raise awareness of compliance among employees, and help make it a part of operations.

In terms of the environment, product quality, and occupational health and safety, in addition to formulating internal regulations we have acquired certifications, including ISO 9001 (product quality), ISO 14001 (environment), OHSAS 18001 (occupational health and safety), and ISO 13485 (medical). We have also introduced the Integrated Management System (IMS) to collectively manage the required procedures throughout HORIBA group companies. This system will enhance decision-making speed and improve operational efficiency, while also furthering risk management.

Integrated Management Systems



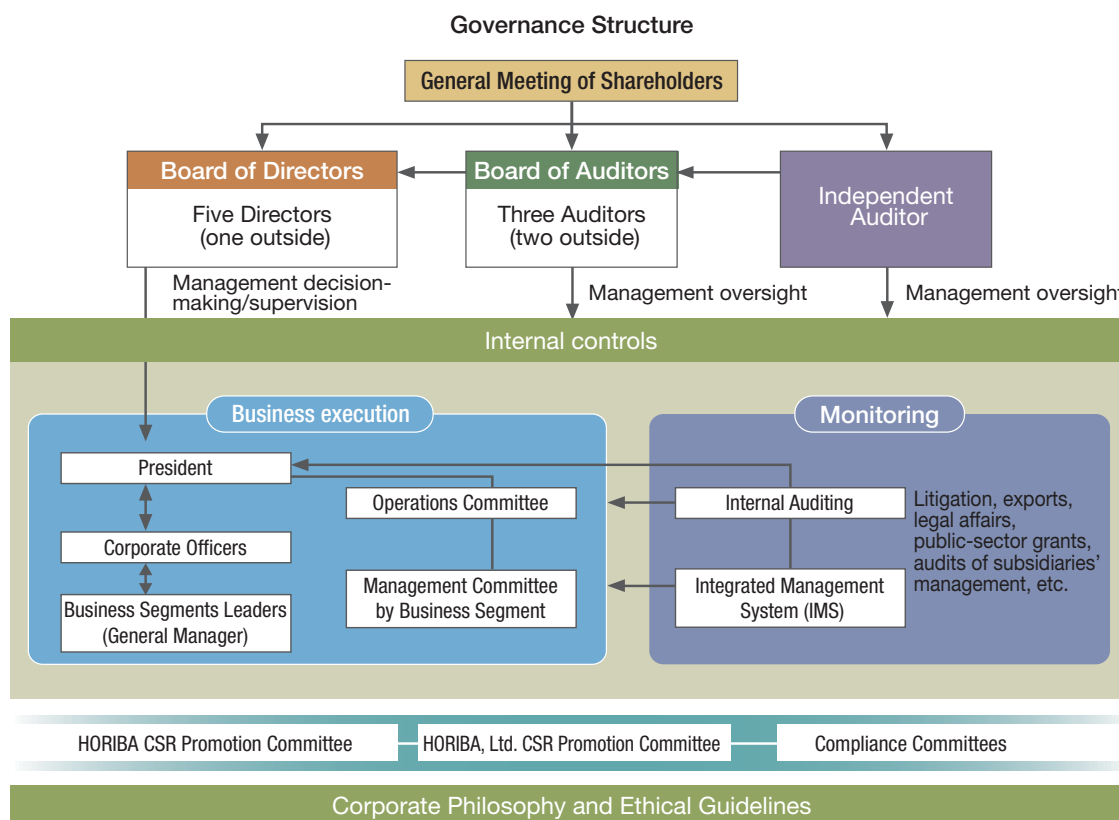
Corporate Governance

Under its basic motto of “Open & Fair,” HORIBA pursues transparency in its management, and seeks to maximize its corporate value. To create a corporate governance framework on a par with others in the international community, we are strengthening our corporate structures to respond quickly to changes in the business environment, enhancing our management oversight functions and compliance framework, as well as working to establish mutually beneficial relationships with all stakeholders.

Governance Structure

The Board of Directors is responsible for determining basic management policies and strategies and overseeing business execution. HORIBA has appointed one outside director and two outside auditors as a means of enhancing the quality and transparency of management decisions and improving management oversight functions, as well as bolstering its corporate governance framework.

Furthermore, a corporate officer system was introduced in June 1998, under which business execution is entrusted by directors to corporate officers, who in turn give specific orders to the general manager of each business segment and monitor activities.



Internal Controls

Internal controls are an important aspect of everyday operations in terms of ensuring fairness, transparency and accountability. In accordance with its basic principle of “Open & Fair,” HORIBA works to ensure that business execution by directors and corporate officers is in compliance with relevant laws and the Articles of Incorporation, and to ensure appropriateness and effectiveness in operations. To this end, in May 2006 the Board of Directors formulated basic principles regarding the creation of an internal control system, aimed at enhancing compliance, risk management and other structures.

Currently, in accordance with the requirements of the Financial Instruments and Exchange Law (the Japanese version of the Sarbanes-Oxley Act), we are making improvements in our internal control system to ensure the accuracy of our financial reporting, and working to provide the documentation necessary to establish an even more reliable financial reporting system. We are also taking advantage of the internal controls afforded by the creation of documentation to enhance openness and transparency in operations, as well as improve operational efficiency.

Six-year Summary

HORIBA, Ltd. and Consolidated Subsidiaries

The years ended March 20, 2002, 2003, 2004, 2005 and 2006; and the year ended December 31, 2006

	Millions of yen						Thousands of U.S. dollars (Note 1)
	2002/3	2003/3	2004/3	2005/3	2006/3	2006/12	2006/12
For the Year:							
Net sales	¥74,468	¥ 78,501	¥85,073	¥92,492	¥105,665	¥116,099	\$974,721
Operating costs and expenses	71,921	73,027	78,223	83,119	94,390	104,392	876,434
Operating income	2,547	5,474	6,850	9,373	11,275	11,707	98,287
Income before income taxes	464	3,119	4,780	6,105	10,748	10,588	88,893
Income taxes	1,508	2,161	2,574	2,290	4,214	4,028	33,818
Net income (loss)	(1,071)	786	2,074	3,524	6,473	6,510	54,655
Capital expenditures	3,137	3,444	3,501	3,956	5,664	5,059	42,473
Depreciation and amortization	3,381	2,915	3,037	2,944	3,173	3,246	27,252
Research and development expenses	4,336	4,044	5,129	5,636	6,553	6,136	51,515
At Year-End:							
Total assets	¥98,766	¥100,542	¥92,657	¥99,913	¥119,976	¥129,236	\$1,085,014
Property, plant and equipment, net	19,279	19,000	18,841	18,481	20,223	21,700	182,185
Net assets	40,063	40,144	43,348	52,263	65,446	72,375	607,632
						(Notes 2, 3)	
Per Share Information:						U.S. dollars (Note 1)	
Net income (loss)	¥ (34.47)	¥ 22.21	¥ 62.90	¥ 98.33	¥ 154.27	¥ 154.23	\$ 1.29
Net assets	1,293.42	1,293.30	1,350.31	1,415.75	1,548.08	1,710.75	14.36
Cash dividends	8.50	14.50	10.00	16.00	28.00	26.00	0.22
Financial Ratios:							
Return on assets (%)	(1.1)	0.8	2.2	3.7	5.9	5.2	
Return on equity (%)	(2.7)	2.0	5.0	7.4	11.0	9.4	
Inventory turnover (days)	95	87	81	82	85	92	
Price-earning ratio (times)	(26.0)	34.4	21.9	19.8	23.9	28.5	
Shareholders' equity ratio (%)	40.6	39.9	46.8	52.3	54.6	56.0	
Interest coverage ratio (times)	3.0	8.2	15.5	25.4	34.2	23.7	
Dividend payout ratio (%)	30.9	40.8	30.3	41.8	33.8	30.0	

- Notes:
1. The U.S. dollar amounts are provided solely for convenience at the rate of ¥119.11 to US\$1.00, the rate prevailing on December 31, 2006.
 2. Effective for the year ended March 20, 2002, the Company adopted the revised accounting standards for financial instruments and employees' retirement benefits.
 3. Effective for the year ended March 20, 2003, the Company adopted the revised accounting standard for per share information. The amounts in the year ended March 20, 2002 have not been restated.
 4. Effective for the year ended December 31, 2006, the Company adopted the revised accounting standard for presentation of net assets in the balance sheet. The amounts in prior years have not been restated.
 5. For the year ended December 31, 2006, the accounting term for the Company and HORIBA Advanced Techno Co., Ltd. was only 9 months and 11 days and that for HORIBA STEC Co., Ltd. was only 9 months as a result of the fiscal year-end changing to December 31.

Computation:

Net income per share (¥) = 100 x (net income - projected bonuses to directors and corporate auditors)*
/ (average number of shares issued and outstanding in the fiscal period, corrected for treasury stock)

Net assets per share (¥) = (shareholders' equity - projected bonuses to directors and corporate 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

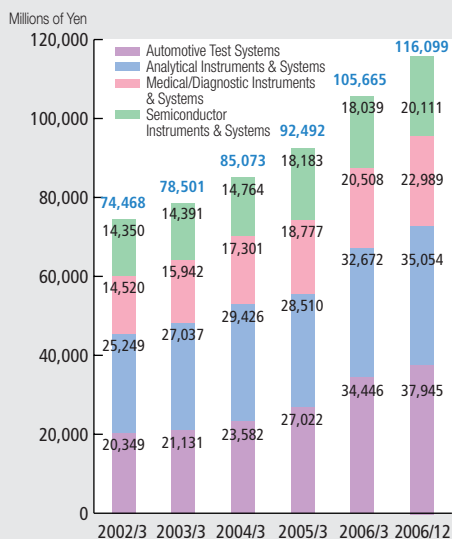
Interest coverage ratio (times) = (operating income + interest and dividend income) / interest expense and note discount fees

Dividend payout ratio (%) = 100 x dividends paid / net income (nonconsolidated)

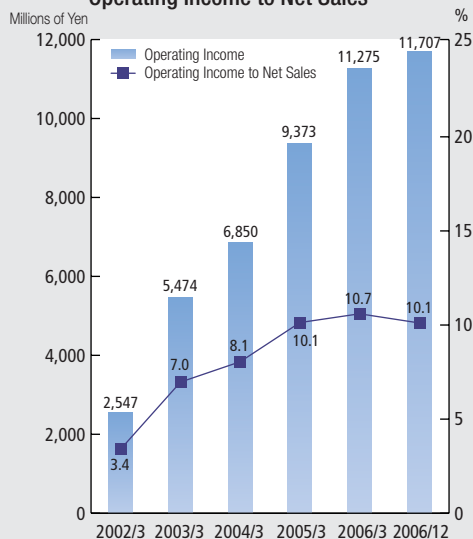
*Directors' and corporate auditors' bonuses for the year ended December 31, 2006 have been recognized in selling, general and administrative expenses.

Note: All years referred to in this annual report are fiscal years. For example, 2006/3 refers to the fiscal year ended March 20, 2006, and 2006/12 refers to the fiscal year ended December 31, 2006.

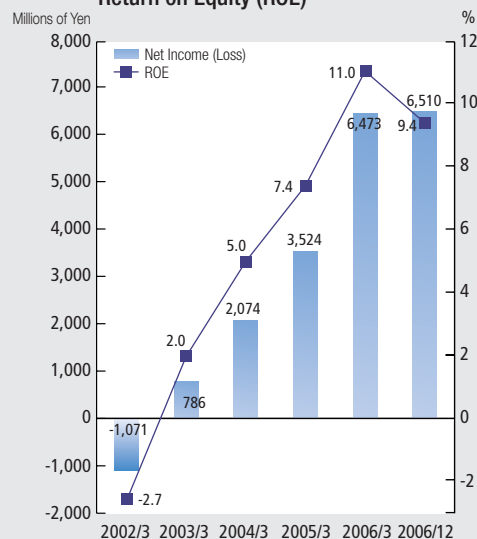
Net Sales by Segment



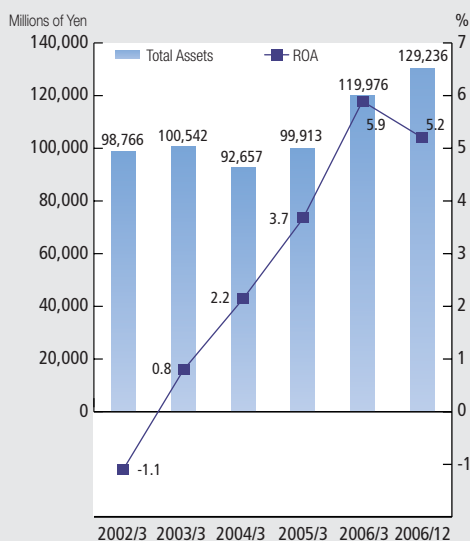
Operating Income and Operating Income to Net Sales



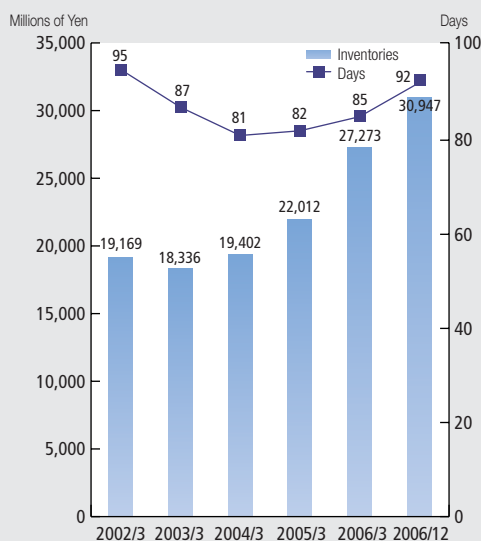
Net Income (Loss) and Return on Equity (ROE)



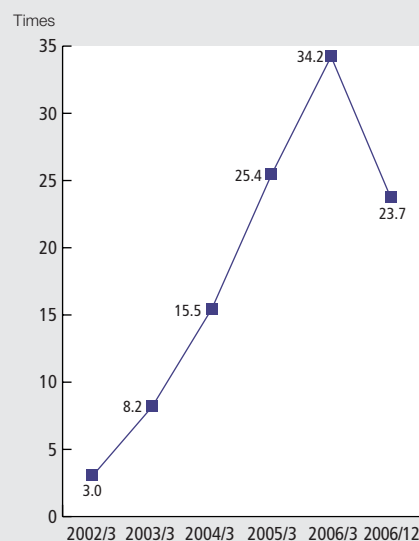
Total Assets and Return on Assets (ROA)



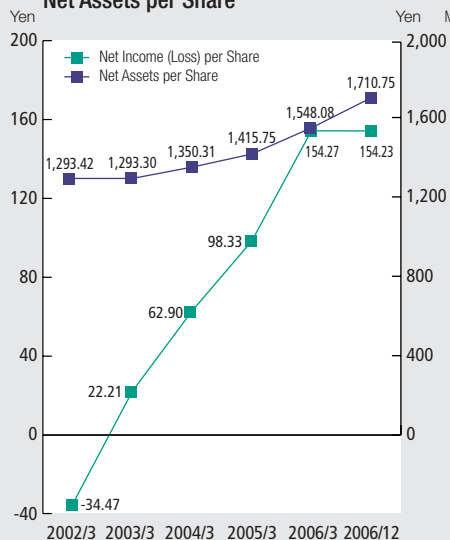
Inventories and Inventory Turnover (Days)



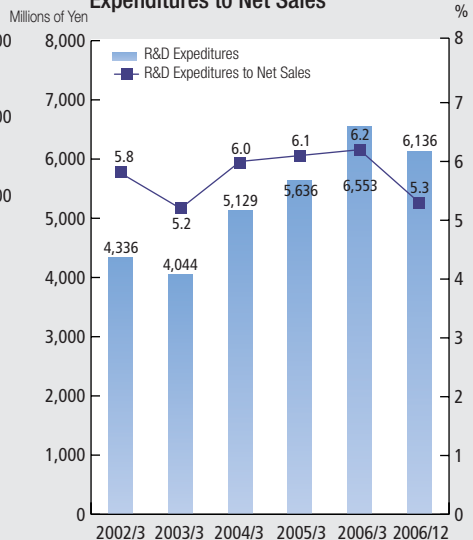
Interest Coverage Ratio



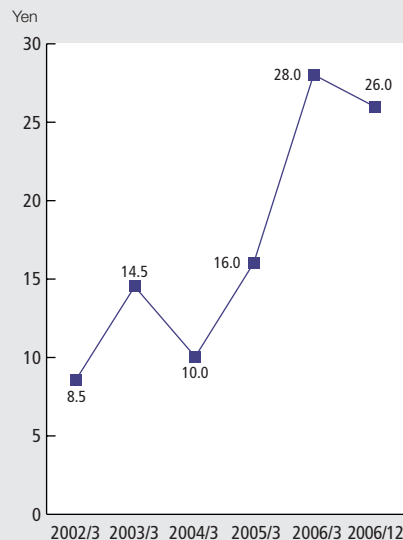
Net Income (Loss) per Share and Net Assets per Share



R&D Expenditures and R&D Expenditures to Net Sales



Cash Dividends per Share



The global economy was strong in the year ended December 31, 2006, with continued economic expansion in the U.S. centered on personal consumption, despite surging crude oil prices and higher interest rates giving some cause for concern. There was also robust growth in Asia against a backdrop of growing demand in China, India and elsewhere. The Japanese economy expanded gradually, supported by increased capital investment accompanying higher corporate earnings, as well as increasing exports, which combined to outweigh the rise in raw material prices. In the foreign currency exchange markets, the yen depreciated against the U.S. dollar and euro compared with the previous year, weakening still further at the year's end.

In the analytical and measurement instruments industry, demand grew strongly on the back of heightened activity in semiconductor-related markets worldwide, private-sector capital expenditure centering on a variety of environmental protection initiatives, and the expansion of emerging markets, mainly in Asia. However, the downward trend in prices continued as competition intensified.

Within this context, HORIBA launched its Mid-Long Term Management Plan during the fiscal period under review. The plan targets net sales of ¥150 billion, an operating income ratio of at least 10% and ROE (return on equity) of 11% or more in the year ending December 31, 2010. To achieve the plan's targets, HORIBA took steps to strengthen its brand in analytical and measurement instruments markets. Initiatives included using its unique corporate culture—encapsulated in the mottos “Joy and Fun” and “Open & Fair”—as a guide for all corporate activities and fostering the development of people with a global perspective.

As a result of such initiatives, HORIBA's net sales were higher year on year, over ¥100 billion, and operating income and net income also increased. This was despite the fact that, as a result of a change in fiscal year-end*¹, the relevant fiscal periods for HORIBA, Ltd. and key domestic subsidiaries were shorter than before, at approximately 9 months.

*1. As a result of the fiscal year-end changing from March 20 to December 31 during the fiscal period under review, the following irregular fiscal periods have arisen: 9 months and 11 days for HORIBA, Ltd. and HORIBA Advanced Techno Co., Ltd.; and 9 months for HORIBA STEC, Co., Ltd.

Net Sales

Consolidated net sales increased by ¥10,434 million, or 9.9%, year on year to a record ¥116,099 million.

Business Segments

Automotive Test Systems

Segment sales rose 10.2% to ¥37,945 million. This was the first year that the automotive development test systems (DTS) business acquired from Germany's Carl Schenck AG in September 2005 was integrated into HORIBA's existing engine measurement operations; revenues benefited by ¥8.8 billion from the full year's sales booked for the DTS business. By geographic region*², sales were down 15.0% in Japan and other Asian countries, down 3.4% in the Americas and up 64.3% in Europe.

Analytical Instruments & Systems

Segment sales rose 7.3% to ¥35,054 million. Sales of X-ray analyzers for Waste Electrical and Electronic Equipment (WEEE) and Restriction of Hazardous Substances (RoHS) directives were strong in Japan and Asia. In addition, there was greater demand for sulfur-in-oil analyzers in the U.S. and for stack gas analyzers in Japan. Also, HORIBA Jobin Yvon SAS in France, which has a strong position in nanotechnology measurement, expanded sales to cutting-edge scientific fields using its advanced technical capabilities. By geographic region*², sales were down 8.0% in Japan and other Asian countries, up 43.1% in the Americas and up 18.2% in Europe.

Medical/Diagnostic Instruments & Systems

Segment sales rose 12.1% to ¥22,989 million. Sales of large sized hematology analyzers increased in the European and American markets. In addition, sales of testing reagents grew, reflecting strong growth in the number of analyzers in use. In the domestic market, sales of small sized automatic blood cell counters plus CRPs also increased. By geographic region*², sales were down 1.7% in Japan and other Asian countries and up 15.3% in Europe.

Semiconductor Instruments & Systems

Segment sales increased 11.5% to ¥20,111 million. This increase reflected higher Japanese and North American sales of HORIBA's mainstay product, mass flow controllers used in semiconductor production equipment, supported by a buoyant semiconductor market and greater market share. Sales of chemical concentration monitors also increased due to flourishing demand from manufacturers of cleaning equipment. By geographic region*², sales were down 1.9% in Japan and other Asian countries, up 80.6% in the Americas and up 25.9% in Europe.

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

Average foreign exchange rates applied in accounting procedures reflected a weakening of the yen against the U.S.

dollar from ¥110.25 to ¥116.37 and against the euro from ¥136.91 to ¥146.20. If the exchange rates applicable to the year ended March 20, 2006 had been applied to the results for the year ended December 31, 2006, consolidated net sales would have totaled ¥110,584 million. Thus, the yen's depreciation lifted sales by ¥5,515 million.

Cost of Sales, SG&A Expenses and Operating Income

Consolidated cost of sales increased by ¥5,770 million to ¥66,510 million. The cost of sales ratio was 57.3%, a 0.2 percentage point improvement from the previous year. While the ratio deteriorated as a result of low profitability in the DTS business, positive factors included comprehensive cost-cutting measures, such as integrated group-wide joint purchasing from suppliers and the success of measures to increase production at the Aso Factory of HORIBA STEC, Co., Ltd., which was expanded in October 2005. Although the cost of sales increased by ¥5,770 million year on year, foreign exchange movements increased this amount by ¥3,138 million. Excluding this impact, cost of sales increased by ¥2,632 million.

Selling, general and administrative (SG&A) expenses increased by ¥4,232 million to ¥37,882 million, reflecting amortization expense relating to goodwill in the DTS business, investment in new product development and an increase in marketing expenses. The ratio of SG&A expenses to net sales increased by 0.8 percentage points to 32.6%. The portion of the ¥4,232 million increase attributable to exchange rate movements was ¥1,687 million. Excluding this impact, SG&A expenses rose ¥2,545 million.

As a result, consolidated operating income increased by ¥432 million, or 3.8%, year on year to ¥11,707 million. The operating income ratio deteriorated by 0.6 percentage points from 10.7% to 10.1%.

Business Segments

Automotive Test & Systems

Segment operating income declined by 43.5% to ¥3,680 million. This reflected a number of factors, including currently low profitability in the DTS business, amortization expense relating to goodwill on the acquisition of this business, investment in new product development and an increase in marketing expenses

Analytical Instruments & Systems

Segment operating income rose by 101.8% to ¥2,668 million due to higher sales and increased effectiveness in mass production.

Medical/Diagnostic Instruments & Systems

Segment operating income rose by 47.3% to ¥1,404 million due to increased sales of highly profitable testing reagents.

Semiconductor Instruments & Systems

Segment operating income rose by 58.8% to ¥3,955 million due to higher sales and effectiveness in mass production resulting from increased production at the Aso Factory of HORIBA STEC, Co., Ltd., which was expanded in October 2005.

Net Income

The net foreign exchange gain decreased by ¥343 million, reflecting exchange losses at European subsidiaries and others due to the euro's rise against the U.S. dollar. Net interest expense increased by ¥45 million due to additional interest expenses accompanying increases in loans and other factors.

Special losses were down significantly from the year ended March 20, 2006, when HORIBA recorded a provision for retirement benefits for directors and corporate auditors. In addition, the effective tax rate decreased.

As a result, while income before income taxes decreased by ¥160 million, or 1.5%, to ¥10,588 million, net income increased by ¥37 million, or 0.6%, to ¥6,510 million.

Financial Position

Total consolidated assets as of December 31, 2006 were ¥129,236 million, up ¥9,260 million from March 20, 2006, and total current assets rose by ¥7,000 million to ¥92,760 million. The main factors contributing to the increase included a ¥5,077 million rise in trade notes and accounts receivable stemming mainly from higher sales and a ¥3,674 million increase in inventories reflecting higher procurement levels in response to higher shipment volumes. Total fixed assets increased by ¥2,260 million to ¥36,476 million. Net property, plant and equipment increased by ¥1,477 million to ¥21,700 million due mainly to HORIBA ABX SAS in France acquiring assets for leasing and the acquisition of buildings and other assets by HORIBA, Ltd. Intangibles rose by ¥282 million to ¥5,744 million primarily due to investment related to the introduction of the new, unified enterprise resource planning (ERP) system.

Total consolidated liabilities were ¥56,861 million, up ¥2,491 million. One key contributing factor was a ¥1,899 million increase in trade notes and accounts payable to ¥14,961 million, reflecting higher procurement in response to higher shipment volumes. Another major factor was a ¥2,357 million increase in interest-bearing liabilities to ¥16,223 million due primarily to additional borrowing from financial institutions by subsidiaries in Europe and the U.S. to provide funds following acquisition of the DTS business.

Total consolidated net assets amounted to ¥72,375 million, up ¥6,929 million. The main factors contributing to

the increase were a ¥4,960 million increase in retained earnings and increases in common stock and capital surplus of ¥169 million due to new stock issues.

Cash Flows

Cash Flow from Operating Activities

Net cash provided by operating activities totaled ¥3,770 million. This was due mainly to ¥10,588 million in income before income taxes, ¥3,246 million in depreciation and amortization and a ¥985 million increase in trade notes and accounts payable, against ¥5,129 million for income taxes paid, a ¥3,023 million increase in trade notes and accounts receivable and a ¥2,208 million increase in inventories.

Cash Flow from Investing Activities

Net cash used in investing activities totaled ¥4,519 million. This was due primarily to ¥3,559 million in payments for the purchase of property, plant and equipment, and ¥1,453 million in payments for the purchase of intangibles. Moreover, HORIBA, Ltd. invested an additional ¥203 million in HORIBA Korea Ltd. to convert it into a wholly owned subsidiary and ¥104 million to acquire shares in HORIBA Korea Co., Ltd. Both companies are based in South Korea.

Cash Flow from Financing Activities

Net cash provided by financing activities totaled ¥1,315 million. This was due primarily to ¥1,396 million from an increase in long-term debt, ¥778 million from reimbursement of funds for the redemption of convertible bonds and ¥338 million in proceeds from the issue of new shares due to the exercise of stock acquisition rights. The above cash inflows outweighed a ¥1,253 million outflow for the payment of cash dividends. As a result, there was a net increase of ¥789 million in cash and cash equivalents to ¥15,673 million.

Dividend Policy

HORIBA's basic policy regarding dividends is to maintain its standard payout ratio system in which the total dividend payment amount is equal to 30% of the non-consolidated net income of HORIBA, Ltd.*³, with retained earnings allocated to reinvestment for continued growth. As for earnings of group companies, HORIBA, Ltd. receives a certain proportion of the net income of each group company as a dividend, so dividend payments are in effect made on consolidated earnings.

*3. A portion of extraordinary gains and/or losses may be excluded from the calculation of the payout ratio.

Major Business Risks

1. Risks Associated with International Business Activities

HORIBA conducts business activities in the U.S., Europe,

Asia and other countries around the world. Major risks associated with the entry into these overseas markets are listed below. These risks could affect HORIBA's financial position and business results:

(1) Business Risks

Risks include sudden shifts in economic conditions or in product supply and demand, sudden changes in retail prices due to competition, regulatory trends in the environmental field and delays in development of new products. (See page 7 for risks specific to each business.)

(2) Risks Associated with International Business Activities

Risks include wide fluctuations in foreign exchange rates, changes in laws, regulations or tax systems, social disruptions such as terrorism or war and other economic, social, political or similar risks.

Especially for fluctuations in foreign exchange rates, HORIBA promotes local production and supply and employs foreign exchange forward contracts within the limits of the balance of foreign currency denominated receivables and payables related to import and export transactions to minimize foreign exchange risks. However, fluctuations in foreign exchange rates could have an impact when financial statements prepared in local currencies are translated into Japanese yen for the consolidated financial statements, and a major change in foreign exchange rates beyond our estimates could affect our financial condition and business performance.

2. Compensation for Product Liability

HORIBA conducts optimum quality control for its products and services and strives to maintain the highest standard of reliability. Nevertheless, there is always a possibility of recalls or litigation arising from unforeseen defects. HORIBA carries insurance for product liability compensation, but there can be no guarantee that this insurance would cover the full amount of any unforeseen damages. Such circumstances could have an effect on HORIBA's financial condition and business performance.

3. Changes in Performance or Financial Position Associated with Acquisitions or Alliances

HORIBA has actively promoted corporate acquisitions and alliances to enhance the efficiency and effectiveness of its business operations. HORIBA conducts complete and diligent investigations when making acquisitions and forming alliances in order to avoid a negative impact on earnings or cash flow. However, it is possible that HORIBA's financial condition and business performance could be affected if an acquisition or alliance did not proceed in accordance with

initial plans.

4. Shifts in the Market Prices of Securities Holdings or Other Assets

HORIBA holds shares in its major alliance partners and other companies as part of its technology and business strategies for the future. In recent years, HORIBA has recorded losses on the revaluation of several investment securities due to the price of shares declining as a result of a downturn in business performance. In consideration of such circumstances, HORIBA's acquisitions and sales of investment securities are carefully investigated by the Board of Directors, the market price of shares is reported to top management on a timely basis and the purpose for holding the investment securities is properly reviewed. Also, HORIBA implemented impairment accounting in the year ended March 20, 2005, before legally required. However, if further declines in the market price or profitability of land, buildings or other assets occur in the future, there may be a negative impact on the financial condition and business performance of HORIBA.

5. Reversal of Deferred Tax Assets Resulting from Changes in Systems or Accounting Policies

HORIBA considers the deferred tax assets recorded at the end of the current period under review to be fully recoverable with future earnings (taxable income), but it is possible that a reversal of a portion of these assets will be required as a result of systemic changes.

6. Repairs of Facilities Following Natural Disasters and Associated Delays in Delivery, etc.

HORIBA produces products in Japan, Europe (France, Germany), the U.S., Asia (China, South Korea) and other locations. In the case of a major earthquake or other natural disaster, HORIBA may incur substantial costs for repair of manufacturing facilities, etc., or losses may be incurred due to delays in shipments or other factors. In such circumstances, there is a possibility of a negative impact on HORIBA's financial condition and business performance.

7. Delays in the Development of New Products

HORIBA's business field, measuring instruments, is extremely specialized and requires high levels of technical capability. HORIBA, therefore, invests large sums in product development. However, it is possible that expected results will not be realized due to unforeseen circumstances.

8. Risks Concerning Intellectual Property Rights

HORIBA possesses a wide range of intellectual property rights related to the products it manufactures, including patents, trademarks and expertise, which give it superiority in competitiveness. HORIBA exercises all possible caution regarding the management of these intellectual property rights, but in the case of infringement by a third party, it is possible that HORIBA will be unable to attain its expected earnings. There is also a possibility of disputes over intellectual property rights with other companies. Such circumstances may negatively affect HORIBA's financial condition and business performance.

Consolidated Balance Sheets

HORIBA, Ltd. and Consolidated Subsidiaries
At March 20, 2006 and December 31, 2006

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2006/3	2006/12	2006/12
ASSETS			
Current Assets:			
Cash and cash equivalents	¥14,884	¥15,673	\$131,584
Trade notes and accounts receivable	37,408	42,485	356,687
Allowance for doubtful receivables	(880)	(922)	(7,741)
Marketable securities (Note 3).....	-	2	17
Inventories (Note 4).....	27,273	30,947	259,819
Deferred tax assets (Note 14).....	2,742	2,442	20,502
Other current assets	4,333	2,133	17,908
Total current assets	85,760	92,760	778,776
Property, Plant and Equipment (Note 5):			
Land	6,618	6,737	56,561
Buildings and structures	17,343	18,107	152,019
Machinery, equipment and vehicles	10,183	11,709	98,304
Construction in progress	87	621	5,214
Other property, plant and equipment	10,159	11,087	93,082
Total	44,390	48,261	405,180
Accumulated depreciation.....	(24,167)	(26,561)	(222,995)
Net property, plant and equipment	20,223	21,700	182,185
Investments and Other Non-current Assets:			
Investment securities (Note 3)	5,277	5,439	45,664
Investments in non-consolidated subsidiaries and affiliates	120	107	898
Deferred tax assets (Note 14)	671	886	7,439
Allowance for doubtful accounts.....	(82)	(82)	(688)
Other investments and other assets	2,545	2,682	22,516
Total	8,531	9,032	75,829
Intangibles:			
Goodwill	2,404	1,577	13,240
Other intangibles.....	3,058	4,167	34,984
Total	5,462	5,744	48,224
Total Assets	¥119,976	¥129,236	\$1,085,014

See notes to the consolidated financial statements.

	Millions of yen		Thousands of U.S. dollars (Note 1)
LIABILITIES AND NET ASSETS	2006/3	2006/12	2006/12
Current Liabilities:			
Short-term loans payable (Note 5)	¥6,747	¥8,109	\$68,080
Current portion of long-term debt (Note 5)	452	737	6,188
Trade notes and accounts payable:			
Affiliated companies	45	44	369
Other	13,017	14,917	125,237
Accounts payable-other	8,914	9,087	76,291
Accrued income taxes	3,121	2,150	18,051
Accrued bonuses to employees	2,900	1,485	12,467
Accrued bonuses to directors and corporate auditors	-	300	2,519
Reserve for product warranty	1,025	1,161	9,747
Other current liabilities	8,157	7,914	66,443
Total current liabilities	44,378	45,904	385,392
Long-term Debt (Note 5)	6,667	7,377	61,934
Employees' Retirement Benefits (Note 8)	1,462	1,631	13,693
Directors' and Corporate Auditors' Retirement Benefits	618	660	5,541
Deferred Tax Liabilities (Note 14)	638	705	5,919
Other Non-current Liabilities	607	584	4,903
Total liabilities	54,370	56,861	477,382
Contingent Liabilities (Note 12)			
Minority Interests in Consolidated Subsidiaries	160	-	-
Net Assets (Notes 2(t), 9):			
Common stock	11,570	11,739	98,556
Authorized - 100,000,000 shares			
Issued and outstanding - 42,100,053 shares (excluding treasury stock) at 2006/3			
Issued and outstanding - 42,303,816 shares (excluding treasury stock) at 2006/12			
Capital surplus	18,276	18,445	154,857
Retained earnings	32,904	37,864	317,891
Net unrealized holding gains on securities	1,920	2,090	17,547
Foreign currency translation adjustments	850	2,251	18,898
Treasury stock	(74)	(18)	(151)
(44,699 shares at 2006/3 and 10,936 shares at 2006/12)			
Total	65,446	72,371	607,598
Minority interests in consolidated subsidiaries	-	4	34
Net assets	65,446	72,375	607,632
Total Liabilities and Net Assets	¥119,976	¥129,236	\$1,085,014

Consolidated Statements of Income

HORIBA, Ltd. and Consolidated Subsidiaries
For the years ended March 20, 2006 and December 31, 2006

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2006/3	2006/12	2006/12
Net Sales (Note 15)	¥105,665	¥116,099	\$974,721
Operating Costs and Expenses:			
Cost of sales.....	60,740	66,510	558,392
Selling, general and administrative	33,650	37,882	318,042
Total operating costs and expenses	94,390	104,392	876,434
Operating Income (Note 15)	11,275	11,707	98,287
Other Income (Expenses):			
Interest and dividend income	121	248	2,082
Interest expense.....	(333)	(505)	(4,240)
Foreign exchange gains (losses), net	144	(199)	(1,671)
Gain on sales of investment securities	395	20	168
Gain on insurance, net of related loss.....	96	-	-
Gain on settlement of license	177	-	-
Gain on sale of property, plant and equipment.....	47	75	630
Loss on disposal of property, plant and equipment	(116)	(34)	(285)
Loss on sale of property, plant and equipment	(17)	(2)	(17)
Loss on impairment of fixed assets (Note 2(m)).....	-	(237)	(1,990)
Retirement benefits to directors and corporate auditors	(750)	(2)	(17)
Loss on disposal of inventories	(68)	(138)	(1,159)
Loss on valuation of investment securities.....	(13)	-	-
Loss on write-down of inventories	(41)	(246)	(2,065)
Other, net	(169)	(99)	(830)
Total other expenses, net	(527)	(1,119)	(9,394)
Income before Income Taxes	10,748	10,588	88,893
Income Taxes (Note 14):			
Current.....	4,424	4,051	34,011
Deferred.....	(210)	(23)	(193)
Total income taxes.....	4,214	4,028	33,818
Minority Interest in Earnings of Consolidated Subsidiaries	61	50	420
Net Income	¥6,473	¥6,510	\$54,655
	Yen		U.S. dollars (Note 1)
	2006/3	2006/12	2006/12
Per Share Information:			
Net income - basic.....	¥154.27	¥154.23	\$1.29
Net income - diluted	146.97	153.70	1.29
Cash dividends.....	28.00	26.00	0.22

See notes to the consolidated financial statements.

Consolidated Statements of Shareholders' Equity

HORIBA, Ltd. and Consolidated Subsidiaries
For the years ended March 20, 2006 and December 31, 2006

Thousands of
U.S. dollars
(Note 1)

	Millions of yen		
	2006/3	2006/12	2006/12
Common Stock			
Balance at beginning of period.....	¥9,641	¥11,570	\$97,137
Conversion of convertible bonds	1,929	-	-
5,199,805 shares in 2006/3			
Issuance of new shares (Exercise of stock acquisition rights)	-	169	1,419
Balance at end of period	¥11,570	¥11,739	\$98,556
Capital Surplus			
Balance at beginning of period.....	¥13,933	¥18,276	\$153,438
Conversion of convertible bonds	1,925	-	-
Increase through a stock-for-stock exchange	2,418	-	-
Issuance of new shares (Exercise of stock acquisition rights)	-	169	1,419
Balance at end of period	¥18,276	¥18,445	\$154,857
Retained Earnings			
Balance at beginning of period	¥27,422	¥32,904	\$276,249
Net income	6,473	6,510	54,655
Cash dividends	(722)	(1,264)	(10,612)
Bonus to directors and corporate auditors.....	(176)	(272)	(2,284)
Decrease on disposal of treasury stock	(15)	(14)	(117)
Effect of accounting change in an overseas subsidiary	(78)	-	-
Balance at end of period	¥32,904	¥37,864	\$317,891
Net Unrealized Holding Gains on Securities			
Balance at beginning of period.....	¥1,401	¥1,920	\$16,120
Increase of net unrealized holding gains on securities	519	170	1,427
Balance at end of period	¥1,920	¥2,090	\$17,547
Foreign Currency Translation Adjustments			
Balance at beginning of period.....	¥21	¥850	\$7,136
Increase of foreign currency translation adjustments	829	1,401	11,762
Balance at end of period	¥850	¥2,251	\$18,898
Treasury Stock			
Balance at beginning of period.....	(¥155)	(¥74)	(\$621)
Purchase of treasury stock	(119)	(1)	(8)
44,330 shares in 2006/3			
237 shares in 2006/12			
Sale of treasury stock	200	57	478
147,000 shares in 2006/3			
34,000 shares in 2006/12			
Balance at end of period	(¥74)	(¥18)	(\$151)
Total	¥65,446	¥72,371	\$607,598
Minority Interests in Consolidated Subsidiaries			
Balance at beginning of period.....	-	-	-
Adoption of new accounting standards for presentation of net assets in the balance sheet at March 21, 2006 (Note 2(f)) ...	-	160	1,344
Decrease of minority interests in consolidated subsidiaries	-	(156)	(1,310)
Balance at end of period	-	¥4	\$34
Net Assets	¥65,446	¥72,375	\$607,632

See notes to the consolidated financial statements.

Consolidated Statements of Cash Flows

HORIBA, Ltd. and Consolidated Subsidiaries
For the years ended March 20, 2006 and December 31, 2006

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2006/3	2006/12	2006/12
Cash Flows from Operating Activities:			
Income before income taxes	¥10,748	¥10,588	\$88,893
Adjustments to reconcile income before income taxes to net cash provided by operating activities:			
Depreciation and amortization	3,173	3,246	27,252
Loss on impairment of fixed assets	-	237	1,990
Loss on valuation of investment securities	13	-	-
Gain on sales of investment securities	(395)	(20)	(168)
Loss on disposal of property, plant and equipment	116	34	285
Gain on sale of property, plant and equipment	(47)	(75)	(630)
Increase (decrease) in allowance for doubtful receivables	220	(45)	(378)
Increase in directors' and corporate auditors' retirement benefits	75	54	453
Increase in employees' retirement benefits	82	3	25
Interest and dividend income	(121)	(248)	(2,082)
Interest expense	333	505	4,240
Foreign exchange losses	16	46	386
Loss on sale of property, plant and equipment	17	2	17
Retirement benefits to directors and corporate auditors	770	2	17
Increase in trade notes and accounts receivable	(4,693)	(3,023)	(25,380)
Increase in inventories	(674)	(2,208)	(18,537)
Increase in trade notes and accounts payable	313	985	8,270
Bonuses to directors and corporate auditors	(176)	(272)	(2,284)
Other, net	3,447	(685)	(5,751)
Subtotal	13,217	9,126	76,618
Interest and dividends received	116	236	1,981
Interest paid	(324)	(449)	(3,770)
Payment of retirement benefits to directors and corporate auditors	(1,341)	(14)	(118)
Income taxes paid	(2,995)	(5,129)	(43,060)
Net cash provided by operating activities	8,673	3,770	31,651
Cash Flows from Investing Activities:			
Decrease (increase) in time deposits with maturities longer than three months	(1,594)	123	1,033
Payments for purchase of investment securities	(320)	(22)	(185)
Proceeds from sale or redemption of investment securities	506	168	1,410
Payments for purchase of investments in a consolidated subsidiary	-	(203)	(1,704)
Payments for purchase of investments in newly consolidated subsidiaries (Note 7)	(3,270)	(104)	(873)
Payments for purchase of property, plant and equipment	(4,019)	(3,559)	(29,880)
Proceeds from sale of property, plant and equipment	134	439	3,686
Increase in intangibles	(1,766)	(1,453)	(12,199)
Other, net	(33)	92	772
Net cash used in investing activities	(10,362)	(4,519)	(37,940)
Cash Flows from Financing Activities:			
Net increase in short-term borrowings	1,253	690	5,793
Increase in long-term debt	685	1,396	11,720
Repayment of long-term debt	(284)	(631)	(5,298)
Proceeds from exercise of stock acquisition rights	-	338	2,838
Payments for purchase of treasury stock	(119)	(1)	(8)
Proceeds from sales of treasury stock	185	42	353
Cash dividends paid	(723)	(1,253)	(10,520)
Cash dividends paid to minority interests	(31)	(30)	(252)
Payment of funds for redemption of convertible bonds	(787)	-	-
Reimbursement of funds for redemption of convertible bonds	-	778	6,532
Other, net	(50)	(14)	(118)
Net cash provided by financing activities	129	1,315	11,040
Effect of Exchange Rate Changes on Cash and Cash Equivalents	336	223	1,873
Net Increase (Decrease) in Cash and Cash Equivalents	(1,224)	789	6,624
Cash and Cash Equivalents at Beginning of Year	16,108	14,884	124,960
Cash and Cash Equivalents at End of Year	¥14,884	¥15,673	\$131,584

See notes to the consolidated financial statements.

1. Basis of presenting financial statements

The accompanying consolidated financial statements of HORIBA, Ltd. ("the Company") have been prepared in accordance with the provisions set forth in the Japanese Securities and Exchange Law and its related accounting regulations and in conformity with accounting principles generally accepted in Japan ("Japanese GAAP"), which are different in certain respects as to application and disclosure requirements from International Financial Reporting Standards.

The accounts of overseas subsidiaries are based on their accounting records maintained in conformity with generally accepted accounting principles prevailing in the respective countries of domicile. The accompanying consolidated financial statements have been restructured and translated into English (with some expanded descriptions and the inclusion of the consolidated statement of shareholders' equity for the year ended March 20, 2006) 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 translation of the Japanese yen amounts into U.S. dollars is included solely for the convenience of readers outside Japan, using the prevailing exchange rate at December 31, 2006, which was ¥119.11 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 current year's presentation.

At the June 17, 2006, annual meeting, the Company's shareholders approved changing the accounting term from March 20 to December 31. As a result, the consolidated accounting term ended December 31, 2006 was only 9 months and 11 days from March 21, 2006 to December 31, 2006. Due to the changing the accounting term for the Company, certain subsidiaries also changed their accounting terms. The accounting term for HORIBA Advanced Techno Co., was only 9 months and 11 days from March 21, 2006 to December 31, 2006 and that for HORIBA STEC, Co., Ltd. was only 9 months from April 1, 2006 to December 31, 2006. The accounting term for the other consolidated subsidiaries was 12 months and unchanged.

2. Summary of significant accounting policies

(a) Principles of consolidation

The consolidated financial statements include the accounts of the Company and 42 (44 in the year ended March 20, 2006) of its subsidiaries ("HORIBA" as a consolidated group). In the year ended December 31, 2006, one subsidiary was newly established, one subsidiary was acquired, one subsidiary was liquidated, one subsidiary was merged into

another subsidiary and two subsidiaries were 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 a straight-line basis over five years. Some of the overseas 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 a straight-line basis over four to twenty years, in accordance with generally accepted accounting principles of the country of their incorporation.

At December 31, 2006, the year-end of consolidated subsidiaries matches that of the consolidated financial statements (see note 1).

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

The Company has seven affiliated companies. For one of the seven affiliates the equity method was applied due to increased materiality in the year ended December 31, 2006. Investments in six (seven in the year ended March 20, 2006) 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 a 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 and 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 net assets. 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 mainly at 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 life of the asset:

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 assets are principally as follows:

Buildings and structures - 5 to 60 years

Machinery, equipment and vehicles - 2 to 12 years

(f) Software costs

Amortization of computer software, which is used by HORIBA 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 estimated uncollectible amounts of certain individual receivables. The overseas subsidiaries provide for doubtful accounts based on estimates by management.

(h) Accrued bonuses to employees

Accrued bonuses to employees 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.

(i) Accrued bonuses to directors and corporate auditors

Accrued bonuses to directors and corporate auditors are provided for the expected payment of director and corporate auditor bonuses for the current fiscal year to those directors and corporate auditors serving at the end of the fiscal year.

Prior to the year ended December 31, 2006, bonuses to directors and corporate auditors were accounted for as a reduction of retained earnings. In the year ended December 31, 2006, the Company and certain domestic subsidiaries adopted "Accounting Standard for Directors' Bonus" (Accounting Standards Board of Japan Statement No. 4 issued on November 29, 2005) and changed to provide for bonuses to directors and corporate auditors at the end of the fiscal year to which such bonuses are attributable. The effect of the adoption of this new accounting standard on operating income and income before income taxes was ¥300 million (\$2,519 thousand). The effect on segment information is described in Note 15.

(j) 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 warranty liability incurred in the past.

(k) Retirement benefits and pension plans

The Company and certain of its consolidated subsidiaries provide for employees' severance and retirement benefits based on estimated amounts of projected benefit obligation and the fair value of plan assets. Actuarial gains or losses

are recognized in expenses using the straight-line method over fixed years (5 years) within the average of the estimated remaining service years commencing with the following period. In the Company, prior service costs are recognized in expenses using the straight-line method over fixed years (10 years) within the average of the estimated remaining service years commencing in the period they arise. In certain consolidated subsidiaries, they are expensed in the period they arise.

(l) Retirement benefits for directors and corporate auditors

Retirement benefits for directors and corporate auditors are provided for at an amount based upon internal rules at the balance sheet date.

(m) Impairment of fixed assets.

HORIBA reviewed its long-lived assets for impairment and, as a result, recognized a special loss on impairment of goodwill for the year ended December 31, 2006.

Location	Assets	Loss on impairment
SRH Systems Ltd. (U.K.)	Goodwill	¥237 million (\$1,990 thousand)

In applying the accounting standard for impairment of fixed assets, HORIBA evaluated indications of impairment by grouping assets on an industry segment basis. HORIBA estimated the recoverability of the goodwill for the investment in SRH Systems Ltd. (U.K.) under the estimated term of future cash flows and recognized an impairment loss for the full amount of the book value.

(n) 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 average annual exchange rates. Differences arising from the application of the process stated above are separately presented in the consolidated financial statements in "Foreign Currency Translation Adjustments" and "Minority Interests" in net assets.

(o) Finance leases

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

(p) 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, 2006, and December 31, 2006, were ¥6,553 million and ¥6,136 million (\$51,515 thousand), respectively.

(q) Derivatives and hedge accounting

Derivative financial instruments are stated at fair value and changes in the fair value are recognized as gains or losses unless derivative financial instruments are used for hedging purposes.

HORIBA 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 HORIBA's foreign currency denominated receivables and payables. HORIBA also uses interest rate swap contracts to avoid the risk of rising interest rates.

Contracts are entered into and controlled by the finance department, which reports results to the Board of Directors. Transactions involving derivative contracts are limited to highly rated banking institutions, and HORIBA considers there are no material credit risks associated with them.

In cases where a foreign exchange forward contract meets certain hedging criteria, the hedged item is stated at the forward exchange rate. Hedge effectiveness is evaluated by verifying the currency type, term and identity of the hedged item and the hedging instrument.

(r) Income taxes

HORIBA recognizes tax effects of loss carryforwards and 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.

Effective for the year commenced on April 1, 2004 and later, according to the revised local tax law, assessment by estimation on the basis of the size of the business was introduced as enterprise taxes. The tax portion of this assessment was recorded as selling, general and administrative expenses. Because of this change, selling, general and administrative expenses increased by ¥139 million, and operating income and income before income taxes decreased by the same amount for the year ended March 20, 2006.

(s) Per share information

The computations of net income per share are based on the weighted average number of shares of common stock outstanding during each period. The weighted average number of common shares used in the computation for the years ended March 20, 2006 and December 31, 2006 were 40,200 thousand and 42,210 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 number of shares used in the computation for the years ended March 20, 2006 and December 31, 2006 were 42,233 thousand and 42,356 thousand, respectively.

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

(t) Presentation of net assets in the balance sheet

Effective from the year ended December 31, 2006, the Company adopted "Accounting Standard for Presentation of Net Assets in the Balance Sheet" (Accounting Standards Board of Japan Statement No. 5 issued on December 9, 2005) and "Guidance on Accounting Standard for Presentation of Net Assets in the Balance Sheet" (Accounting Standards Board of Japan Guidance No. 8 issued on December 9, 2005). Due to the adoption of these accounting standards, minority interests are included in net assets at December 31, 2006. Under the previous presentation rules, minority interests were presented as a separate component in the consolidated balance sheets. The adoption of these accounting standards had no impact on the consolidated statement of income for the year ended December 31, 2006. For the year ended December 31, 2006, the amount of shareholders' equity would have been ¥72,371 million (\$607,598 thousand), if the previous year's presentation was applied.

(u) Accounting standard for statement of changes in net assets

Effective for the year ended December 31, 2006, the Company and its consolidated subsidiaries adopted new accounting standards, "Accounting Standard for Statement of Changes in Net Assets" (Accounting Standards Board of Japan Statement No. 6 issued on December 27, 2005), and "Guidance on Accounting Standard for Statement of Changes in Net Assets" (Accounting Standards Board of Japan Guidance No. 9 issued on December 27, 2005). Previously, consolidated statements of shareholders' equity were prepared for purposes of inclusion in the consolidated financial statements although such statements were not required in Japan.

(v) Business Combination and Business Separation

Effective from the year ended December 31, 2006, the Company adopted "Accounting Standard for Business Combination" (issued by the Business Accounting Council on October 31, 2003), "Accounting Standard for Business Separation" (Accounting Standards Board of Japan Statement No. 7 issued on December 27, 2005) and "Guidance on Accounting Standard for Business Combination and Business Separation" (Accounting Standards Board of Japan Guidance No. 10 issued on December 27, 2005).

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, 2006:

Millions of yen			
2006/3			
	Acquisition cost	Book value	Difference
Securities with book values exceeding acquisition costs:			
Equity securities.....	¥1,630	¥4,865	¥3,235
Other.....	120	141	21
	1,750	5,006	3,256
Securities with book values not exceeding acquisition costs:			
Equity securities.....	18	15	(3)
Other.....	11	11	—
	29	26	(3)
Total	¥1,779	¥5,032	¥3,253

The following table summarizes available-for-sale securities sold for the year ended March 20, 2006:

Millions of yen	
2006/3	
Total sales of available-for-sale securities.....	¥502
Related gains.....	395
Related losses.....	—

The following table summarizes book values of securities with no available fair values as of March 20, 2006:

Millions of yen	
2006/3	
Available-for-sale securities:	
Non-listed equity securities	¥208
Limited partnership for investment	33
	¥241

Available-for-sale securities with maturities and held-to-maturity debt securities at March 20, 2006 mature as follows:

Millions of yen		
2006/3		
	Over 1 year but within 5 years	Over 5 years but within 10 years
Bonds		
Government bonds.....	¥3	¥1

The following table summarizes acquisition costs and book values (fair values) of available-for-sale securities with available fair values at December 31, 2006:

	Millions of yen			Thousands of U.S. dollars		
	2006/12			2006/12		
	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference
Securities with book values exceeding acquisition costs:						
Equity securities.....	¥1,638	¥5,161	¥3,523	\$13,752	\$43,330	\$29,578
	1,638	5,161	3,523	13,752	43,330	29,578
Securities with book values not exceeding acquisition costs:						
Equity securities.....	18	15	(3)	151	126	(25)
Other.....	12	12	-	101	101	-
	30	27	(3)	252	227	(25)
Total	¥1,668	¥5,188	¥3,520	\$14,004	\$43,557	\$29,553

The following table summarizes available-for-sale securities sold for the year ended December 31, 2006:

	Millions of yen	Thousands of U.S. dollars
	2006/12	2006/12
Total sales of available-for-sale securities.....	¥167	\$1,402
Related gains.....	20	168
Related losses.....	-	-

The following table summarizes book values of securities with no available fair values as of December 31, 2006:

	Millions of yen	Thousands of U.S. dollars
	2006/12	2006/12
Available-for-sale securities:		
Non-listed equity securities	¥216	\$1,813
Limited partnership for investment	29	243
	¥245	\$2,056

Available-for-sale securities with maturities and held-to-maturity debt securities at December 31, 2006 mature as follows:

	Millions of yen			Thousands of U.S. dollars		
	2006/12			2006/12		
	Within 1 year	Over 1 year but within 5 years	Over 5 years but within 10 years	Within 1 year	Over 1 year but within 5 years	Over 5 years but within 10 years
Bonds						
Government bonds.....	¥2	¥2	¥4	\$17	\$17	\$34

4. Inventories

Inventories at March 20, 2006 and December 31, 2006 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2006/3	2006/12	2006/12
Finished products.....	¥9,687	¥10,820	\$90,840
Work in process.....	11,202	12,307	103,325
Raw materials and supplies.....	6,384	7,820	65,654
Total.....	¥27,273	¥30,947	\$259,819

5. Short-term loans and long-term debt

Short-term loans are generally represented by bank notes, with annual interest rates ranging from 0.46% to 7.25% and 0.45% to 8.25% at March 20, 2006 and December 31, 2006, respectively.

Long-term debt at March 20, 2006 and December 31, 2006 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2006/3	2006/12	2006/12
Secured:			
Loans from banks due in 2010, at rate of 3.51% per annum.....	¥99	¥48	\$403
Unsecured:			
1.16% bonds due in 2008.....	5,000	5,000	41,978
Loans from banks due serially from 2008 to 2013, at rates from 2.39% to 6.50% per annum.....	2,020	3,066	25,741
Total.....	7,119	8,114	68,122
Current portion.....	(452)	(737)	(6,188)
Long-term debt, less current portion.....	¥6,667	¥7,377	\$61,934

The aggregate annual maturities of long-term debt outstanding at December 31, 2006 were as follows:

Year ending December 31	Millions of yen	Thousands of U.S. dollars
2007.....	¥737	\$6,188
2008.....	5,723	48,048
2009.....	689	5,785
2010.....	215	1,805
2011.....	143	1,201
Thereafter.....	607	5,095
Total.....	¥8,114	\$68,122

At December 31, 2006, buildings and structures amounting to ¥65 million (\$546 thousand) at net book value were pledged as collateral for long-term debt of ¥36 million (\$302 thousand) and the current portion of long-term debt of ¥12 million (\$101 thousand).

The Company and its 11 subsidiaries had entered into the agreements for bank overdrafts or loan commitments with 20 banks as of December 31, 2006 as follows:

	Millions of yen	Thousands of U.S. dollars
The maximum aggregate principal.....	¥15,358	\$128,940
Amount utilized.....	5,384	45,202
Balance available.....	¥9,974	\$83,738

6. Significant non-cash transactions

Conversion of convertible bonds:

In the year ended March 20, 2006, due to the conversion of convertible bonds, "Common Stock" and "Capital Surplus" increased ¥1,929 million and ¥1,925 million, respectively, and "Long-term debt (convertible bonds)" decreased ¥3,854 million.

Share exchange:

In order to convert HORIBA STEC, Co., Ltd. into a wholly owned subsidiary, HORIBA, Ltd., issued 1,614,750 new shares in the year ended March 20, 2006. With the new stock issue, the amount of capital surplus increased by ¥2,418 million.

7. Assets and liabilities of the newly consolidated subsidiaries by acquisition of shares

For the year ended March 20, 2006, at the time of acquiring shares of newly consolidated subsidiaries, HORIBA Automotive Test Systems GmbH (Germany) and six other subsidiaries of Carl Schenck AG, assets and liabilities, the cost for the share acquisition, and the net payments to acquire the shares were as follows:

	Millions of yen
	2006/3
Current assets.....	¥6,959
Fixed assets.....	610
Goodwill.....	1,408
Current liabilities.....	(7,557)
Non-current liabilities.....	(167)
Cost for share acquisition at the beginning of current period.....	(1)
Cost for share acquisition in current period.....	1,252
Repayment of loans payable.....	2,380
Cash and cash equivalents.....	(362)
Net cash outflow to acquire the shares of newly consolidated subsidiaries.....	¥3,270

8. Employees' severance and pension benefits

Liabilities for employees' retirement benefits at March 20, 2006 and December 31, 2006 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2006/3	2006/12	2006/12
Projected benefit obligation.....	(¥3,294)	(¥3,725)	(\$31,274)
Pension assets.....	790	1,188	9,974
Unfunded projected benefit obligation.....	(2,504)	(2,537)	(21,300)
Unrecognized actuarial differences.....	137	96	806
Unrecognized differences on change of employees' retirement plan.....	905	810	6,801
Employees' retirement benefits.....	(¥1,462)	(¥1,631)	(\$13,693)

Note 1. Certain domestic consolidated subsidiaries use a simplified method for calculating projected benefit obligation.

Note 2. Pension assets of the contributory funded retirement plan are not included in the above pension asset amount.

A proforma portion for the Company and certain subsidiaries calculated by the ratio of accumulated pension premiums paid were ¥7,686 million and ¥11,213 million (\$94,140 thousand) as of March 20, 2006 and December 31, 2006, respectively.

Employees' retirement benefit expense for the years ended March 20, 2006 and December 31, 2006 comprised the following:

	Millions of yen		Thousands of U.S. dollars
	2006/3	2006/12	2006/12
Service cost.....	¥1,255	¥1,241	\$10,419
Interest cost on projected benefit obligation.....	44	39	327
Expected return on plan assets.....	(7)	(12)	(101)
Amortization of actuarial differences.....	29	35	294
Amortization of prior service costs.....	114	95	798
Retirement benefit expenses.....	¥1,435	¥1,398	\$11,737

Note 1. The retirement benefits expense of consolidated subsidiaries which use simplified methods are included in service cost.

Note 2. Premiums on the contributory funded retirement plan of ¥695 million and ¥558 million (\$4,685 thousand) expensed for the year ended March 20, 2006 and December 31, 2006, respectively, were also included in service cost.

Assumptions used were as follows:

	2006/3	2006/12
Discount rate.....	2.00%	2.00%
Expected rate of return on plan assets.....	2.00%	2.00%
Allocation method for 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 occurrence (subsidiary companies)	

9. Net Assets

Japanese Corporate Law ("the Law") became effective on May 1, 2006, replacing the Japanese Commercial Code ("the Code"). Under Japanese laws and regulations, the entire amount paid for new shares is required to be designated as common stock. However, a company may, by a resolution of the Board of Directors, designate an amount not exceeding one half of the price of the new shares as additional paid-in capital, which is included in capital surplus. Under the Law, in cases where dividend distribution of surplus is made, the smaller of an amount equal to 10% of the dividend or the excess, if any, of 25% of common stock over the total of additional paid-in-capital and legal earnings reserve must be set aside as additional paid-in-capital or legal earnings reserve. Legal earnings reserve is included in retained earnings in the accompanying consolidated balance sheets. Under the Code, companies were required to set aside an amount equal to at least 10% of cash dividends and other cash appropriations as legal earnings reserve until the total of legal earnings reserve and additional paid-in capital equaled 25% of common stock. Under the Code, legal earnings reserve and additional paid-in capital could be used to eliminate or reduce a deficit by a resolution of the shareholders' meeting or could be capitalized by a resolution of the Board of Directors. Under the Law, both of these appropriations generally require a resolution of the shareholders' meeting. Additional paid-in capital and legal earnings reserve may not be distributed as dividends. Under the Code, however, additional paid-in capital and legal earnings reserve could have been transferred to retained earnings by the resolution of the shareholders' meeting as long as the total amount of legal earnings reserve and additional paid-in capital remained equal to or exceeded 25% of common stock. Under the Law, all additional paid-in-capital and all legal earnings reserve may be transferred to other capital surplus and retained earnings, respectively, which are potentially available for dividends. The maximum amount that the Company can distribute as dividends is calculated based on the non-consolidated financial statements of the Company in accordance with the Law. Under the Law, companies can pay dividends at any time during the fiscal year in addition to the year-end dividend upon resolution at the shareholders meeting. For companies that meet certain criteria such as: (1) having the Board of Directors, (2) having independent auditors, (3) having the Board of Corporate Auditors, (4) the term of service of the directors is prescribed as one year rather than two years of normal term by its articles of incorporation, and (5) the opinion of independent auditors is unqualified, the Board of Directors may declare dividends if the company has prescribed so in its articles of incorporation. Semiannual interim dividends may also be paid once a year upon resolution by the Board of Directors if the articles of incorporation of the company so stipulate. Under the Code, certain limitations were imposed on the amount of capital surplus and retained earnings available for dividends. 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.

10. Stock options

Information on stock options existing in the year ended December 31, 2006 is as follows:

(1) Content of stock options

	Stock options granted in 2003	Stock options granted in 2004	Stock options granted in 2005	Stock options granted in 2006
Persons granted	6 directors, 6 corporate officers 26 employees and 2 directors of subsidiary companies	5 directors, 9 corporate officers 36 employees and 4 directors of subsidiary companies	2 directors, 9 corporate officers, 39 employees and 3 directors, 2 corporate officers, 12 employees, of subsidiary companies	4 directors, 9 corporate officers, 37 employees and 2 directors, 4 corporate officers, 10 employees, of subsidiary companies
Number of shares (Note 1)	common stock 200,000 shares	common stock 200,000 shares	common stock 300,000 shares	common stock 300,000 shares
Date of grant	June 2, 2003	June 1, 2004	June 1, 2005	April 21, 2006
Vesting conditions	(Note 2)	(Note 2)	(Note 2)	(Note 2)
Service period	(Note 3)	(Note 3)	(Note 3)	(Note 3)
Exercise period	July 1, 2004 to June 30, 2007	July 1, 2005 to June 30, 2008	July 1, 2006 to June 30, 2009	July 1, 2007 to June 30, 2010

Note 1. The number of stock options is convertible into an equal number of shares.

Note 2. To exercise these options, the person granted the option is principally required to be a director, a corporate auditor, a corporate officer or an employee of HORIBA except for resignation at the expiration of term, involuntary retirement or other cases approved by the Board of Directors.

Note 3. The service period is not stipulated.

(2) Number, movement and price of stock options

The number of stock options is convertible into an equal number of shares.

(a) Number of shares

	Stock options granted in 2003	Stock options granted in 2004	Stock options granted in 2005	Stock options granted in 2006
Before vesting options (Number of shares)				
Balance at March 20, 2006	–	–	300,000	–
Granted	–	–	–	300,000
Forfeited	–	–	–	–
Vested	–	–	300,000	–
Balance at December 31, 2006	–	–	–	300,000
After vesting options (Number of shares)				
Balance at March 20, 2006	25,000	128,000	–	–
Vested	–	–	300,000	–
Excercised	(19,000)	(83,000)	(102,000)	–
Forfeited	–	–	–	–
Balance at December 31, 2006	6,000	45,000	198,000	–

(b) Price per share

	Stock options granted in 2003	Stock options granted in 2004	Stock options granted in 2005	Stock options granted in 2006
Option price (Yen)	961	1,572	2,265	3,890
Weighted-average stock price (Yen)	3,700	3,663	3,606	—
Fair value at grant date (Note) (Yen)	—	—	—	—

Note. Omitted due to stock options which had been granted before the Japanese Corporate Law became effective on May 1, 2006

11. Leases

At March 20, 2006 and December 31, 2006, assets leased under non-capitalized finance leases were as follows:

Acquisition cost, accumulated depreciation and balance of assets leased.

	Millions of yen		Thousands of U.S. dollars
	2006/3	2006/12	2006/12
Machinery, equipment and vehicles.....	¥162	¥154	\$1,293
Other property, plant and equipment.....	768	622	5,222
Other intangibles.....	152	143	1,201
Less accumulated depreciation and amortization.....	(607)	(469)	(3,938)
Total.....	¥475	¥450	\$3,778

The above depreciation and amortization are calculated on the straight-line method over the term of the lease.

If the above leases were capitalized, interest of ¥27 million and ¥17 million (\$143 thousand), and depreciation and amortization of ¥236 million and ¥143 million (\$1,201 thousand) would have been recorded for the years ended March 20, 2006 and December 31, 2006, respectively. Lease payments under non-capitalized finance leases were ¥267 million and ¥162 million (\$1,360 thousand) for the years ended March 20, 2006 and December 31, 2006, respectively. Obligations under finance leases at March 20, 2006 and December 31, 2006 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2006/3	2006/12	2006/12
Payments remaining:			
Payments due within 1 year.....	¥175	¥151	\$1,268
Payments due after 1 year.....	323	319	2,678
Total.....	¥498	¥470	\$3,946

Payments remaining under operating leases at March 20, 2006 and December 31, 2006 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2006/3	2006/12	2006/12
Payments remaining:			
Payments due within 1 year.....	¥273	¥479	\$4,021
Payments due after 1 year.....	1,520	1,652	13,870
Total.....	¥1,793	¥2,131	\$17,891

12. Contingent liabilities

The Company and certain consolidated subsidiaries are contingently liable as guarantors of loans to affiliated companies and employees in the amounts of ¥331 million and ¥323 million (\$2,712 thousand) at March 20, 2006 and December 31, 2006, respectively. The Company and certain consolidated subsidiaries have discounted notes receivable in the amounts of ¥34 million and ¥5 million (\$42 thousand) at March 20, 2006 and December 31, 2006, respectively.

13. Derivative transactions

Outstanding derivative transactions at March 20, 2006 and December 31, 2006 were as follows:

Currency related:

	Millions of yen				Millions of yen			
	2006/3				2006/12			
	Amount	Over 1 year	Market value	Gain (loss)	Amount	Over 1 year	Market value	Gain (loss)
Forwards								
Selling								
US Dollar	¥1,152	-	¥1,150	¥2	¥1,238	-	¥1,261	(¥23)
Euro	920	-	990	(70)	1,027	-	1,133	(106)
Pound	223	-	224	(1)	243	-	283	(40)
Buying								
US Dollar	33	-	33	-	-	-	-	-
Euro	95	-	96	1	-	-	-	-
Total	-	-	-	(¥68)	-	-	-	(¥169)

Note 1. Market value is indicated by banking institutions.

Note 2. The above table does not include derivative transactions for which hedge accounting has been applied.

	Thousands of U.S. dollars			
	2006/12			
	Amount	Over 1 year	Market value	Gain (loss)
Forwards				
Selling				
US Dollar	\$10,394	-	\$10,587	(\$193)
Euro	8,622	-	9,512	(890)
Pound	2,040	-	2,376	(336)
Total	-	-	-	(\$1,419)

Interest rate related:

	Millions of yen				Millions of yen			
	2006/3				2006/12			
	Amount	Over 1 year	Market value	Gain (loss)	Amount	Over 1 year	Market value	Gain (loss)
Interest rate swap contracts								
Receiving floating rates and paying fixed rates	-	-	-	-	¥1,322	¥1,179	(¥19)	(¥19)
Total	-	-	-	-	-	-	-	(¥19)

Note 1. Market value is indicated by banking institutions.

Note 2. The above table does not include derivative transactions for which hedge accounting has been applied.

	Thousands of U.S. dollars			
	2006/12			
	Amount	Over 1 year	Market value	Gain (loss)
Interest rate swap contracts				
Receiving floating rates and paying fixed rates	\$11,099	\$9,898	(\$160)	(\$160)
Total	-	-	-	(\$160)

14. 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 40.60% for the years ended March 20, 2006 and December 31, 2006. The following table summarizes the significant differences between the statutory tax rate and HORIBA's effective tax rates for financial statement purposes for the years ended March 20, 2006 and December 31, 2006

	2006/3	2006/12
Statutory tax rate.....	40.60%	40.60%
Expenses like entertainment expenses not qualifying for deduction permanently.....	(note)	4.08
Non-taxable dividend income.....		(0.45)
Per capita inhabitant tax.....		0.30
Increase/decrease in valuation allowance for deferred tax assets....		1.68
Amortization of goodwill.....		1.64
Consolidated elimination of dividend income from consolidated subsidiaries.....		2.16
Differences in tax rate between foreign subsidiaries and the Company.....		(2.06)
Tax credits.....		(5.19)
Other.....		(4.72)
Effective tax rate.....	39.21%	38.04%

Note. The difference between the statutory tax rate and the effective tax rate for the year ended March 20, 2006 is less than 5%, so the differences are omitted above.

Significant components of HORIBA's deferred tax assets and liabilities at March 20, 2006 and December 31, 2006 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2006/3	2006/12	2006/12
Deferred tax assets			
Accrued enterprise tax.....	¥305	¥164	\$1,377
Loss on write-down of inventory.....	163	319	2,678
Allowance for doubtful receivables.....	188	66	554
Accrued bonuses.....	950	674	5,659
Loss carryforwards.....	2,090	1,756	14,743
Unrealized gains.....	839	1,116	9,370
Employees' retirement benefits.....	315	365	3,064
Retirement benefits.....	246	-	-
Depreciation.....	337	614	5,155
Loss on valuation of investment securities.....	282	109	915
Retirement benefits to directors and corporate auditors.....	254	265	2,225
Other.....	1,135	1,410	11,838
Total deferred tax assets.....	7,104	6,858	57,578
Valuation allowance.....	(2,908)	(2,350)	(19,730)
Net deferred tax assets.....	4,196	4,508	37,848
Deferred tax liabilities			
Reserve for deferred gains on property, plant and equipment.....	(50)	(32)	(269)
Net unrealized holding gains on securities.....	(1,315)	(1,443)	(12,115)
Other.....	(56)	(410)	(3,442)
Total deferred tax liabilities.....	(1,421)	(1,885)	(15,826)
Net deferred tax assets.....	¥2,775	¥2,623	\$22,022

Net deferred tax assets are included in the consolidated balance sheets as follows:

	Millions of yen		Thousands of U.S. dollars
	2006/3	2006/12	2006/12
Current assets.....	¥2,742	¥2,442	\$20,502
Investments and other non-current assets.....	671	886	7,439
Deferred tax liabilities (non-current).....	(638)	(705)	(5,919)
Net deferred tax assets.....	¥2,775	¥2,623	\$22,022

15. Segment Information

HORIBA operates on a worldwide basis within the following four business segments. The main products are:

- (1) Automotive Test Systems
Emission Measurement Systems, In-Use Automotive Emissions Analyzers,
On-Board Emission Measurement Systems, Fuel Cell Evaluation Systems, Driveline Test Systems
Engine Test Systems, Brake Test Systems, Drive Recorders
- (2) Analytical Instruments & Systems
Scientific Analysis Instruments (Particle-size Distribution Analyzers, X-ray Fluorescence Analyzers,
Raman Spectrophotometers, Diffraction, Gratings), Environmental Measuring Instruments (pH Meters,
Stack Gas Analyzers, Water Quality Analysis and Examination Systems, Air Pollution Analyzers,
- (3) Medical/Diagnostic Instruments & Systems
Equipment for Blood Sample Analysis (Hematology Analyzers, Equipment for Measuring Immunological Responses,
Clinical Chemistry Analyzers, Blood Sugar Measurement Systems)
- (4) Semiconductor Instruments & Systems
Mass Flow Controllers, Chemical Concentration Monitors,
Thin-film Analyzers for Semiconductors and LCD Inspection, Reticle/Mask Particle Detection Systems,
Residual Gas Analyzers, Vacuum meters

Information about operations by business and geographic segments and sales to foreign customers of HORIBA for the years ended March 20, 2006 and December 31, 2006, is as follows:

(a) Operations by business segment

Millions of yen						
2006/3						
	Automotive	Analytical	Medical/ Diagnostic	Semiconductor	Unallocated	Consolidated
Sales to outside customers.....	¥34,446	¥32,672	¥20,508	¥18,039	–	¥105,665
Operating expenses.....	27,937	31,350	19,555	15,548	–	94,390
Operating income.....	¥6,509	¥1,322	¥953	¥2,491	–	¥11,275
Assets.....	¥33,413	¥28,559	¥16,439	¥18,513	¥23,052	¥119,976
Depreciation and amortization..	¥746	¥726	¥1,157	¥544	–	¥3,173
Capital expenditures.....	¥1,174	¥1,452	¥1,074	¥1,964	–	¥5,664

Millions of yen						
2006/12						
	Automotive	Analytical	Medical/ Diagnostic	Semiconductor	Unallocated	Consolidated
Sales to outside customers.....	¥37,945	¥35,054	¥22,989	¥20,111	–	¥116,099
Operating expenses.....	34,265	32,386	21,585	16,156	–	104,392
Operating income.....	¥3,680	¥2,668	¥1,404	¥3,955	–	¥11,707
Assets.....	¥34,677	¥30,105	¥18,634	¥21,960	¥23,860	¥129,236
Depreciation and amortization..	¥888	¥706	¥1,100	¥552	–	¥3,246
Capital expenditures.....	¥1,450	¥1,322	¥1,764	¥523	–	¥5,059

Thousands of U.S. dollars						
2006/12						
	Automotive	Analytical	Medical/ Diagnostic	Semiconductor	Unallocated	Consolidated
Sales to outside customers.....	\$318,571	\$294,300	\$193,006	\$168,844	–	\$974,721
Operating expenses.....	287,675	271,900	181,219	135,640	–	876,434
Operating income.....	\$30,896	\$22,400	\$11,787	\$33,204	–	\$98,287
Assets.....	\$291,134	\$252,750	\$156,444	\$184,367	\$200,319	\$1,085,014
Depreciation and amortization..	\$7,455	\$5,927	\$9,235	\$4,635	–	\$27,252
Capital expenditures.....	\$12,173	\$11,099	\$14,810	\$4,391	–	\$42,473

Note 1. Unallocated assets of ¥23,052 million and ¥23,860 million (\$200,319 thousand) at March 20, 2006 and December 31, 2006, respectively, mainly include cash and cash equivalents and marketable and investment securities.

Note 2. As shown in Note2(i), the Company and its domestic subsidiaries adopted "Accounting Standard for Directors' Bonus" (Accounting Standards Board of Japan Statement No. 4 issued on November 29, 2005) effective from the year ended December 31, 2006. As a result, operating expenses increased by ¥81 million (\$680 thousand) in Automotive Test Systems, ¥98 million (\$823 thousand) in Analytical Instruments & Systems, ¥27 million (\$227 thousand) in Medical/Diagnostic Instruments & Systems and ¥94 million (\$789 thousand) in Semiconductor Instruments & Systems. Operating income decreased by the same amounts accordingly.

(b) Operations by geographic segment

Millions of yen						
2006/3						
	Japan	Americas	Europe	Asia	Elimination and/or unallocated	Consolidated
Sales to outside customers.....	¥50,503	¥13,396	¥39,685	¥2,081	—	¥105,665
Interarea.....	11,140	485	2,886	1,029	(¥15,540)	—
Total sales.....	61,643	13,881	42,571	3,110	(15,540)	105,665
Operating expenses.....	52,719	13,123	41,274	2,769	(15,495)	94,390
Operating income.....	¥8,924	¥758	¥1,297	¥341	(¥45)	¥11,275
Assets.....	¥52,371	¥9,460	¥33,432	¥1,661	¥23,052	¥119,976

Millions of yen						
2006/12						
	Japan	Americas	Europe	Asia	Elimination and/or unallocated	Consolidated
Sales to outside customers.....	¥44,829	¥16,746	¥51,045	¥3,479	—	¥116,099
Interarea.....	10,347	871	2,907	1,838	(¥15,963)	—
Total sales.....	55,176	17,617	53,952	5,317	(15,963)	116,099
Operating expenses.....	46,352	16,415	52,768	4,733	(15,876)	104,392
Operating income.....	¥8,824	¥1,202	¥1,184	¥584	(¥87)	¥11,707
Assets.....	¥55,987	¥9,283	¥37,879	¥2,227	¥23,860	¥129,236

Thousands of U.S. dollars						
2006/12						
	Japan	Americas	Europe	Asia	Elimination and/or unallocated	Consolidated
Sales to outside customers.....	\$376,366	\$140,593	\$428,554	\$29,208	—	\$974,721
Interarea.....	86,869	7,313	24,406	15,431	(\$134,019)	—
Total sales.....	463,235	147,906	452,960	44,639	(134,019)	974,721
Operating expenses.....	389,153	137,814	443,020	39,736	(133,289)	876,434
Operating income.....	\$74,082	\$10,092	\$9,940	\$4,903	(\$730)	\$98,287
Assets.....	\$470,044	\$77,937	\$318,017	\$18,697	\$200,319	\$1,085,014

Note 1. Unallocated assets of ¥23,052 million and ¥23,860 million (\$200,319 thousand) at March 20, 2006 and December 31, 2006, respectively, mainly include cash and cash equivalents and marketable and investment securities.

Note 2. Americas..... North America and South America

Europe..... Europe, Russia and Africa

Asia..... Asia excluding Japan, and Oceania

Note 3. As shown in Note 2(i), the Company and its domestic subsidiaries adopted "Accounting Standard for Directors' Bonus" (Accounting Standards Board of Japan Statement No. 4 issued on November 29, 2005) effective from the the year ended December 31, 2006. As a result, operating expenses increased by ¥300 million (\$2,519 thousand) in the Japan segment, and operating income decreased by the same amount accordingly.

(c) Sales to foreign customers

Millions of yen				
2006/3				
Sales to outside customers.....	Americas	Europe	Asia	Total
	¥22,555	¥27,062	¥13,002	¥62,619

Millions of yen				
2006/12				
Sales to outside customers.....	Americas	Europe	Asia	Total
	¥26,382	¥35,835	¥16,551	¥78,768

Thousands of U.S. dollars				
2006/12				
Sales to outside customers.....	Americas	Europe	Asia	Total
	\$221,493	\$300,856	\$138,956	\$661,305

Note: Americas..... North America and South America

Europe..... Europe, Russia and Africa

Asia..... Asia excluding Japan, and Oceania

16. Subsequent events

On February 21, 2007, the Company's Board of Directors resolved:

The payment of cash dividends of ¥18 (\$0.15) per share, aggregating ¥761 million (\$6,389 thousand) to shareholders of record at December 31, 2006.

At the March 24, 2007 annual meeting, the Company's shareholders approved:

The payment of bonuses to directors and corporate auditors totaling ¥219 million (\$1,839 thousand).

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 consolidated subsidiaries as of March 20, 2006 and December 31, 2006, 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 independently 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, 2006 and December 31, 2006, 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.

Without qualifying our opinion, we draw attention to Note 2 (i) to the consolidated financial statements. In the year ended December 31, 2006, the Company and certain domestic subsidiaries adopted the new Japanese accounting standard for directors' bonus.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended December 31, 2006 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

KPMG AZSA & Co.

Kyoto, Japan
March 26, 2007

Consolidated Balance Sheets

HORIBA, Ltd. and Consolidated Subsidiaries

ASSETS	1997/3	1998/3	1999/3	2000/3	2001/3
Current Assets:					
Cash and cash equivalents.....	¥15,750	¥10,681	¥16,388	¥15,264	¥17,443
Trade notes and accounts receivable.....	20,799	26,717	24,427	27,387	31,960
Allowance for doubtful receivables.....	(316)	(686)	(941)	(513)	(617)
Marketable securities.....	3,084	3,085	1,538	3,049	2,688
Inventories.....	16,985	22,175	18,829	16,207	19,503
Deferred tax assets.....	—	—	—	896	2,035
Other current assets.....	2,775	4,178	3,695	2,503	2,340
Total current assets.....	59,077	66,150	63,936	64,793	75,352
Property, Plant and Equipment:					
Land.....	6,475	6,472	7,477	7,431	7,534
Buildings and structures.....	7,478	10,879	12,065	11,784	13,565
Machinery, equipment and vehicles.....	2,933	4,340	5,785	5,786	6,246
Construction in progress.....	1,772	719	740	50	68
Other property, plant and equipment.....	5,811	6,667	6,791	7,244	7,574
Total.....	24,469	29,077	32,858	32,295	34,987
Accumulated depreciation.....	(10,325)	(12,527)	(13,767)	(14,573)	(16,446)
Net property, plant and equipment.....	14,144	16,550	19,091	17,722	18,541
Investments and Other Non-current Assets:					
Investment securities.....	1,510	1,469	1,165	1,732	1,861
Investments in non-consolidated subsidiaries and affiliates.....	53	50	51	128	141
Deferred tax assets.....	—	—	—	338	1,399
Allowance for doubtful accounts.....	(1)	(1)	(1)	—	(81)
Other investments and other assets.....	1,977	1,746	2,185	1,772	1,655
Total.....	3,539	3,264	3,400	3,970	4,975
Intangibles:					
Goodwill.....	365	2,314	1,894	1,196	644
Other intangibles.....	59	67	1,186	1,323	1,494
Total.....	424	2,381	3,080	2,519	2,138
Foreign Currency Translation Adjustments.....	630	—	869	—	—
Total Assets.....	¥77,814	¥88,345	¥90,376	¥89,004	¥101,006
LIABILITIES AND NET ASSETS					
Current Liabilities:					
Short-term loans payable.....	¥5,222	¥5,715	¥8,793	¥6,021	¥7,465
Current portion of long-term debt.....	146	6,884	262	218	567
Trade notes and accounts payable:					
Affiliated companies.....	38	46	38	55	79
Other.....	7,352	11,253	7,562	10,073	12,081
Accounts payable—other.....	3,662	2,965	3,658	2,891	3,712
Accrued income taxes.....	1,146	1,783	519	1,193	2,919
Accrued enterprise tax.....	328	489	298	—	—
Accrued bonuses to employees.....	—	—	—	—	—
Accrued bonuses to directors and corporate auditors.....	—	—	—	—	—
Reserve for product warranty.....	467	746	629	580	737
Other current liabilities.....	2,104	3,815	4,217	4,253	3,773
Total current liabilities.....	20,465	33,696	25,976	25,284	31,333
Long-term Debt.....	16,543	11,574	19,999	20,572	22,513
Employees' Retirement Benefits.....	1,791	1,773	1,638	1,631	2,421
Directors' and Corporate Auditors' Retirement Benefits.....	—	—	—	—	—
Deferred Tax Liabilities.....	—	—	—	—	30
Other Non-current Liabilities.....	96	637	1,997	1,743	1,827
Total liabilities.....	38,895	47,680	49,610	49,230	58,124
Foreign Currency Translation Adjustments.....	—	66	—	—	—
Minority Interests in Consolidated Subsidiaries.....	1,882	2,240	2,371	2,560	3,086
Net Assets:					
Common stock.....	6,569	6,570	6,578	6,578	6,578
Authorized – 100,000,000 shares					
Issued and outstanding – 42,100,053 shares (excluding treasury stock) at 2006/3					
Issued and outstanding – 42,303,816 shares (excluding treasury stock) at 2006/12					
Capital surplus.....	10,867	10,867	10,875	10,875	10,875
Retained earnings.....	19,631	20,963	21,205	21,989	23,924
Net unrealized holding gains on securities.....	—	—	—	—	—
Foreign currency translation adjustments.....	—	—	—	(1,987)	(1,438)
Treasury stock.....	(30)	(41)	(263)	(241)	(143)
(44,699 shares at 2006/3 and 10,936 shares at 2006/12)					
Total.....	37,037	38,359	38,395	37,214	39,796
Minority interests in consolidated subsidiaries.....	—	—	—	—	—
Net assets.....	37,037	38,359	38,395	37,214	39,796
Total Liabilities and Net Assets.....	¥77,814	¥88,345	¥90,376	¥89,004	¥101,006

Millions of yen					
2002/3	2003/3	2004/3	2005/3	2006/3	2006/12
¥16,625	¥22,061	¥13,603	¥16,108	¥14,884	¥15,673
29,622	29,594	29,143	30,595	37,408	42,485
(397)	(463)	(521)	(512)	(880)	(922)
—	—	—	—	—	2
19,169	18,336	19,402	22,012	27,273	30,947
1,413	2,000	2,178	2,012	2,742	2,442
2,109	2,292	1,922	2,290	4,333	2,133
68,541	73,820	65,727	72,505	85,760	92,760
7,756	7,510	7,476	6,564	6,618	6,737
14,570	14,762	15,369	16,097	17,343	18,107
7,024	7,080	7,731	8,770	10,183	11,709
192	827	158	81	87	621
7,974	8,152	8,604	8,907	10,159	11,087
37,516	38,331	39,338	40,419	44,390	48,261
(18,237)	(19,331)	(20,497)	(21,938)	(24,167)	(26,561)
19,279	19,000	18,841	18,481	20,223	21,700
6,021	3,721	3,938	4,206	5,277	5,439
187	189	94	91	120	107
1,175	968	651	704	671	886
(113)	(121)	(140)	(119)	(82)	(82)
1,843	1,577	1,366	1,356	2,545	2,682
9,113	6,334	5,909	6,238	8,531	9,032
1,174	652	1,291	1,394	2,404	1,577
659	736	889	1,295	3,058	4,167
1,833	1,388	2,180	2,689	5,462	5,744
—	—	—	—	—	—
¥98,766	¥100,542	¥92,657	¥99,913	¥119,976	¥129,236
<hr/>					
¥7,942	¥6,715	¥6,352	¥5,468	¥6,747	¥8,109
906	9,684	641	4,131	452	737
43	51	58	26	45	44
7,887	9,147	8,700	11,264	13,017	14,917
4,547	4,533	5,651	5,476	8,914	9,087
619	2,079	2,053	1,463	3,121	2,150
—	—	—	—	—	—
1,067	2,013	2,095	2,356	2,900	1,485
—	—	—	—	—	300
795	936	886	820	1,025	1,161
2,264	2,803	2,935	3,795	8,157	7,914
26,070	37,961	29,371	34,799	44,378	45,904
26,140	16,819	14,466	6,443	6,667	7,377
2,389	2,235	1,109	1,348	1,462	1,631
—	—	—	1,144	618	660
20	22	21	23	638	705
1,169	801	2,002	1,348	607	584
55,788	57,838	46,969	45,105	54,370	56,861
—	—	—	—	—	—
2,915	2,560	2,340	2,545	160	—
6,578	6,578	7,160	9,641	11,570	11,739
10,875	10,875	11,457	13,933	18,276	18,445
22,480	22,937	24,341	27,422	32,904	37,864
608	406	1,100	1,401	1,920	2,090
(236)	(402)	(433)	21	850	2,251
(242)	(250)	(277)	(155)	(74)	(18)
40,063	40,144	43,348	52,263	65,446	72,371
—	—	—	—	—	4
40,063	40,144	43,348	52,263	65,446	72,375
¥98,766	¥100,542	¥92,657	¥99,913	¥119,976	¥129,236

Consolidated Statements of Income

HORIBA, Ltd. and Consolidated Subsidiaries

	1997/3	1998/3	1999/3	2000/3	2001/3
Net Sales	¥50,315	¥62,426	¥67,597	¥71,030	¥77,873
Operating Costs and Expenses:					
Cost of sales.....	33,927	38,695	41,191	44,353	50,185
Selling, general and administrative.....	12,771	18,829	24,113	22,860	22,938
Total operating costs and expenses.....	46,698	57,524	65,304	67,213	73,123
Operating Income	3,617	4,902	2,293	3,817	4,750
Other Income (Expenses):					
Interest and dividend income.....	220	281	351	210	208
Interest expense.....	(485)	(638)	(815)	(713)	(838)
Foreign exchange gains (losses), net.....	213	300	(184)	(237)	390
Commission.....	(284)	(1)	-	-	-
Gain on discharge of indebtedness.....	712	-	-	-	-
Amortization of goodwill.....	-	-	-	-	-
Reversal of reserve for product warranty.....	-	-	-	-	-
Casualty insurance premium income.....	-	-	-	-	228
Gain on transfer of WDM business.....	-	-	-	-	1,302
Gain on sales of investment securities.....	-	-	-	-	-
Gain on insurance, net of related loss.....	-	-	-	-	-
Gain on settlement of license.....	-	-	-	-	-
Gain on sale of property, plant and equipment.....	-	9	11	155	10
Loss on disposal of property, plant and equipment.....	-	-	-	(229)	(36)
Loss on sale of property, plant and equipment.....	-	-	-	-	(315)
Loss on impairment of fixed assets.....	-	-	-	-	-
Retirement benefits to directors and corporate auditors.....	(64)	(185)	(123)	(48)	(39)
Loss on disposal of inventories.....	-	(169)	-	(177)	(261)
Loss on valuation of investment securities.....	(74)	(50)	(124)	(39)	(84)
Gain on change in subsidiary's retirement benefits plan.....	-	-	-	-	-
Loss on change of retirement benefit plan.....	-	-	-	-	-
Loss on change in accounting method for retirement benefits.....	-	-	-	-	-
Provision of retirement benefits for directors and corporate auditors for prior years.....	-	-	-	-	-
Loss on write-down of fund trust investments.....	-	-	-	(172)	(66)
Effect of change in accounting for pension plan.....	-	-	-	(115)	-
Loss on write-down of inventories.....	-	-	-	-	-
Loss on valuation of property, plant and equipment.....	-	-	-	-	-
Other, net.....	29	(47)	496	417	(200)
Total other expenses, net.....	267	(500)	(388)	(948)	299
Income before Income Taxes	3,884	4,402	1,905	2,869	5,049
Income Taxes:					
Current.....	1,941	2,808	802	1,302	4,184
Deferred.....	(46)	(397)	243	112	(1,151)
Total income taxes.....	1,895	2,411	1,045	1,414	3,033
Minority Interest in Earnings of Consolidated Subsidiaries	396	379	283	355	573
Net Income (Loss)	¥1,593	¥1,612	¥577	¥1,100	¥1,443

	1997/3	1998/3	1999/3	2000/3	2001/3
Per Share Information:					
Net income (loss) - basic.....	¥51.03	¥51.63	¥18.56	¥35.39	¥46.43
Net income - diluted.....	44.95	40.80	15.38	29.72	38.75
Cash dividends.....	7.00	10.50	11.00	6.00	8.50

Note: For the year ended December 31, 2006, the accounting term for the Company and HORIBA Advanced Techno Co., Ltd. was only 9 months and 11 days and that for HORIBA STEC, Co., Ltd. was only 9 months as a result of the fiscal year-end changing to December 31.

Millions of yen					
2002/3	2003/3	2004/3	2005/3	2006/3	2006/12
¥74,468	¥78,501	¥85,073	¥92,492	¥105,665	¥116,099
47,970	47,675	50,418	53,855	60,740	66,510
23,951	25,352	27,805	29,264	33,650	37,882
71,921	73,027	78,223	83,119	94,390	104,392
2,547	5,474	6,850	9,373	11,275	11,707
143	122	85	104	121	248
(890)	(685)	(449)	(373)	(333)	(505)
145	(879)	(236)	(41)	144	(199)
-	-	-	-	-	-
-	-	-	-	-	-
(294)	(292)	(301)	(86)	-	-
138	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	395	20
-	-	-	-	96	-
-	-	-	-	177	-
-	-	121	39	47	75
(102)	(91)	(57)	(46)	(116)	(34)
(21)	(203)	(26)	(1,123)	(17)	(2)
-	-	-	(54)	-	(237)
(256)	(133)	-	-	(750)	(2)
(209)	(24)	(68)	(170)	(68)	(138)
(717)	(320)	(136)	(35)	(13)	-
-	132	-	-	-	-
-	-	(442)	(80)	-	-
-	-	-	(144)	-	-
-	-	-	(1,151)	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	(44)	(345)	(76)	(41)	(246)
-	-	(134)	-	-	-
(20)	62	(82)	(32)	(169)	(99)
(2,083)	(2,355)	(2,070)	(3,268)	(527)	(1,119)
464	3,119	4,780	6,105	10,748	10,588
1,037	2,393	2,937	2,353	4,424	4,051
471	(232)	(363)	(63)	(210)	(23)
1,508	2,161	2,574	2,290	4,214	4,028
27	172	132	291	61	50
(¥1,071)	¥786	¥2,074	¥3,524	¥6,473	¥6,510

Yen					
2002/3	2003/3	2004/3	2005/3	2006/3	2006/12
(¥34.47)	¥22.21	¥62.90	¥98.33	¥154.27	¥154.23
-	18.31	50.10	83.81	146.97	153.70
8.50	14.50	10.00	16.00	28.00	26.00

Consolidated Statements of Cash Flows

HORIBA, Ltd. and Consolidated Subsidiaries

	Millions of yen						
	2001/3	2002/3	2003/3	2004/3	2005/3	2006/3	2006/12
Cash Flows from Operating Activities:							
Income before income taxes.....	¥5,049	¥464	¥3,119	¥4,780	¥6,105	¥10,748	¥10,588
Adjustments to reconcile income before income taxes to net cash provided by operating activities:							
Depreciation and amortization.....	3,276	3,381	2,915	3,037	2,944	3,173	3,246
Loss on impairment of fixed assets.....	-	-	-	-	54	-	237
Loss on valuation of investment securities.....	84	717	320	136	35	13	-
Gain on sales of investment securities.....	-	-	-	-	-	(395)	(20)
Loss on disposal of inventories.....	261	209	24	-	-	-	-
Loss on disposal of property, plant and equipment.....	-	102	91	57	46	116	34
Gain on change in subsidiary's retirement benefits plan.....	-	-	(132)	-	-	-	-
Gain on sale of property, plant and equipment.....	(10)	-	-	(121)	(39)	(47)	(75)
Loss on valuation of property, plant and equipment.....	-	-	-	134	-	-	-
Increase (decrease) in allowance for doubtful receivables.....	152	(222)	54	11	(24)	220	(45)
Increase in directors' and corporate auditors' retirement benefits.....	-	-	-	-	1,144	75	54
Increase (decrease) in employees' retirement benefits.....	782	(32)	(36)	(1,138)	231	82	3
Interest and dividend income.....	(208)	(143)	(122)	(85)	(104)	(121)	(248)
Interest expense.....	838	890	685	449	373	333	505
Foreign exchange losses (gains).....	(44)	(25)	5	(12)	23	16	46
Loss on sale of property, plant and equipment.....	315	21	203	26	1,123	17	2
Gain on transfer of WDM business.....	(1,302)	-	-	-	-	-	-
Casualty insurance premium income.....	(228)	-	-	-	-	-	-
Retirement benefits to directors and corporate auditors.....	39	256	133	-	-	770	2
Decrease (increase) in trade notes and accounts receivable.....	(3,384)	3,631	397	689	(895)	(4,693)	(3,023)
Decrease (increase) in inventories.....	(3,099)	1,204	813	(881)	(2,281)	(674)	(2,208)
Increase (decrease) in trade notes and accounts payable.....	1,349	(4,951)	1,216	(358)	2,163	313	985
Bonuses to directors and corporate auditors.....	(68)	(109)	(66)	(98)	(103)	(176)	(272)
Other, net.....	650	(779)	863	2,615	(306)	3,447	(685)
Subtotal.....	4,452	4,614	10,482	9,241	10,489	13,217	9,126
Interest and dividends received.....	209	164	124	85	100	116	236
Interest paid.....	(837)	(836)	(685)	(519)	(385)	(324)	(449)
Casualty insurance premium received.....	228	-	-	-	-	-	-
Payment of retirement benefits to directors and corporate auditors.....	(39)	(256)	(81)	(30)	(27)	(1,341)	(14)
Income taxes paid.....	(2,547)	(3,376)	(879)	(2,987)	(2,961)	(2,995)	(5,129)
Net cash provided by operating activities.....	1,466	310	8,961	5,790	7,216	8,673	3,770
Cash Flows from Investing Activities:							
Decrease (increase) in time deposits with maturities longer than three months.....	(262)	(9)	241	2	(17)	(1,594)	123
Payment for purchase of marketable securities.....	(1,738)	-	-	-	-	-	-
Proceeds from sale of marketable securities.....	2,041	318	-	-	-	-	-
Payments for purchase of investment securities.....	(233)	(1,877)	(337)	(412)	(393)	(320)	(22)
Proceeds from sale or redemption of investment securities.....	18	53	1,933	451	555	506	168
Payments for purchase of investments in a consolidated subsidiary.....	-	-	(453)	(169)	(19)	-	(203)
Payments for purchase of investments in newly consolidated subsidiaries.....	-	-	-	(273)	(119)	(3,270)	(104)
Payments for sale of investments in a consolidated subsidiary.....	-	-	-	-	(45)	-	-
Payments for purchase of property, plant and equipment.....	(2,521)	(2,308)	(2,639)	(2,622)	(2,980)	(4,019)	(3,559)
Proceeds from sale of property, plant and equipment.....	230	120	365	261	230	134	439
Increase in intangibles.....	-	(420)	(305)	(419)	(730)	(1,766)	(1,453)
Proceeds from sale of WDM business.....	1,290	-	-	-	-	-	-
Other, net.....	(762)	(1)	(142)	415	(111)	(33)	92
Net cash used in investing activities.....	(1,937)	(4,124)	(1,337)	(2,766)	(3,629)	(10,362)	(4,519)
Cash Flows from Financing Activities:							
Proceeds from issuance of bonds.....	-	5,000	-	-	-	-	-
Payment for redemption of corporate bonds.....	-	-	-	(9,000)	-	-	-
Net increase (decrease) in short-term borrowings.....	1,154	(800)	(1,389)	(589)	(1,034)	1,253	690
Increase in long-term debt.....	2,481	300	446	248	1,049	685	1,396
Repayment of long-term debt.....	(786)	(1,058)	(1,006)	(1,618)	(721)	(284)	(631)
Proceeds from exercise of stock acquisition rights.....	-	-	-	-	-	-	338
Payments for purchase of treasury stock.....	(8)	(118)	(8)	(27)	(89)	(119)	(1)
Proceeds from sales of treasury stock.....	-	24	-	-	207	185	42
Cash dividends paid.....	(217)	(263)	(264)	(450)	(328)	(723)	(1,253)
Cash dividends paid to minority interests.....	(74)	(183)	(19)	(40)	(72)	(31)	(30)
Payment of funds for redemption of convertible bonds.....	-	-	-	-	-	(787)	-
Reimbursement of funds for redemption of convertible bonds.....	-	-	-	-	-	-	778
Other, net.....	(62)	(179)	(115)	(121)	(71)	(50)	(14)
Net cash provided by (used in) financing activities.....	2,488	2,723	(2,355)	(11,597)	(1,059)	129	1,315
Effect of Exchange Rate Changes on Cash and Cash Equivalents.....	129	273	167	115	105	336	223
Net Increase (Decrease) in Cash and Cash Equivalents.....	2,146	(818)	5,436	(8,458)	2,633	(1,224)	789
Cash and Cash Equivalents at Beginning of Year.....	15,264	17,443	16,625	22,061	13,603	16,108	14,884
Cash and Cash Equivalents of Newly Consolidated Subsidiaries.....	33	-	-	-	-	-	-
Cash and Cash Equivalents of a Subsidiary Excluded from Consolidation.....	-	-	-	-	(128)	-	-
Cash and Cash Equivalents at End of Year.....	¥17,443	¥16,625	¥22,061	¥13,603	¥16,108	¥14,884	¥15,673

Note: For the year ended December 31, 2006, the accounting term for the Company and HORIBA Advanced Techno Co., Ltd. was only 9 months and 11 days and that for HORIBA STEC Co., Ltd. was only 9 months as a result of the fiscal year-end changing to December 31.

Corporate Philosophy

HORIBA's company motto "Joy and Fun"

Originates from the belief that if we take interest and pride in the work that occupies most of the active time in our lives, in the place where we spend the large part of each day, then as a result our satisfaction with life will increase, and we will be able to enjoy our lives even more. Taking interest and pride in our work leads us to "Joy and Fun."

Business Operations

We, at the HORIBA, apply our most advanced analytical technologies to provide highly original analytical and measuring products and equipment in such fields as engine emissions, scientific analysis, industrial and process control, environment monitoring, semi-conductor process control, medical and health-care, and biotechnology, thereby contributing to the progress of science and technology, improvement in the quality, development and benefit of human health. We are engaging in the new businesses for derivative and peripheral products aim to develop scientific technology and improve the life of the community, while at the same time minimizing the impact on the environment.

We strictly abide by all environmental protection laws and regulations in our business activities. In addition, all HORIBA group companies are required to attain the highest levels of quality for establishing, developing, and maintaining environmental systems, including implementing internal control standards that minimize the impact that our business activities have on the environment.

We strive to deliver higher value-added products and services in the shortest possible time to customers all over the world, combining the functions and specialties of development, production, sales, and services from globally located points throughout the world. Furthermore, we aim to be the leader in the global market in the fields and product segments in which we operate, to meet all customers' needs consistently, and to effectively maximize our limited resources through a policy of selective investment.

Customer Responsiveness

We maintain a philosophy of pursuing technology to the ultimate degree in both the fundamental and applied technology fields, supplying products that continuously satisfy customers' requirements. We are committed to offering top-quality,

highly reliable products and services with a consistent level of excellence throughout the world. We are obliged to observe the highest standards for establishing, developing, and maintaining quality control systems. To provide products and services to customers in the fastest delivery time possible, we have adopted the slogan "Ultra-Quick Supplier" for all our activities. This slogan encompasses not only production lead times but also development, marketing and sales, service, and control functions.

Responsibility to Shareholders and Investors

Our basic policy is to calculate annual dividends on an allocated rate of net income. Important information regarding management and business operations are fully disclosed on a regular basis to shareholders and potential investors. A timely responsive management control system should be maintained by HORIBA group companies to ensure that company objectives are met, profit generated and the information disclosed represents the true performance of the company as well as its management.

Employees

We are proud of the entrepreneurial spirit that led to the creation of HORIBA group companies. Each employee is made aware of this heritage, and we actively encourage ideas and innovations from individual employees. HORIBA promotes an open and fair business environment that allows all employees to achieve their individual goals and maximize their potential. To further each employee's personal and professional growth, we encourage thinking from a global perspective and have established a global personnel development program and performance evaluation system. We value employees who challenge their personal abilities and recognize their own accomplishments.

Major Group Companies

Japan

HORIBA STEC Co., Ltd.

Capital ¥1,478,000,000
 Address 11-5, Kamitoba Hokodate-cho, Minami-ku, Kyoto 601-8116, Japan
 Phone +81-(0)75-693-2300 / FAX +81-(0)75-693-2350
 Main Businesses HORIBA STEC is a leading manufacturer of gas, liquid and other types of flow rate control devices in semiconductor manufacturing equipment, and boasts a top share of the global market for mass flow controllers

HORIBA ITECH Co., Ltd.

Capital ¥50,000,000
 Address 1-7-8 Higashikanda, Chiyoda-ku, Tokyo 101-0031, Japan
 Phone +81-(0)3-3866-0984 / FAX +81-(0)3-3866-0908
 Main Businesses HORIBA ITECH develops a variety of software products, including an automobile transport scheduling and monitoring program, used in HORIBA products

HORIBA Advanced Techno Co., Ltd.

Capital ¥250,000,000
 Address 31, Miyanonishi-cho Kisshoin, Minami-ku, Kyoto 601-8306, Japan
 Phone +81-(0)75-321-7184 / FAX +81-(0)75-321-7291
 Main Businesses HORIBA Advanced Techno is a manufacturer specializing in water quality analysis and environmental equipment

HORIBA TECHNO SERVICE Co., Ltd.

Capital ¥250,000,000
 Address 2 Miyanohigashi-cho, Kisshoin, Minami-ku, Kyoto 601-8305, Japan
 Phone +81-(0)75-325-5291 / FAX +81-(0)75-315-9972
 Main Businesses HORIBA TECHNO SERVICE is a maintenance service company for products of HORIBA Group companies

Asia

HORIBA Instruments (Singapore) Pte. Ltd.

Capital S\$1,500,000
 Address 10 Ubi Crescent, #05-11/12 UBI TECHPARK, 408564, Singapore
 Phone +65-6745-8300 / FAX +65-6745-8155
 Main Businesses Sales of measuring devices

HORIBA Instruments (Shanghai) Co., Ltd.

Capital ¥300,000,000
 Address No.2, Lane 1883, Huicheng South Rd. Jiading Industrial District, Shanghai 201821 China
 Phone +86-21-6952-2835 / FAX +86-21-6952-2823
 Main Businesses Manufacture, sales and services of measuring devices

HORIBA Korea Ltd.

Capital W770,000,000
 Address 202-501 Pucheon Techno Park, 192 Yakdae-Dong, Wonmi-ku, Pucheon, Kyunggido, Korea
 Phone +82-32-621-0100 ~ 4 / FAX +82-32-621-0105
 Main Businesses Manufacture and sales of measuring devices

HORIBA STEC Korea Ltd.

Capital W330,000,000
 Address 110 Suntech-City, 513-15, Sangdaewon, Jungwon-Ku, Sungnam-City, Kyungki-Do, Korea
 Phone +82-31-777-2277 / FAX +82-31-777-2288
 Main Businesses Sales of measuring devices

HORIBA ABX Diagnostics (Thailand) Limited

Capital Baht6,000,000
 Address 395, Latya Road, Somdetchaopraya Sub-district, Klongsan District, Bangkok 10600, Thailand
 Phone +66-2-861-59-95 / FAX +66-2-861-52-00
 Main Businesses Sales and services of hematology analyzers

HORIBA Trading (Shanghai) Co., Ltd.

Capital US\$1,000,000
 Address Room 1701, United Plaza, 1468 Nanjing, Rd. West, Shanghai, 200040, China
 Phone +86-21-3222-1818 / FAX +86-21-6289-5553
 Main Businesses Sales and services of HORIBA products

HORIBA Automotive Test Systems Ltd.

Capital W1,350,000,000
 Address 604-1, Yoksam-Dong, Kangnam-Ku, Seoul, Korea
 Phone +82-2-562-7296 / FAX +82-2-562-7630
 Main Businesses Sales and Services of automotive test systems such as engine test systems

HORIBA India Private Limited

Capital INR 19,000,000
 Address Room 1521, 15th Floor, Eros Corporate Tower, Nehru Place, New Delhi 110019, India
 Phone +91-11-4223-5070 / FAX +91-11-4223-5370
 Main Businesses Sales and services of automotive test systems

Europe

HORIBA Jobin Yvon SAS

Capital EUR7,075,168
 Address 16-18 rue du Canal, 91165 Longjumeau Cedex, France
 Phone +33-1-64-54-13-00 / FAX +33-1-69-09-07-21
 Main Businesses Development, manufacturer, and sales of spectroscopic systems. HORIBA Jobin Yvon is a leading manufacturer of spectroscopic systems in the global market, holding the No. 1 market share for diffraction gratings and spectrometers. HORIBA Jobin Yvon (France) joined HORIBA in 1997.

HORIBA ABX SAS

Capital EUR41,700,000
 Address Parc Euromédecine, Rue du Caducée, BP7290 34184 Montpellier Cedex 4, France
 Phone +33-4-67-14-15-16 / FAX +33-4-67-14-15-17
 Main Businesses Development, sales and services of hematology analyzers. HORIBA ABX, the core of which is ABX SA (France), joined HORIBA in 1996, and aims to gain the top market share in the global market by utilizing its complementary relationship with HORIBA, Ltd.

HORIBA France Sarl

Capital EUR724,132.83
Address 12 Av. des Tropiques Hightec Sud, F-91955 Les Ulis, France
Phone +33-1-69-29-96-23 / FAX +33-1-69-29-95-77
Main Businesses Sales of measuring devices

HORIBA Europe GmbH

Capital EUR8,802,000
Address Hans-Mess-Strasse. 6, D-61440 Oberursel, Germany
Phone +49-6172-1396-0 / FAX +49-6172-137385
Main Businesses Manufacture/assembling and sales of measuring devices

HORIBA GmbH

Capital EUR363,364.17
Address Kaplanstrasse 5, A-3430 Tulln, Austria
Phone +43-2272-65225 / FAX +43-2272-65230
Main Businesses Manufacture and sales of measuring devices

HORIBA Instruments Limited

Capital £1,100,000
Address Kyoto Close, Summerhouse Road, Moulton Park, Northampton NN3 6FL, U.K.
Phone +44-1604-542 500 / FAX +44-1604-542 699
Main Businesses Manufacture/assembling and sales of measuring devices

HORIBA Europe Automation Division GmbH

Capital EUR127,822.97
Address Zabergaeustrasse. 3, D-73765 Neuhausen, Germany
Phone +49-7158-933-300 / FAX +49-7158-933-399
Main Businesses Engineering and maintenance of software

HORIBA Automotive Test Systems GmbH

Capital EUR5,000,000
Address Landwehrstrasse 55, D-64293, Darmstadt, Germany
Phone +49-6151-32-2896 / FAX +49-6151-32-1235
Main Businesses Development, manufacture and sales of automotive test systems such as engine test systems. HORIBA Automotive Test Systems segment aims at being a total solution provider by utilizing its complementary relationship between HORIBA, Ltd. and DTS business purchased from Carl Schenck AG in Germany in 2005.

Americas

HORIBA Jobin Yvon Inc.

Capital US\$1,000
Address 3880 Park Avenue, Edison, NJ 08820-3012, U.S.A.
Phone +1-732-494-8660 / FAX +1-732-549-5125
Main Businesses Manufacture and sales of spectroscopic systems

HORIBA/STEC Incorporated

Capital US\$4,071,374
Address 1080 E. Duane Ave. Suite A, Sunnyvale, CA 94086, U.S.A.
Phone +1-408-730-4772 / FAX +1-408-730-8975
Main Businesses Manufacture and sales of gas flow rate measuring and control devices in semiconductor manufacturing equipment

HORIBA ABX Ltda.

Capital BRL22,000,000
Address Avenida das Nações Unidas, 21.735 - Jurubatuba São Paulo-SP-Brazil-CEP 04795-100, Brazil
Phone +55-11-55-45-1500 / FAX +55-11-55-45-1570
Main Businesses Manufacture and sales of hematology analyzers

HORIBA Automotive Test Systems, Inc.

Capital CAN\$3,914,382
Address 1115 North Service Road West, Oakville, Ontario L6M 1N1, Canada
Phone +1-905-827-7755 / FAX +1-905-827-8162
Main Businesses Development, sales and services of automotive test systems such as engine test systems

HORIBA ABX Inc.

Capital US\$22,501,000
Address 34 Bunsen Drive, Irvine Spectrum, Irvine, CA 92618, U.S.A.
Phone +1-949-453-0500 / FAX +1-949-453-0600
Main Businesses Imports and sales of hematology analyzers

HORIBA Instruments Incorporated

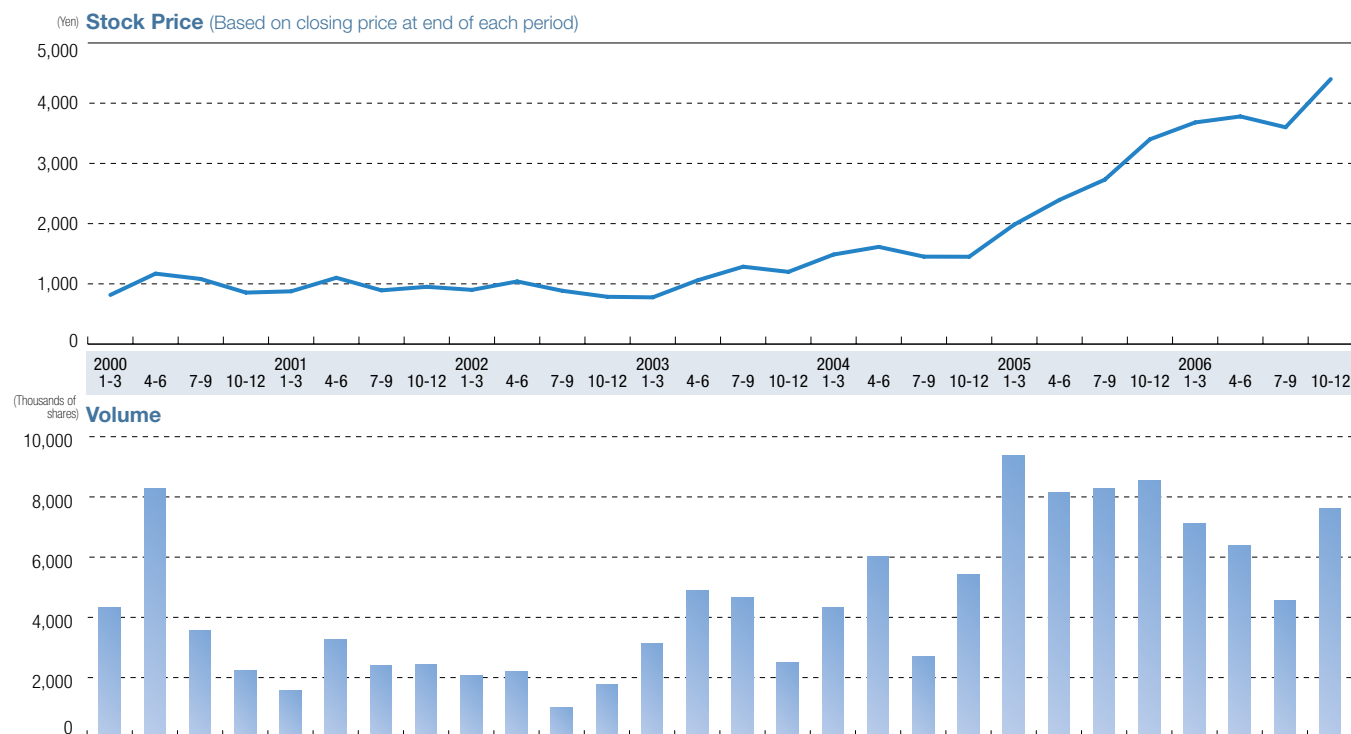
Capital US\$7,500,000
Address 17671 Armstrong Avenue, Irvine, CA 92614, U.S.A.
Phone +1-949-250-4811 / FAX +1-949-250-0924
Main Businesses Manufacture and sales of measuring devices

HORIBA Automotive Test Systems, Corp.

Capital US\$5,200,000
Address 2890 John R Road, Troy, MI 48033-2300, U.S.A.
Phone +1-248-689-9000 / FAX +1-248-689-8578
Main Businesses Development, sales and services of automotive test systems such as engine test systems

Stock Information

Stock Price and Volume Trend



Stock Price

			Yen/Share			
			Start	High	Low	Close
1999	1-3	Jan.-Mar.	1,108	1,297	1,090	1,291
	4-6	Apr.-Jun.	1,295	1,490	1,200	1,355
	7-9	Jul.-Sep.	1,360	1,500	1,200	1,310
	10-12	Oct.-Dec.	1,283	1,306	900	923
2000	1-3	Jan.-Mar.	923	980	749	816
	4-6	Apr.-Jun.	830	1,280	820	1,170
	7-9	Jul.-Sep.	1,200	1,310	1,015	1,081
	10-12	Oct.-Dec.	1,080	1,080	845	855
2001	1-3	Jan.-Mar.	855	920	802	876
	4-6	Apr.-Jun.	892	1,200	865	1,101
	7-9	Jul.-Sep.	1,100	1,101	830	892
	10-12	Oct.-Dec.	892	970	840	951
2002	1-3	Jan.-Mar.	951	955	809	900
	4-6	Apr.-Jun.	900	1,060	862	1,040
	7-9	Jul.-Sep.	1,040	1,040	838	885
	10-12	Oct.-Dec.	858	870	750	785

			Yen/Share			
			Start	High	Low	Close
2003	1-3	Jan.-Mar.	799	880	753	776
	4-6	Apr.-Jun.	761	1,088	761	1,061
	7-9	Jul.-Sep.	1,070	1,345	1,040	1,285
	10-12	Oct.-Dec.	1,300	1,311	990	1,199
2004	1-3	Jan.-Mar.	1,199	1,529	1,158	1,487
	4-6	Apr.-Jun.	1,489	1,630	1,380	1,614
	7-9	Jul.-Sep.	1,629	1,629	1,380	1,452
	10-12	Oct.-Dec.	1,450	1,500	1,300	1,450
2005	1-3	Jan.-Mar.	1,451	1,990	1,451	1,985
	4-6	Apr.-Jun.	1,985	2,455	1,716	2,395
	7-9	Jul.-Sep.	2,395	3,020	2,340	2,730
	10-12	Oct.-Dec.	2,750	3,860	2,655	3,400
2006	1-3	Jan.-Mar.	3,500	3,950	3,030	3,680
	4-6	Apr.-Jun.	3,690	3,910	3,140	3,780
	7-9	Jul.-Sep.	3,800	3,890	3,240	3,600
	10-12	Oct.-Dec.	3,630	4,470	3,330	4,400

Corporate Data

Board of Directors

As of March 24, 2007

Chairman, President & CEO	Atsushi Horiba
Executive Vice President	Kozo Ishida Dr. Eng.
Managing Director	Fumitoshi Sato
Director	Juichi Saito
Director (Outside)	Masahiro Sugita Auditor of Banyu Pharmaceutical Co., Ltd.
Auditor	Hiroshi Tajima
Auditor (Outside)	Kanji Ishizumi President of the Law Offices of Chiyoda Kokusai, Attorney at Law
Auditor (Outside)	Keisuke Ishida Chairman of the Board, CEO, Shashin Kagaku Co., Ltd.

Corporate Information

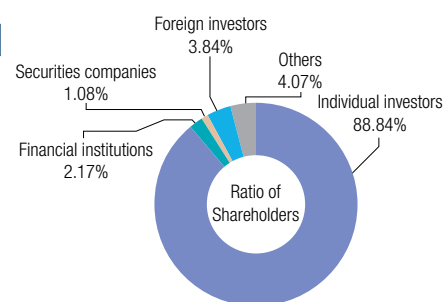
As of December 31, 2006

Head Office	2, Miyanohigashi-cho, Kisshoin, Minami-ku, Kyoto 601-8510, Japan
Founded	October 17, 1945
Incorporated	January 26, 1953
Paid-in Capital	11,738,530,480 yen
Number of Employees	4,697 (Consolidated)
Fiscal Closing Date	December 31, annually
Annual Meeting of Shareholders	Held in March
Transfer Agent and Registrar	The Chuo Mitsui Trust and Banking Co., Ltd.
Independent Auditors	KPMG AZSA & Co.
Stock Listings	Tokyo Stock Exchange, First Section Osaka Securities Exchange, First Section Securities Code: 6856

Major Shareholders

As of December 31, 2006

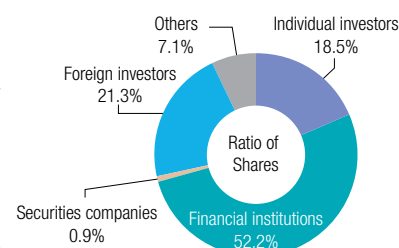
Name of Shareholders	Shares (Thousands)	Percentage (%)
The Master Trust Bank of Japan, Ltd.	5,922	13.99
Japan Trustee Service Bank, Ltd.	5,774	13.64
Bear Stearns & Co. Inc.	3,311	7.82
Masao Horiba	1,700	4.01
Mitsui Asset Trust and Banking Company, Limited	1,102	2.60
Sony Life Insurance Co., Ltd.	1,027	2.42
Mizuho Corporate Bank, Ltd.	836	1.97
The Bank of Kyoto, Ltd.	828	1.95
HORIBA Raku-Raku Kai	724	1.71
MIXX	701	1.65



Number of Shareholders: 3,592

Information Available to Stockholders and Investors

Annual Report
Fact Book
Gaiareport (Environment and Social Report)
Consolidated Financial Quarterly Report
Corporate Web Site http://www.horiba.com



Number of Shares
42,314,752

HORIBA

HORIBA, Ltd.

2, Miyanohigashi-cho, Kisshoin, Minami-ku, Kyoto 601-8510, Japan

Phone: +81-75-313-8121 Fax: +81-75-312-7389

E-mail: ir-info@horiba.com

URL: <http://www.horiba.com>



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