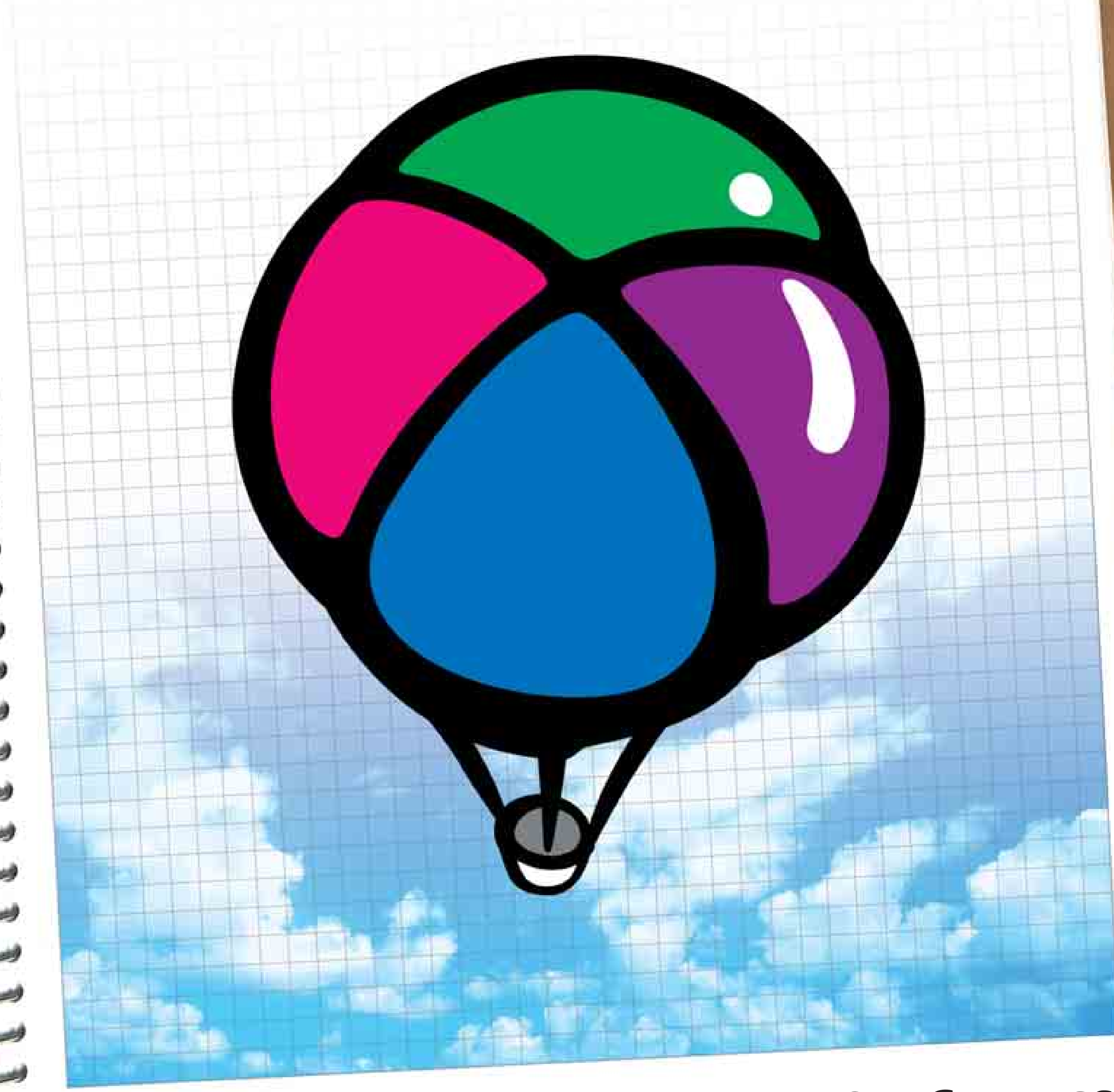
HORIBA

Explore the future



The Best Measure for Success

Annual Report 2006

Year ended March 20, 2006

Profile

Becoming a First-class, Global Organization by Executing "One Company" Management

HORIBA is a global company consisting of 45 companies with 4,461 employees worldwide (including 8 companies with 1,931 employees in Japan). The core business is analytical and measuring equipment for the environment, health, safety and energy fields.

In pursuit of further growth, HORIBA is focusing on "One Company" management, the integration of our corporate group under the tenets of our corporate culture: "Joy and Fun," "a Venture Spirit," and "Open & Fair." HORIBA has grown by cultivating and raising the value of such invisible values as our brand, human resources and technology, and pursuing an active M&A program.

As a result of this dedication to growth, net sales and operating income have increased at an annual rate of about 10% and 15%, respectively, over the past decade. Sales surpassed ¥100 billion in the year that ended in March 2006. In 2010, HORIBA plans to raise net sales to ¥150 billion, and to increase the operating income margin to more than 10% and the ROE to more than 11%.

Financial Highlights

HORIBA, Ltd. and Consolidated Subsidiaries
Years ended March 20

	Millions of yen			Thousands of U.S. dollars (Note)
	2004	2005	**2006**	**2006**
For the Year:				
Net sales	¥ 85,073	¥ 92,492	¥ 105,665	$909,024
Operating costs and expenses	78,223	83,119	94,390	812,026
Operating income	6,850	9,373	11,275	96,998
Income before income taxes	4,780	6,105	10,748	92,464
Income taxes	2,574	2,290	4,214	36,252
Net income	2,074	3,524	6,473	55,687
Capital expenditures	3,501	3,956	5,664	48,727
Depreciation and amortization	3,037	2,944	3,173	27,297
Research and development expenses	5,129	5,636	6,553	56,375
At Year-End:				
Total assets	¥ 92,657	¥ 99,913	¥ 119,976	$1,032,140
Property, plant and equipment, net	18,841	18,481	20,223	173,976
Shareholders' equity	43,348	52,263	65,446	563,025
		Yen		U.S. dollars (Note)
Per Share Information:				
Net income	¥ 62.90	¥ 98.33	¥ 154.27	$ 1.33
Shareholders' equity	1,350.31	1,415.75	1,548.08	13.32
Cash dividends	10.00	16.00	28.00	0.24

Note: The U.S. dollar amounts are provided solely for convenience at the rate of ¥116.24 to US$1, the rate prevailing on March 20, 2006.

Table of Contents

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

The HORIBA Group achieved the financial targets it had set for the previous Mid-Long Term Management Plan of ¥100 billion in net sales, a 10% operating income margin, and an 8% ROE for fiscal 2006, which ended March 20, 2006. We now begin a new challenge to achieve ¥150 billion in net sales, an operating income margin greater than 10%, and an ROE over 11% for fiscal year 2010.

Fiscal 2006 Results

Fiscal 2006 was the final year of our previous Mid-Long Term Management Plan. Performance continued to be positive. We once again posted new records for sales and earnings as we achieved our targets of ¥100 billion in consolidated net sales, a 10% operating income margin, and an 8% ROE.

By business segment, there were slight declines in sales and earnings in the Semiconductor Instruments & Systems segment, reflecting a step back from the heady semiconductor industry demand during the previous fiscal year. However, we achieved growth in the Asian and North American markets for the Automotive Test Systems segment, along with greater earnings in the environmental regulations field for the Analytical Instruments & Systems segment as our steady product development and marketing efforts produced results. Sales in the Medical/Diagnostic Instruments & Systems segment rose, a result of aggressive new product rollouts that continued from the previous fiscal year's strategic moves for future growth. We also achieved a significant increase in net income. This was mainly the result in prior fiscal years to eliminate future risks, such as the adoption of asset-impairment accounting and making a lump-sum provision for directors' and corporate auditors' retirement benefits.

For the year's results, we posted ¥105.6 billion in consolidated net sales, up 14.2% year on year. Operating income was ¥11.2 billion, up 20.3% and net income was ¥6.4 billion, up 83.7%. Our next fiscal period will be an irregular nine-month term ending in December 2006, a result of moving the fiscal year-end from March 20 to December 31. We are determined to take a big first step toward the goals of our new Mid-Long Term Management Plan and sustain our solid business growth.

Atsushi Horiba Chairman, President & CEO

The Previous Mid-Long Term Management Plan

	Plan	Fiscal 2006 (Results)
Net Sales	¥100.0 billion	¥105.6 billion
Operating Income Margin	10.0%	10.7%
ROE	8.0%	11.0%

Review of the Previous Mid-Long Term Management Plan

Our achievements under the previous Mid-Long Term Management Plan are the result of a variety of factors: aggressive overseas business development since the 1970s; more than ten years of effort invested in improving efficiency and reforming sales channels throughout the group; proactive corporate acquisitions and alliances; and a strengthening of our production and purchasing divisions. Recently, we are paying particular attention to developing our corporate culture, technical capabilities, and communications.

In addressing our corporate culture, our goal is to provide a place where all of our employees are interested in their jobs and are able to make challenges as exemplified in our company precept, “Joy and Fun.” For technology we focus on more than just profitability. We emphasize slow nurturing over the medium to long term, squarely concentrating on “authentic technology” with no tricks or compromises.

Further, since 60% of our employees work outside Japan, smooth communication among departments and people in various positions is essential. The HORIBA Group is a global corporation consisting of 45 companies. But as our management principle “HORIBA Group is One Company” illustrates, we seek to increase corporate value by breaking down the barriers between countries and companies, and managing the group as a single entity. Business strategy planning and revenue and expense management are conducted on a business segment basis, allowing for a more global approach to operations. Corporate support functions such as production, purchasing, legal affairs, accounting and IT are handled on a regional basis under headquarters’ guidance, and shared among divisions to enhance efficiency. Communication is the key to the success of this new business structure. We employ a variety of tools to ensure seamless communication on an everyday basis where employees gain an understanding of each other even when there is a physical distance between them. The benefit to the company is an efficient way of conducting business as “One Company.”

Strengthening these three elements has fostered global, first-class professional groups within development, production, sales, administration and other functions of the corporation. These elements have been the driver for the success of the Mid-Long Term Management Plan.

Gafu-so

Gafu-so is the name of the historic Kyoto home that is the birthplace of HORIBA’s president. Renovated in 2003, it retains its traditional appearance, and serves as a guesthouse and space for communication with employees. The interview with the president was conducted at Gafu-so.

The Objectives of the New Mid-Long Term Management Plan

The new Mid-Long Term Management Plan seeks to create a “first-class, global company.” A first-class, global company is a company that can conduct highly profitable business in countries throughout the world. In addition, a first-class, global company must flexibly adapt to the various regulations, languages, customs, ethics and values of many countries around the world. Such a company requires the execution of One Company Management to achieve matrix-style management centered on business and regional axes.

Mergers and acquisitions (M&As) will also be an important source of growth for HORIBA. Successful M&As that cross international borders require not only a complementary relationship in business activities, but also the skillful integration of corporate cultures. I believe this is an essential characteristic of a first-class, global company.

At the same time, as a company grows, its management risks and responsibility toward corporate social responsibility (CSR) also increase. We believe that establishing a common global information network is essential to averting risks, and will continue to make proactive investments in information systems. In terms of social responsibility, and as a specialist in the field of environmental measurement instruments, HORIBA will continue to call attention to its steady efforts in addressing global environmental problems with actions based on proper insights gained through years of experience.

Message to Stakeholders

I am extremely pleased with our success in achieving our longtime net sales target of ¥100 billion along with other goals of our management plan while we substantially increased the dividend, including a commemorative dividend. We are still not satisfied, however, and from 2006 we will be getting back to basics in the way we conduct our business. Reaching our target during the new Mid-Long Term Management Plan of ¥150 billion in net sales will not be a simple matter of following the same path that raised our sales to ¥100 billion. We are at a different starting point from that of the previous plan. However, I feel a confidence that, although the hurdles are high, we can reach the target.

A corporate atmosphere such as ours is the result of steady efforts to develop “invisible values” such as brands, people and technical capabilities, a process that requires a considerable amount of time. What we are now facing is the beginning of something not unlike the fierce World Cup competition in football. Just as the final score depends on a team’s condition on any given day, I know that things will not always go smoothly. But we still aim for a corporate structure that will always allow us to triumph in the final contest. I hope that all of our stakeholders will watch us from a long-term perspective achieving our next goal.

July 2006

Atsushi Horiba
Chairman, President & CEO

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

2006 ▸ ▸ 2010

MLMAP
Mid-Long Term Management Plan

Achieving One Company Management and Becoming a First-class, Global Company

HORIBA has introduced a variety of reforms, including establishing the management principle of "HORIBA Group is One Company," and commencing management on a global business basis that eliminates barriers between group companies. However, more work is needed to enhance our corporate value and leadership in the analyzer and measuring instruments industry. We must execute One Company Management, 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 margin greater than 10%, and an ROE of over 11%.

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.

Priority Measures

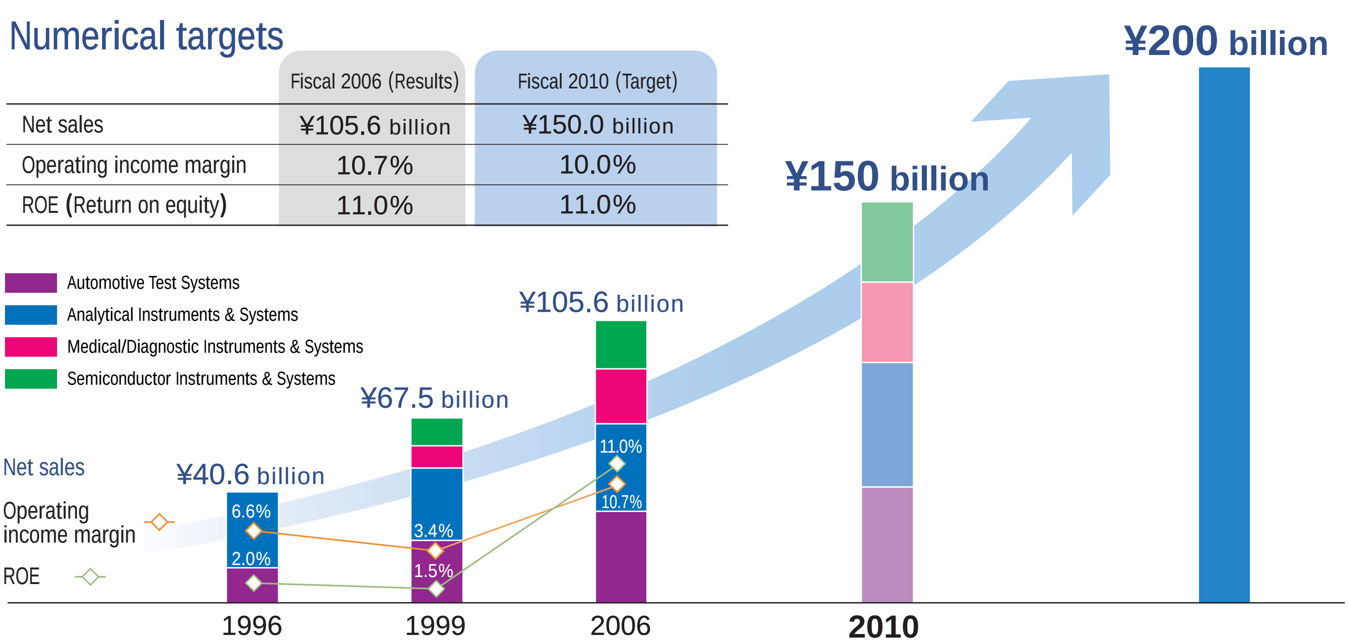
1 Building a Platform for ¥200 Billion in Sales

2 Building a Well-balanced Business Portfolio

3 Increasing the "Invisible Values"

Numerical targets

	Fiscal 2006 (Results)	Fiscal 2010 (Target)
Net sales	¥105.6 billion	¥150.0 billion
Operating income margin	10.7%	10.0%
ROE (Return on equity)	11.0%	11.0%



Priority Measure •••••• 1

As a corporation grows, its operating systems and structures must grow with it to maintain control of the organization. The HORIBA Group 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

1. Pursuit of global business strategies

2. Effective management on a regional basis

3. Introduction of a new Enterprise Resource Planning (ERP) System

Building a Platform for ¥200 Billion in Sales

Taking “One Company” Management to a Higher Level

1. Pursuit of global business strategies

The introduction of One Company Management marked a shift from individual group companies formulating business strategies and plans, which has been the operating model to this point, to global policy formulation for our business. The benefits of the former operating system stemmed from relatively small structures with close ties to regions and markets. But the HORIBA Group plans to expand its business going forward, so this bold management reform is necessary to accelerate and achieve greater efficiency. This reform has broken down barriers between countries, regions and companies in everything from product development to sales, thereby making a globally unified business management possible while increasing the pace of growth.

At the same time, the corporation’s critical path to global management will make it necessary to have active communications between business segments and regional companies. Through further permeation of our corporate culture and efforts to develop global human resources, we seek to create value for the entire group. We will do this by implementing open and fair strategies.

2. Effective management on a regional basis

An aggressive M&A program, now under way for more than ten years, has led to a remarkable globalization of the HORIBA Group’s business assets and networks. With several companies operating in one country, business operating inefficiencies stemming from different operating systems and other factors has created some problems. To resolve these operational issues, we need to introduce common, shared services as quickly as possible. This includes sharing and centralization of specific operations among the group companies. These common operations include accounting and finance, legal affairs, intellectual property management, human resources and IT. This emerging structure will allow us to bring together a small number of personnel with first class skills, which can improve the quality of our operations and help raise productivity while lowering costs throughout the entire group.

3. Introduction of a new Enterprise Resource Planning (ERP) System

Achieving the goals of the new Mid-Long Term Management Plan requires real time access to accurate and high-quality information for correct management decisions. As we pursue operating efficiency in each region it is essential that we introduce a unified operations system for the entire group. Starting in 2005, we have been developing an ERP system with a goal for full-scale implementation throughout the group in 2009.

In the course of standardizing administrative processes for group companies, we have consistently sought participation by all employees. We want to change their mindset to the idea of “simple is best,” and set up the necessary processes as quickly as possible. The investment needed to introduce this system will be substantial. However, we intend to use the system’s high-quality information to stimulate growth and become more efficient. This will result in a rapid return on investment for this system and will produce additional benefits which are expected to contribute to higher earnings.

Priority Measure •••••• 2

Building a Well-balanced Business Portfolio

HORIBA at a Glance

Automotive Test Systems

Generate strong and stable earnings by focusing on leading products

HORIBA's mainstay emission measurement systems command an 80% share of the global market. They are used worldwide in the automotive industry for R&D and quality control, and have been adopted as standard equipment by many of the world's exhaust gas certification organizations. In September 2005, HORIBA acquired the automotive Development Test Systems business (the DTS business) of the German company Carl Schenck AG. This investment enlarged our lineup of measurement devices used for automotive R&D, enabling us to target markets with aggregate annual sales of ¥200 billion.

Analytical Instruments & Systems

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

HORIBA manufactures over 500 types of instruments in this segment, many of which target niche markets. These products are used in a wide range of applications, including R&D and production facilities of private companies and universities, as well as organizations that monitor environmental pollution. In 1997, HORIBA supplemented its technical capabilities and product lineup with the acquisition of Jobin Yvon SAS (now HORIBA Jobin Yvon SAS), a French manufacturer with world-renowned technology in optical measurement. This segment also fills a role as a basic research institution providing new analysis and measurement technologies to other business segments within the group.

Medical/Diagnostic Instruments & Systems

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

This segment competes in the global in-vitro diagnostics market, which amounts to over ¥2 trillion in annual sales. The business model provides a stable income stream due to the sale of replacement reagents following the initial sale of testing equipment. HORIBA made a full-scale entry in this market in 1996 with the acquisition of ABX SA (now HORIBA ABX SAS), which primarily increased the company's market share in middle-sized and small-sized hematology analyzers. HORIBA plans to expand operations in this segment through the launch of larger hematology analyzers and new products in the clinical chemistry market to analyze blood components.

Semiconductor Instruments & Systems

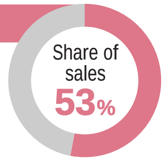
Significantly expand earnings when conditions in the semiconductor market are favorable, and maintain stable profits during market downturns

As 70% of the sales in this segment is accounted for by mass flow controllers, devices that control gas and liquid flows in semiconductor production systems, operations are vulnerable to the semiconductor industry business cycle. At the same time, with the shift to 300mm semiconductor wafers there is a rapidly growing need for total solutions for the control and analysis of process chambers to improve quality and yield rates. HORIBA is utilizing the technology resources of the group to expand its product lineup.

Priority Measure

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 in country risks stemming from natural disasters, political turmoil or other factors.

Asia



HORIBA has to this point focused on Asian countries mainly in Japan. We have many products that command high market shares, particularly those for R&D applications or 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.

HORIBA has maintained solid profitability in recent years mainly through the Automotive Test Systems segment. Now, our goal is well-balanced growth among all businesses. Aggressive investments in the Semiconductor Instruments & Systems and Medical/Diagnostic Instruments & Systems segments have started producing results. The Analytical Instruments & Systems segment is also posting strong growth. Regional diversification is another theme. We are expanding beyond the developed countries that have been our principal markets to this point, and are actively pursuing investment in China, where growth has been particularly strong, as well as in emerging markets such as India and South America.

Principal products:	emission measurement systems, in-use automotive emission analyzers, on-board emissions measurement systems, fuel cell evaluation systems, driveline test systems, engine test systems, brake test systems, drive recorders
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

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.

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)
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

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.

Principal products:	equipment for blood sample analysis (hematology analyzers, equipment for measuring immunological responses, clinical chemistry analyzers, blood sugar measurement systems)
Major customers:	medical testing centers, small- and medium-sized hospitals, medical practitioners
Product applications:	health and diagnostic testing, disease diagnosis

Main risk factors

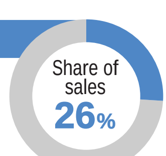
There is a possibility of a significant impact on earnings resulting from fluctuations in profitability caused by changes in medical insurance systems in various countries, or by product recalls related to the strict standards of performance and quality demanded of medical devices.

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
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

Main risk factors

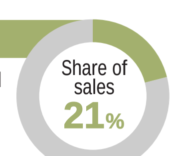
There is a possibility of a significant impact on earnings resulting from rapid fluctuations in demand due to the effects of the “silicon cycle” in the semiconductor industry.

Europe



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

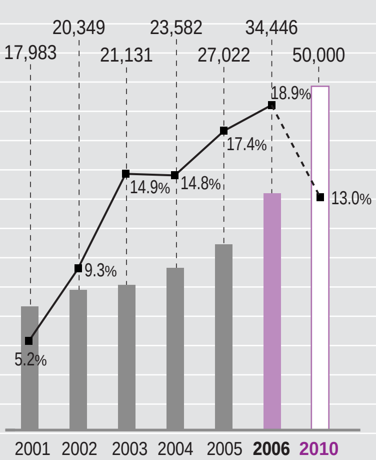
Americas



The Americas account for 40% of the global demand for analyzers and measurement instruments, so sales expansion of 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.

Automotive Test Systems

Net Sales and Operating Income Margin
(Millions of yen/%)



Results for Fiscal 2006
(Millions of yen/%)

	2005	**2006**	Change
Net Sales	27,022	**34,446**	+27.5%
Operating Income	4,705	**6,509**	+38.3%

Targets for the Mid-Long Term Management Plan (2010) (Millions of yen)

Net Sales	50,000
Operating Income	6,500

Automotive Test Systems

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

In the last fiscal year, the segment has also been making significant steps to continue its growth in the future, one of them being the acquisition of the DTS business of Carl Schenck. The objective of the investment is to significantly increase the product range and scope of supply to the general automotive R&D market by using the DTS business’s mechatronics technology and experience in such areas as engine dynamometers, drivetrain testing equipment and associated engineering services. Now the segment is capable of providing total solutions not only for chassis test cell applications but also for the engine and drivetrain development systems that comprise a much larger fraction of the automotive industry investment. With the increasing interest in high efficiency and low emission powertrain systems from the automotive industry, the segment is expecting a rapid business increase due to the high-value synergies resulting from this acquisition. In addition, this will make it possible to achieve even more efficiency in supply of fully integrated solutions for engine, drivetrain and vehicle development. The former DTS team and the HORIBA Engine Measurement Division organization are already hard at work and committed to link up both sides of this business efficiently and quickly.

In the new Mid-Long Term Management Plan (MLMAP), the segment’s mission is to deliver high-value, cost-effective solutions to customers by providing products and services in three major categories: (1) emission measurement systems (2) mechatronics and (3) test automation systems. The three product groups are strongly inter-related and clearly have a high potential to create a large degree of synergy for customers and HORIBA.

Under the MLMAP, the Automotive Test Systems segment has already established its plan for further growth in each product line and territory. The plan consists of (1) providing a full global standard package of automotive testing solutions, (2) accommodating leading-edge automotive technology developments such as clean diesel engines and hybrid powertrain systems and (3) developing the most efficient test automation systems for the global market. As the financial goal, we have set ¥50 billion as a net sales target for 2010.

Segment Leader
Automotive Test Systems

Masayuki Adachi
HORIBA, Ltd.

We aim 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 Fiscal 2006 (ended March 20, 2006) and Business Strategies

Sales and earnings from emission measurement systems, the company's core business, rose along with aggressive capital investment by the automotive industry on a worldwide level. These investments were part of strategies to meet environmental regulations and to develop cars and engines with better fuel economy, such as hybrids. By region, capital investment in the Japanese automotive industry was strong and there was an increase in new investment by automobile manufacturers in China, Korea, India and other Asian countries. Demand also rose in the U.S. in anticipation of emission regulations that will come into effect in 2007. Overall, sales were up worldwide.

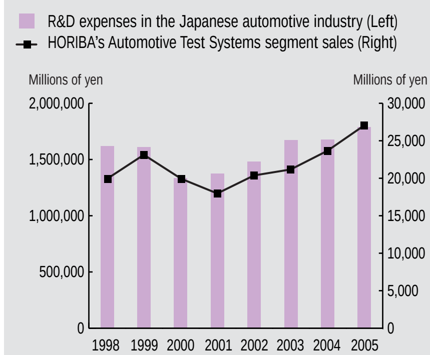
The acquisition of the DTS business of Carl Schenck on September 30, 2005, supported the development of emission measurement business. In addition, this move put in place a structure that will provide comprehensive and integrated measurement systems for the automotive industry.

Emission Measurement Test Cell

Outlook (period ending December 31, 2006)

Strong growth in Asia is expected to continue in the automotive testing market. We will also expand the DTS business, utilizing HORIBA's global network.

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)

Synergy Matrix Schenck DTS Acquisition

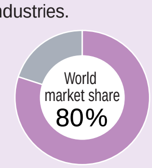
Business field	Market scale (Billions of yen)	Product Overview	HORIBA	DTS business	After integration
Emissions	40.0	Equipment to measure the concentration/mass of components in exhaust gas from automobiles and engines			
Engines	100.0	Equipment for engine testing such as dynamometers for all aspects 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			

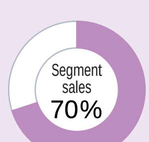
Weak ←→ Strong

Major Products and Market Share

Emission Measurement Systems

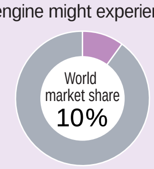
These systems continuously and simultaneously measure gases and particulate material in automotive exhaust gas over a broad range of concentrations. They are widely used in R&D and product certification in the automobile and other industries.

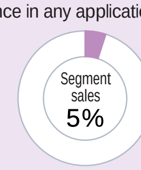




Engine Test Systems

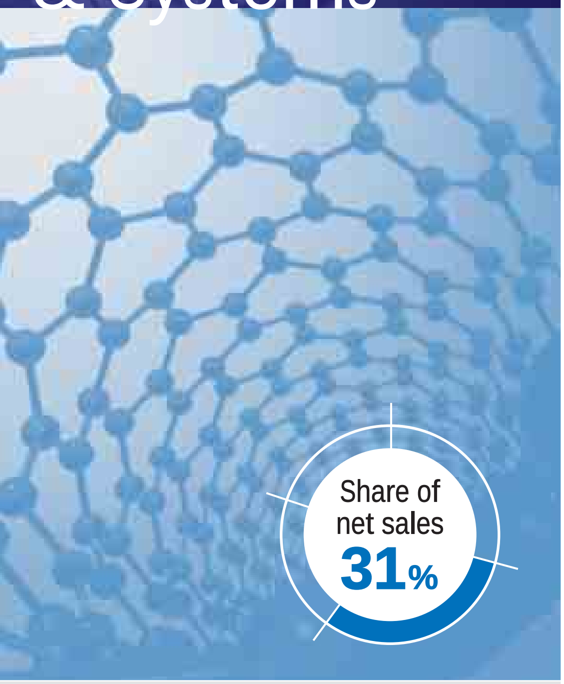
These systems are used for a wide variety of tests on engines and can integrate a large range of instrumentation for exhaust gas emissions and performance assessments. Within the typical small space of an engine test cell, these systems can simulate the worst operating conditions that an engine might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





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

Analytical Instruments & Systems



Analytical Instruments & Systems

Achieving the Goals of the Mid-Long Term Management Plan

The growth of the scientific business will follow from broader market coverage, both in terms of volume-performance segments and territorial presence. In addition to our traditional positioning as providers of unique, high-performance instruments, we will target larger volume market segments. We will do this by offering analytical packages for specific applications, for example, analyzers for measuring sulfur in oil for compliance with regulatory specifications and WEEE-RoHS (harmful heavy metals analysis) in the electronics industry. Another area of interest is nano-technology analysis such as OLED (Organic Light Emitting Display) and CNT (Carbon Nanotube) characterization.

With regard to territories, we will reinforce our presence in key markets. We want to move our laboratory support capability even closer to the customers. We will establish a more concentrated presence, unifying and developing existing resources that each HORIBA group company has in its own area.

To support this ambitious growth strategy, we will combine the innovative spirit of our research teams and the traditional product engineering strengths of HORIBA under a “One Company” operation.

HORIBA has developed advanced analysis technologies and fostered many experts in the environmental measuring business by consistently responding to demanding market needs. We have been doing this since the first environmental regulations were enacted in Europe, the U.S. and Japan in the 1960s. We feel that this ability to provide in a timely manner optimal environmental analysis solutions to the worldwide market is one of our most valuable strengths. We aim to attain large shares in China and other emerging markets by establishing a global brand.

At the same time, we plan to expand beyond the environmental regulation market to provide advanced measuring technologies for a variety of industrial processes. Along with measuring productivity and quality control in the production process, we aim to respond to needs for risk management and other areas by using measurement technology with contributions to safety, security, and good health.

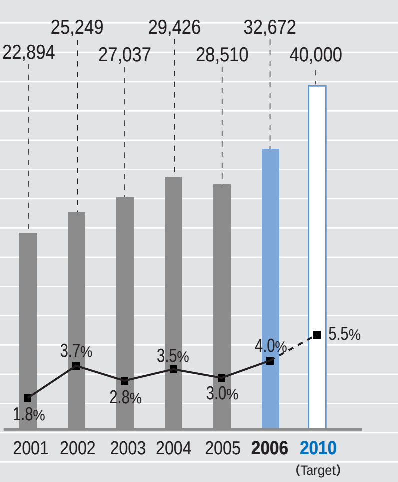
We pledge to provide high-quality products by drawing on the environmental analysis technology, refined over half a century, and the core technologies of the HORIBA Group.

Analytical Instruments & Systems Segment Leaders

Michel Mariton (right)
Scientific Instruments Business
HORIBA Jobin Yvon SAS (France)

Tadao Nakamura (left)
Environmental and Process Business
HORIBA, Ltd.

Net Sales and Operating Income Margin
(Millions of yen/%)



Results for Fiscal 2006 (Millions of yen/%)

	2005	2006	Change
Net Sales	28,510	**32,672**	+14.6%
Operating Income	862	**1,322**	+53.4%

Targets for the Mid-Long Term Management Plan (2010) (Millions of yen)

Net Sales	40,000
Operating Income	2,200

In the scientific instruments field, HORIBA is seeking to increase its role as a provider of leading-edge technical resources to establish a highly profitable business structure. In the environmental field, 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 Fiscal 2006 (ended March 20, 2006) and Business Strategies

Both sales and earnings were higher. Strong sales were recorded for our X-ray analysis instruments for compliance to the WEEE-RoHS directive, especially to electronic device manufacturers in Japan and component and material makers in China and other areas in Asia. Analyzer sales for measuring the sulfur content in oil for the petroleum industry in the U.S. and stack gas analyzers in the Japanese market also increased. HORIBA is taking a proactive stance toward environmental regulation in rapidly growing markets such as China. HORIBA products were the first instruments in the world to receive government certification under the new measuring system for plant wastewater regulations in China.

Outlook (period ending December 31, 2006)

The strong sales growth of X-ray analysis instruments, sulfur content in oil analyzers, and stack gas analyzers is forecast to continue. Sales of nanotechnology measurement and analysis devices are also expected to grow.

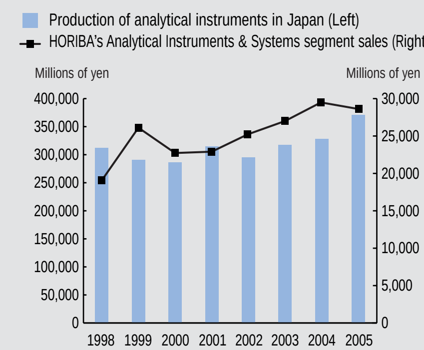
Water quality monitoring

Expand Market Shares of World-leading Products

Scientific
Integration of HORIBA, Ltd. and HORIBA Jobin Yvon operational and product strategies
→
Microscopic analysis (X-ray, Raman)
Particle-size distribution analysis
Elemental analysis (metals, organic matter)
Water quality analysis (scientific)
Optical equipment (grading, infrared sensors)
Emerging businesses

Process & Environment
Reinforcement of non-regulation business
→
Trace gas measurement (air pollution)
Industrial process analysis
Emission gas measurement (stack gas)
Water quality analysis (environment)

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

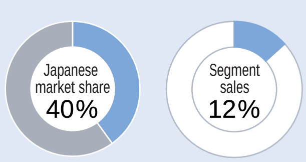


Source:
Statistical data, Japan Analytical Instruments Manufacturers Association

Major Products and Market Share

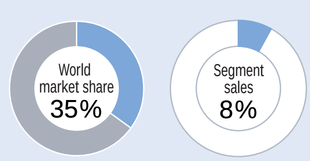
Stack Gas Analyzers

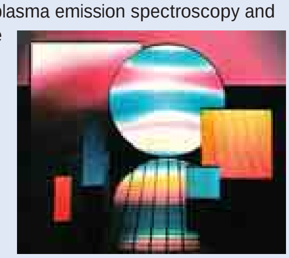
These analyzers provide highly sensitive and precise measurements of the NOx, SO_2, CO, CO_2, and O_2 content of gases emitted by boilers and furnaces in thermal power stations. This single unit can simultaneously and continuously measure all five compounds.



Spectrographs/Diffraction Gratings

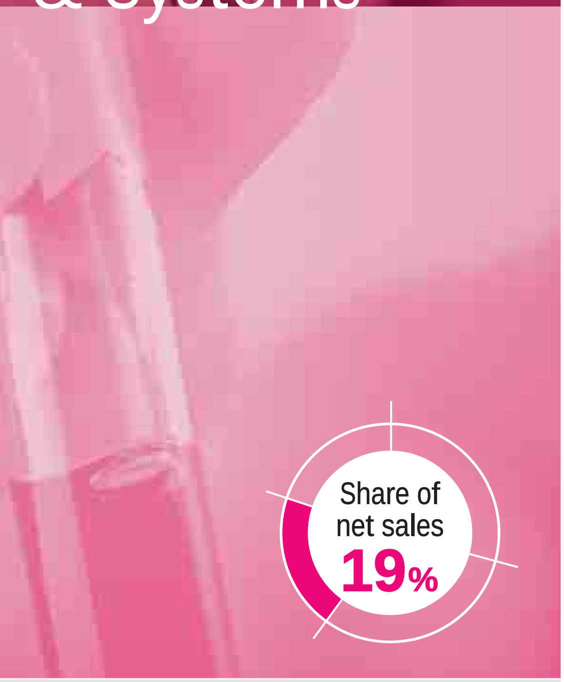
Spectrographs separate light into colors, and record them as a spectrum. Gratings are the heart of a spectrograph. Spectrographs from HORIBA Jobin Yvon meet a wide range of market demands, from plasma emission spectroscopy and fluorescence spectrum measurement to image dispersion, and quality management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





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

Medical/Diagnostic Instruments & Systems



Medical/Diagnostic Instruments & Systems

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

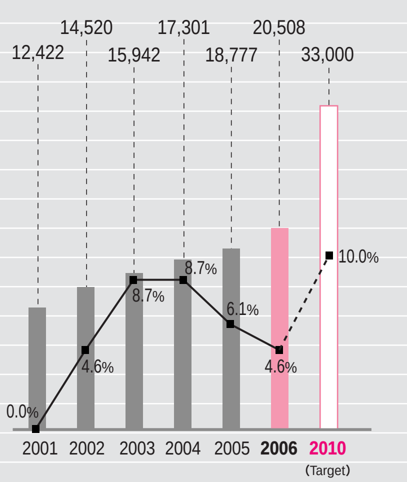
In the Medical/Diagnostic Instruments & Systems segment, a decade of aggressive market development and investment in product development following the acquisition ABX SA (Now HORIBA ABX SAS, France) in June 1996 has more than tripled the segment's sales, from ¥6.7 billion in fiscal 1998 to ¥20.5 billion in fiscal 2006. The proportion of group sales grew from a 10% share in fiscal 1998 to 19% in fiscal 2006. During the past five years we held sales growth at around 10% annually and focused on improving our financial position. During this time the operating income margin remained below 10%. One reason was continued investments to develop high-end models of our mainstay hematology analyzers. Other investments to develop clinical chemistry analyzers used in clinical testing laboratories and investments to expand our sales network also exerted pressure on the operating income margin.

These investments, however, allow us to supply hematology analyzers and systems for a broad range of applications extending from large clinical testing laboratories to small clinics. Furthermore, we can provide all the hematology analyzers and systems technicians need for a variety of users, including POCT/NPT (Pointing Of Care Testing or Near Patient Testing, simple and quick testing conducted close to the patient). We now have the capabilities that will allow us to execute the long-term growth strategies of the Medical/Diagnostic Instruments & Systems segment, and steadily fortify our business foundation.

In the new Mid-Long Term Management Plan we set a target for annual sales growth of at least 10%. We intend to achieve this by steadily rolling out new models, from simple to high-end, of hematology analyzers, reagents and new products. We will also develop and supply a comprehensive management system for a range of testing devices, samples and results, for both the clinical laboratory and POCT markets. We have set a target to maintain an operating income margin of at least 10%. We plan to achieve this through increased sales of reagents accompanied by growth in the number and more frequent use of high-end hematology analyzers and clinical chemistry analyzers. Through these measures, we will establish a foundation for the Medical/Diagnostic Instruments & Systems segment that will make it a growth driver and profit center for HORIBA.

Net Sales and Operating Income Margin

(Millions of yen/%)



Results for Fiscal 2006

(Millions of yen/%)

	2005	2006	Change
Net Sales	18,777	**20,508**	+9.2%
Operating Income	1,146	**953**	–16.8%

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

(Millions of yen)

Net Sales	33,000
Operating Income	3,300

Medical/Diagnostic Instruments & Systems
Segment Leader

Atsushi Nakamine
HORIBA ABX SAS (France)

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 Fiscal 2006 (ended March 20, 2006) and Business Strategies

Sales of middle-sized clinical chemistry analyzers and large-sized hematology analyzers have climbed due to the aggressive introduction of new products since fiscal 2005. Although revenue has increased with greater sales volume of testing reagents following the increased number of units, earnings were lower because of higher selling expenses accompanying the expansion of sales of new products.

HORIBA ABX and the HORIBA medical division have entered an extensive mutual exchange program for development and production personnel. The expertise brought by each side has increased the speed of product development and yielded higher production quality.

Outlook (period ending December 31, 2006)

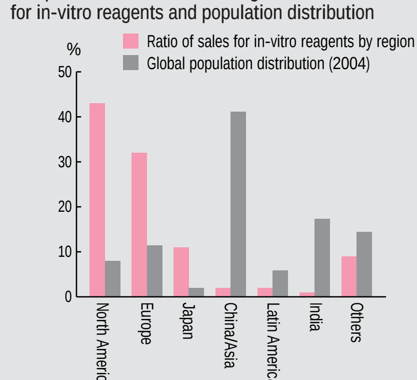
Strong growth in sales of large-sized hematology analyzers and middle-sized clinical chemistry analyzers is forecasted to continue. The sales volume of highly profitable testing reagents is also expected to grow.

Outgoing inspections of hematology analyzers

Product Development in the In-vitro Diagnostics Analysis Market

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

Comparison of the scale of the global market for in-vitro reagents and population distribution

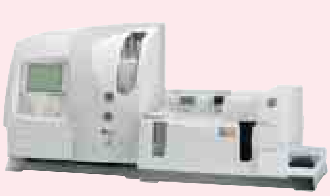


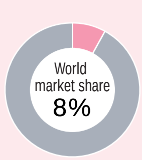
Source:
Kalorama Information (New York City)
IVD Technology, September 2004
Global population data from the Statistics Bureau, Ministry of Internal Affairs and Communications

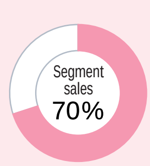
Major Products and Market Share

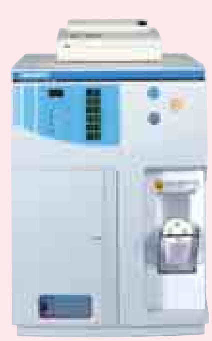
Automatic Hematology Analyzers

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.



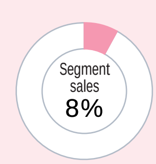






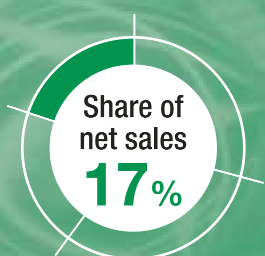
Automatic Blood Cell Counter plus CRP

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.

Semiconductor Instruments & Systems



Semiconductor Instruments & Systems

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

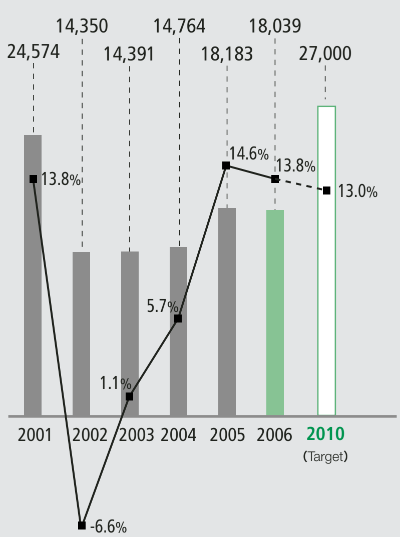
Increased worldwide demand for semiconductors is being driven by the global spread of mobile telephones, digital cameras, and portable music players such as the iPod, as well as a rapid increase in automotive applications. Strong demand is forecast through 2010. As an example, the planned 2006 launch of the successor to the Windows XP operating system will increase demand for memory chips. The full-scale shift from analog to digital television broadcasting in developed countries (2009 in the U.S. and 2011 in Japan) will also spark demand for more semiconductors.

In the Semiconductor Instruments & Systems segment, HORIBA is taking steps to meet this expected demand and raise its proportion of digital flow control products in its mainstay fluid control business with controllers that have faster response and greater precision. We are also increasing production capacity and lowering costs with an addition to HORIBA STEC's Aso Factory, completed in October 2005.

With the move to 300mm semiconductor wafers, semiconductor manufacturers must work even harder to maximize production yields. As a result, there is a rapidly growing need for a wide range of new analyzers. As a part of our response to this trend in thin-film measurement systems, we are utilizing measurement technology from HORIBA Jobin Yvon in a move to rollout a full-scale thin-film measurement system for semiconductors along with large systems for LCD production lines, areas where our market share is growing. Also, in the dry process monitors field for semiconductor manufacturing equipment, we imported technology for residual gas analyzers (RGAs) in fiscal 2006. This RGA technology will allow us to start domestic production and marketing of more advanced products. As the leading manufacturer of chemical monitors for cleaning equipment we will continue to address new measurement needs. Another goal is to expand the number of applications for wafer cleaning, which is a growing field.

The HORIBA Group will provide solutions for the strong growth in semiconductor and LCD markets by utilizing its measurement technology to contribute to greater miniaturization and production efficiency.

Net Sales and Operating Income Margin
(Millions of yen/%)



Results for Fiscal 2006 (Millions of yen/%)

	2005	2006	Change
Net Sales	18,183	**18,039**	–0.8%
Operating Income	2,660	**2,491**	–6.4%

Targets for the Mid-Long Term Management Plan (2010) (Millions of yen)

Net Sales	27,000
Operating Income	3,500

Semiconductor Instruments & Systems Segment Leader

Juichi Saito
HORIBA STEC Co., Ltd.

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 analysis and measurement fields used in R&D and production equipment.

Results for Fiscal 2006 (ended March 20, 2006) and Business Strategies

Sales of our mainstay product, mass flow controllers, recovered quickly in the second half of fiscal 2006. The upturn was due to the expanded line of products for 300mm semiconductor wafers and greater overall demand from the semiconductor industry. However, this growth was not sufficient to cover the slump during the first half of the year, as both sales and earnings were down slightly for the year. At the same time, however, we continued to expand sales and step up product development of testing equipment that contributes to greater production efficiency and quality in semiconductor and LCD manufacturing lines. These efforts are beginning to produce results.

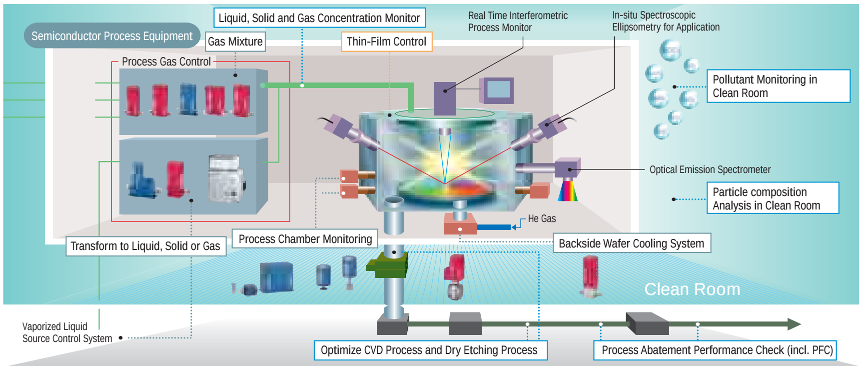
New output capacity has been in operation since October 2005 at the HORIBA STEC Aso Factory that produces mass flow controllers. The Aso Factory is the central facility for production and distribution of semiconductor-related products. This base also produces a wide range of products for other business fields, thereby establishing a flexible structure that can respond to fluctuations in the demand for semiconductor-related products.

At work in the clean room

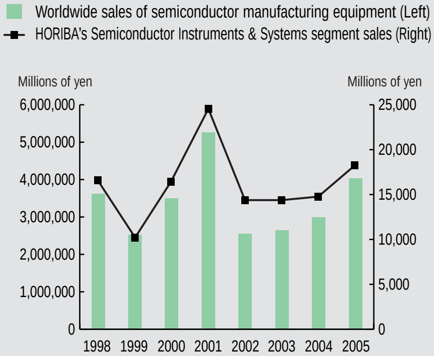
Outlook (period ending December 31, 2006)

Demand for mass flow controllers recovered rapidly in the second half of fiscal 2006 and is expected to continue this year. We predict that our market share will increase from the current 30% to around 35%. We also forecast a recovery in the market for testing equipment for semiconductors and LCDs.

Measurement Solutions in Semiconductor Dry Process



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

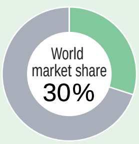


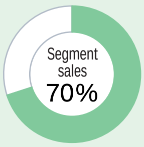
Sources:
LCD/OLED Manufacturing Equipment Statistical Data (2004 edition)
Semiconductor Equipment Association of Japan

Major Products and Market Share

Mass Flow Controllers

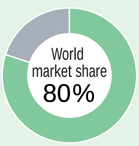
These high-precision controllers are used to regulate gas and liquid flow rates in semiconductor manufacturing processes such as thin-film formation processes. They are thus a key component in the production of high-quality semiconductors.

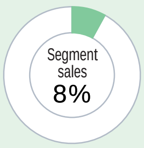




Chemical Concentration Monitors

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.

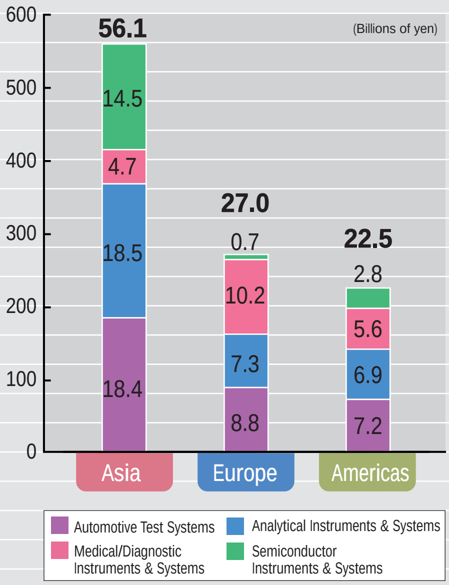




Note: Market shares quoted are estimates by HORIBA, Ltd.

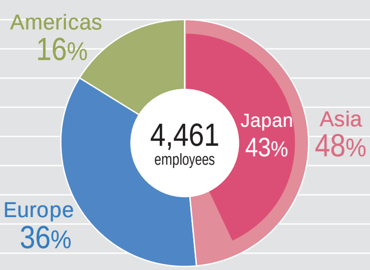
Review of Operations by Geographic Segment

Net Sales by Business and Geographic Segment



※Net sales by region; sales value on a destination basis

Employee Ratio by Region



In the analysis and measurement instrument markets, 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.

Asia 2,158 employees (including 1,931 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. (Korea)
HORIBA STEC Korea Ltd. (Korea)

Singapore

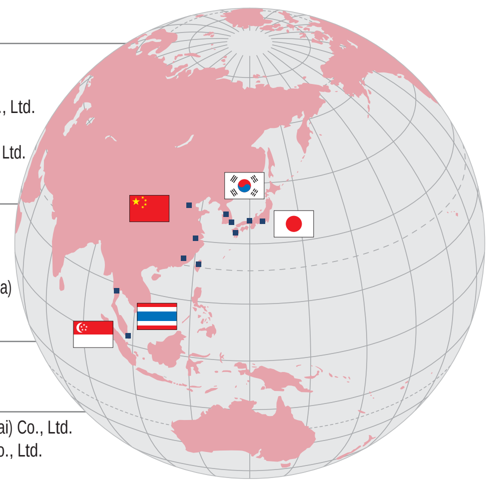
HORIBA Instruments Pte. Ltd.

China

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

Thailand

HORIBA ABX Diagnostics (Thailand) Limited



■ Group locations, including branch and resident offices

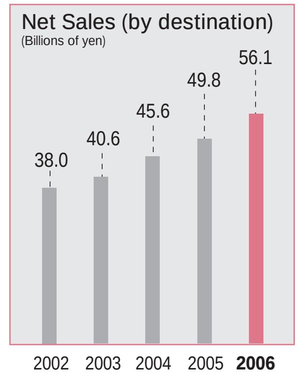
Regional Overview

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 Korea in 1988, Singapore in 1997 and China in 2002.

Net Sales for Fiscal 2006

There was significant sales growth in exhaust gas analyzers to China, India and Korea in the Automotive Test Systems segment. Another contributor to sales growth in Asia was the strong demand for X-ray Analytical Microscope in the Analytical Instruments & Systems segment by the electronics industry, a reflection of the trend toward green purchasing. In the period under review, sales to China were up 47% to ¥4.9 billion.

Net Sales (by destination)



Featured product:

X-ray Analytical Microscope

These instruments use 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 Hazardous Substances in Electrical and Electronic Equipment (RoHS) directive in July 2006.

Europe 1,587 employees

France

HORIBA Jobin Yvon SAS
HORIBA ABX SAS
HORIBA France Sarl

Germany

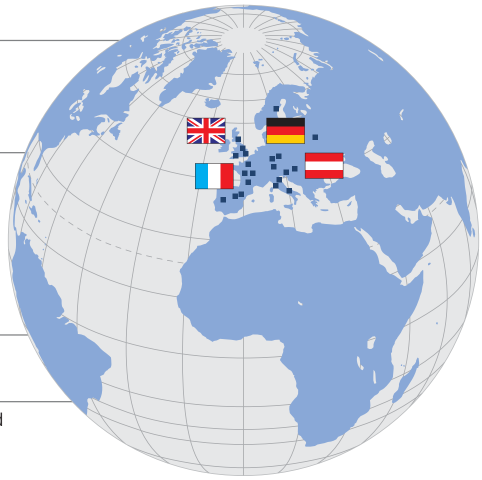
HORIBA Europe GmbH
HORIBA Europe Automation Division GmbH
HORIBA Automotive Test Systems GmbH

Austria

HORIBA GmbH

U.K.

HORIBA Instruments Limited



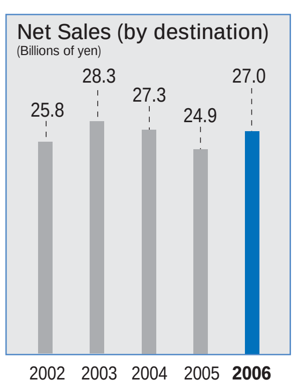
■ Group locations, including branch and resident offices

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 for Fiscal 2006

Sales for the Automotive Test Systems segment rose significantly. Results include three months of sales from the newly added DTS business. Sales rose in the Medical/Diagnostic Instruments & Systems segment following the launch of new products, including large hematology analysis systems and middle-sized clinical chemistry analyzers. Sales of products from HORIBA Jobin Yvon have also been strong.



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 analyzers are proving useful for diagnosing and assessing treatment efficacy for diseases, as well as for early discovery and diagnosis of lifestyle-related illnesses.

Americas 716 employees

U.S.A

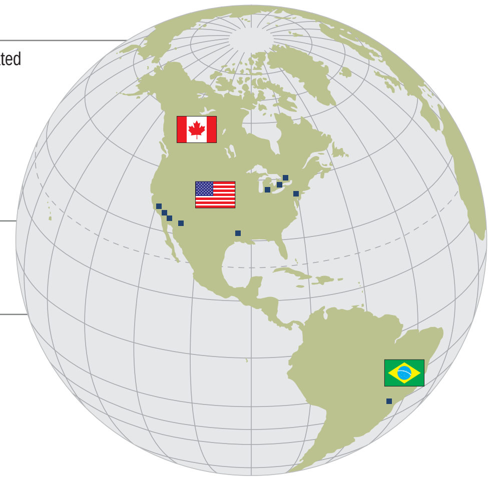
HORIBA Instruments Incorporated
HORIBA/STEC Incorporated
HORIBA Jobin Yvon Inc.
HORIBA ABX Inc.
HORIBA Automotive Test Systems, Corp.

Canada

HORIBA Automotive Test Systems, Inc.

Brazil

HORIBA ABX Ltda.



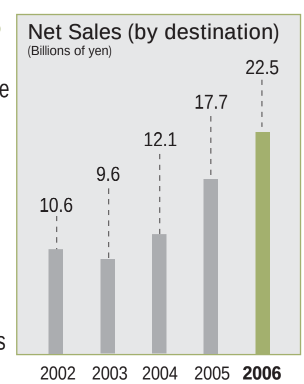
■ Group locations, including branch and resident offices

Regional Overview

In the Americas, HORIBA International Inc. was established in 1972 to conduct overseas business activities, including activities in Europe, and gather market information. This company's operations began by focusing mainly on automotive test systems. In 2005, HORIBA purchased a development test systems business, further bolstering its lineup of products and services provided to the large North American automotive industry. In 1996 and 1997, HORIBA acquired two French companies that are now called HORIBA ABX SAS and HORIBA Jobin Yvon SAS. This provided a stronger base for medical devices and analytic devices sales in the Americas.

Net Sales for Fiscal 2006

Sales of exhaust gas analyzers in the Automotive Test Systems segment rose significantly in response to tighter emissions regulations in the U.S. for 2007. Higher sales in the Analytical Instruments & Systems segment for sulfur content in oil analyzers to the petroleum industry in the latter half of the fiscal year was another source of growth. Sales of products in the Semiconductor Instruments & Systems segment were down due to sluggish demand in the semiconductor industry.



Featured product:

On-board Emissions Measurement System

These in-car instruments measure the exhaust of vehicles while they are operating. Developed under license from the U.S. Environmental Protection Agency, these systems test real-time emissions while operating on the road, a measurement not possible until now. They also collect data on the environmental impact of automobiles that more accurately reflect actual operating conditions.

Priority Measure •••••• 3

Increasing the “Invisible Values”

The new Mid-Long Term Management Plan recognizes the importance of invisible values to the formation of corporate value. Brands, environmental initiatives, technology, CSR and global human resources are prime examples of these invisible values. Management activities, centered on our corporate culture, will increase the value of these invisible values and help achieve further gains in HORIBA’s corporate value.

The Core Components of Our Strategy

- **Use our corporate culture as a guide for all corporate activities**
- **Increase the value of the HORIBA brand**
- **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

Brand, Environment, Technology, CSR and Global People

The new Mid-Long Term Management Plan recognizes the importance of these invisible values to the formation of corporate value. By managing operations based on corporate philosophy and focusing on increasing invisible values, HORIBA aims to increase its corporate value.

The HORIBA Motto: “Joy and Fun”

Our motto expresses our recognition of the importance of approaching work, the most time-consuming element of our productive lives, with a spirit of pride and a willingness to tackle new challenges. Working with a spirit of excitement, our employees will achieve greater self-satisfaction and fill their lives with “Joy and Fun.” (Taken from Corporate Philosophy (see page 57))

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

“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 “Venture Spirit” that founded our establishment. Through this spirit, we will continue to create innovative technologies that respond to emerging market needs.

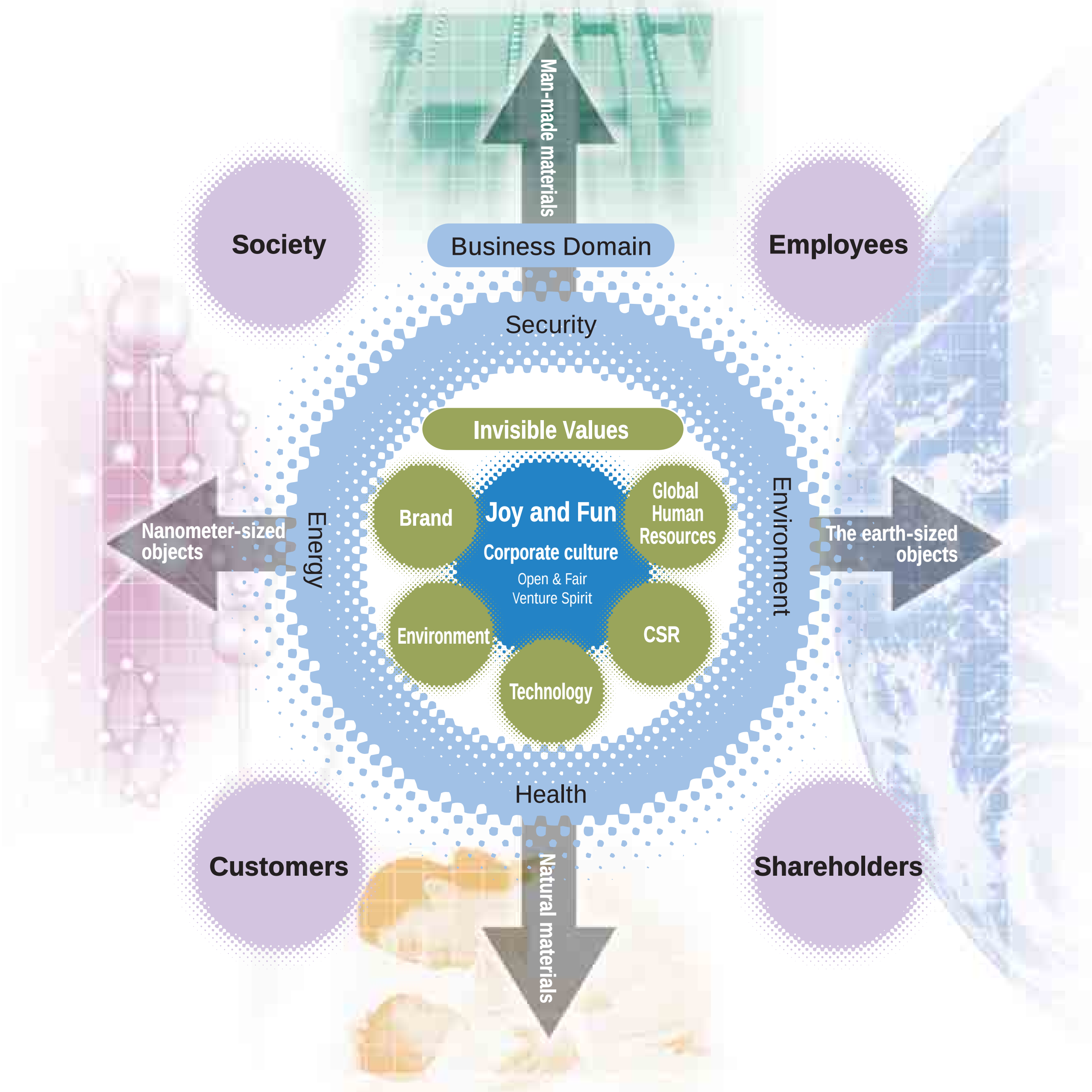
We want all employees to take our corporate philosophy to heart. The resulting professional growth of each and every employee will contribute to HORIBA’s corporate value.

These Japanese characters mean “Joy and Fun,” and are HORIBA’s motto, originally penned by our founder, Dr. Masao Horiba.

Building Win-Win Relationships through Business Activities

HORIBA's exclusive technologies and diverse product lines make it possible to analyze and measure many things. Our technologies range from nanometer-sized objects to the Earth itself, and from natural to man-made materials. These technologies help drive scientific progress and enable us to understand the root cause of many environmental and social problems.

Making the corporate culture the nucleus of HORIBA's approach to management allows us to utilize our invisible values while creating greater value. This approach is also instrumental to our contributions to advancements in our key business fields: the environment, energy, health and security. The result of incorporating our corporate culture into our management style is sound ties with society, business owners, customers, employees and all other HORIBA stakeholders. We are determined to continue to grow with these stakeholders by building and preserving win-win relationships.



Increase the value of the HORIBA brand

Increasing the Value of the HORIBA brand

One of the priorities of our new Mid-Long Term Management Plan is increasing the value of the HORIBA brand. We are currently moving ahead with “One Company” management, and have added HORIBA to the names of all group companies and unified our corporate logo. Brand value, however, can only be established though a succession of steady efforts conducted on a daily basis. At the same time, this value can easily be destroyed by a single accident or error. To prevent such an occurrence, we are working to increase the capabilities of all our employees in their respective fields, including development, production, sales and administration. We are also aware of the importance of improving ethics and compliance to the level demanded of a first-class, global company. For this purpose, we are setting up an internal brand value enhancement project that also covers our invisible values, and will ensure that brand value activities are conducted throughout the group.

To increase brand value, it is necessary to first correctly assess HORIBA’s brand value and determine ways that it can be raised. To this end, we have formulated the unique brand value assessment formula shown below. This formula helps determine precisely what actions our managers and employees should take.

Brand Value = **Quality** × **Quantity** × **Period**

Brand Value		Quality		Quantity		Period
Brand Value	=	Portion of earnings exceeding a baseline ROA*	×	Percentage of sales from products with a global market share of 5% or more	×	Discount rate (weighted average cost of capital)
		Improve ROA		**Supply unique products**		**Enhance capital efficiency**
		Perform jobs based on a constant awareness of asset productivity		Build a globally competitive product development and supply chain structure		Conduct operations in a manner that minimizes the cost of capital

*ROA = Ratio of ordinary income to total assets

* Calculations of brand value reflect HORIBA’s approach to brand value calculation. Results may vary with different assumptions.

Drivers for value expansion

The true essence of HORIBA, however, cannot be expressed in figures and formulas such as these. The degree to which HORIBARIANS (the name given to HORIBA employees) can achieve the self expression of “Joy and Fun” is vital to the HORIBA spirit. We have summarized this expression as the following five “aspirations”;

1. Aspiration to do what no one has thought of before
   Individuality
2. Aspiration to master skills and techniques
   Technology
3. Aspiration to excel on the international stage
   Internationalization
4. Aspiration to tell others about your work and company
   Communication
5. Aspiration to be useful to people and the planet
   Social Contribution

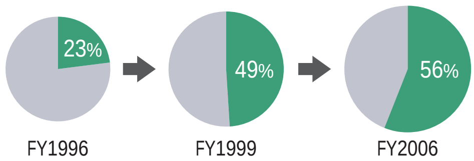
The sum of the aspirations of all HORIBARIANS is the vitality that will carry HORIBA into the future, as well as increase and broaden its current brand value. We believe that the more resolute these aspirations are, the more they will be the source of our corporate value in the future.

Foster the development of people with a global perspective

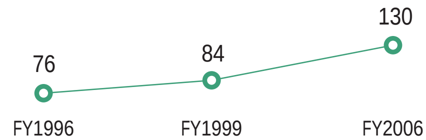
HORIBA's Human Resource Development

To become a first-class, global company, it is essential to have the people who can make globalization a reality. HORIBA's efforts to develop human resources have focused up to now on training and personnel exchanges among group companies. From now on, we plan to accelerate employee development by providing new opportunities for global career advancement.

Share of overseas employees (HORIBA Group)



No. of employees with overseas work experience (HORIBA, Ltd.)



Overseas Training Program

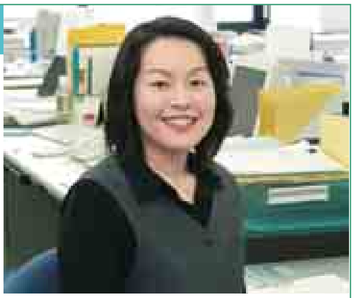
The HORIBA Overseas Training Program gives employees the opportunity to apply for one year of training at a group company overseas. All employees are eligible because there are no restrictions related to the number of years of employment or foreign language ability. Most applicants for the program have been with the company for three to five years. The program has recently been expanded to about 10 trainees annually. As a result, the number of employees with overseas experience is increasing every year. This network has become vital to the realization of "One Company" management.

Report from the Field

"I was sometimes surprised during my training in the U.S. by the differences in work styles and approaches arising from differences between American and Japanese culture. But it was an excellent opportunity that made me think about how to use the positive aspects of each culture in my work.

Both HORIBA and many of our clients operate on a global scale. Cooperation with the U.S., as well as Europe, Japan and other countries and regions, has become a key element in our success. At the facility in the U.S., the sales reps hold regular meetings to allow frequent exchanges of information. I learned the importance of sharing information and sound lines of communication. At the same time, I feel that I learned through example the importance of clearly stating your opinion, which is a characteristic cultural trait of Americans. I plan to use my training experiences in my work, helping to ensure smooth operations with our team members at our subsidiaries.

Another fond memory is the deep and positive relationships I established with my colleagues in the U.S. by spending time with them outside of work."



Akiko Yukimachi
(International Sales Div., HORIBA, Ltd.)
Training Location:
HORIBA Instruments Incorporated,
Ann Arbor Facility

Message from the Training Site

"As the business world becomes a more global marketplace, it becomes increasingly important to break down the barriers to international communication to more effectively service the customers' needs. HORIBA is first and foremost a customer service-focused company, placing a high value on maximum customer satisfaction.

We, and consequently our customers, have benefited greatly by having someone as knowledgeable and capable as Akiko as part of our team here in Ann Arbor the past two years. She has provided considerable insight into the processes at HORIBA that make for effective communication with our customers, whether it's a technical solution to solve a customer's application, or providing them with the most up-to-date status of an order. We as an organization are more capable because of Akiko's involvement in the global employee exchange program.

While we learned much from Akiko during her stay here, we have also benefited from the knowledge she has taken back to Japan about our market and customers. With what we have learned about each other in this exchange, we look forward to a better understanding of how HORIBA as an organization can provide our customers with a higher value solution to their testing needs.

Randy Palmer, (Back row, left)
HORIBA Instruments Incorporated,
Ann Arbor Facility

HORIBA’s R&D and Intellectual Property

“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, and strive to provide total solutions through innovative measurement technologies, achieve revolutionary improvements in function, size, and production cost, and develop new products to help reduce the burden on the environment.

Developing Basic Technologies and Products

Infra-red measurement technology

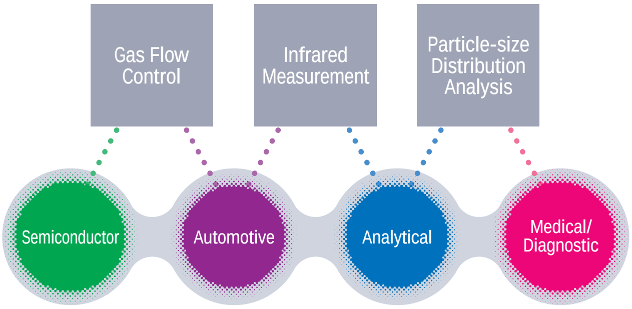
Technology for real-time analysis of elements in gases

Particle-size distribution analysis technology

Particle-size and quantity distribution analysis technology

Gas flow control technology

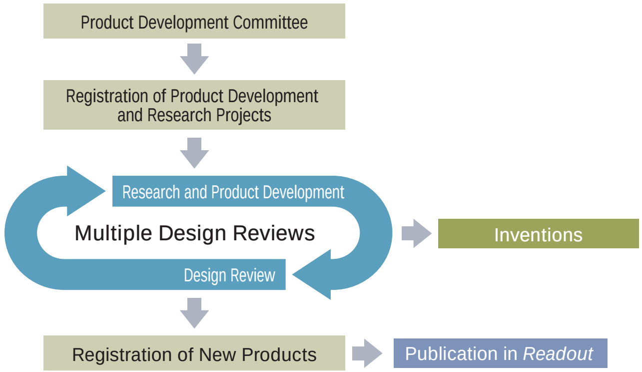
Technology to measure and instantly control the flow of gases



Research and Development Activities

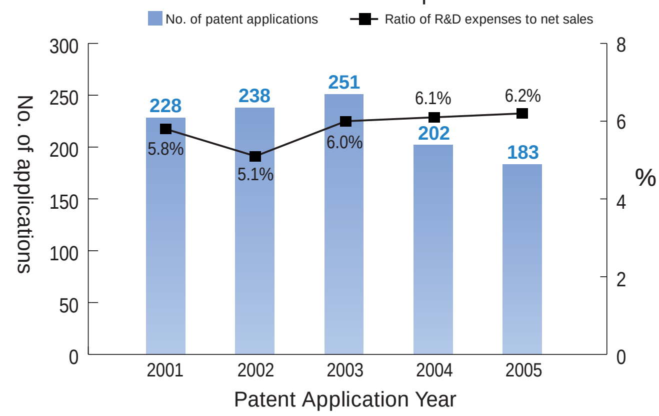
HORIBA conducts R&D activities based on the product development flowchart below. The most significant feature of our R&D process is the system of multiple design reviews, allowing us to generate inventions and file patent applications in a comprehensive manner.

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 while respecting 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 HORIBA Group’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 March 20, 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

Invention of a Method for an Accurate Characterization of Large-size Flat-panel Displays

As the thin film television set becomes larger, the size of the glass substrate increases as well, leading to significant bending over the glass area. As a result, it was not easy to determine accurately the deposited film's thickness. This problem has been solved by the “Thin Film Property Measuring Method Using a Spectroscopic Ellipsometer” (Japanese patent No. 3532165), which received the Outstanding Performance Prize from the Kyoto Awards for Merit in Inventions, and the Invention Encouragement Prize at the Kinki Region Invention Awards in 2006. Spectroscopic Ellipsometers produced by HORIBA Jobin Yvon in France, are using this method and have been installed in all models of HORIBA’s fully automatic film analyzers for flat-panel displays (product name: FF-1000). These analyzers are being used around the clock, to meet the surge in demand, both in Japan and overseas, for even larger LCD panels and plasma displays.

Nataliya Nabatova-Gabain

Ellipsometry Applications Manager
Scientific Systems Sales Department
HORIBA, Ltd.

“For some time now, we have been working on a technology to measure and analyze thin films, in order to respond to the needs of the clients in global cutting-edge R&D and production. The Intellectual Property Department has been encouraging the establishment of intellectual property rights, and that contributed to the invention of this method and its subsequent receipt of the award. I feel that it has achieved recognition beyond just customer satisfaction, and this is an incentive to continue development of the new analysis technology.”

Full-automatic Film Analyzer (FF-1000)

Development of One of the World’s Smallest Residual Gas Analyzers

In October 2005, HORIBA STEC Co., Ltd. acquired the intellectual property rights to a residual gas analyzer (RGA) employing quadrupole mass spectrometer technology Ferran Scientific Inc. in the U.S. An RGA is employed in various stages of semiconductor manufacturing processes to analyze and control the composition of gases that are introduced, retained or generated, thereby improving production efficiency. Previous analyzer models experienced filament deterioration over time during gas analysis, which reduces analysis sensitivity. The BLUE ARROW, which will be launched soon, solves this problem with a revolutionary feature that constantly monitors a vacuum meter signal set to the user’s standard, thereby allowing self-diagnosis and adjustment if sensitivity declines due to filament deterioration.

Toru Ikeda

New Product Commercialization Project
Development Division
HORIBA STEC Co., Ltd.

“BLUE ARROW has a relative calibration function which is not available in competing products. The calibration function allows relative calibration between the RGA and a standard vacuum meter during long periods of continuous process monitoring. We are expecting a very positive response to this new product born from user feedback.”

cf. Residual Gas Analyzer (RGA: MICROPOLE-System)

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

HORIBA Technical Reports

Readout is a collection of technical reports first published by HORIBA in 1990. The title *Readout* incorporates HORIBA’s hopes as a manufacturer of analysis and measurement equipment that the products and technologies created and developed by the HORIBA Group will become widely known through this publication. Articles published in the reports version of *Readout* are also available online from HORIBA’s website, where entire texts can be searched for a back issue or article, or even a product type or measurement application. The number of people accessing the site has risen significantly since the shift to downloadable PDF versions on April 1, 2006, which eliminated troublesome registration and password requirements. *Readout* is now more effective in building a closer relationship between the HORIBA Group and its clients.

HORIBA’s technical reports *Readout* can be accessed at the following:

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

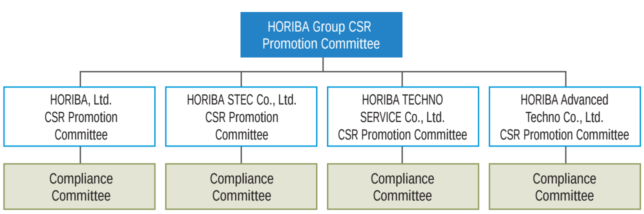
Make CSR and environmental protection part of all corporate activities

HORIBA’s Approach to Corporate Social Responsibility (CSR)

HORIBA conducts its businesses with an emphasis on the key issues of global environment, energy, human health, and public safety, working with all stakeholders for sustainable development.

There is a general tendency in corporate CSR activities to emphasize creating new structures and regulations. However, we believe that CSR-related initiatives are not distinct from other management activities, and they should be a natural part of regular management. HORIBA’s businesses make a substantial contribution to the global environment, energy, human health, and public safety. We believe that we have a responsibility to utilize our experience to provide high-value-added and high-quality products and services that address environmental issues. We also believe that, as a company with environmental expertise, we have a responsibility to send the right message to society through environmental education, seminars, and other activities.

The HORIBA Group CSR Promotion Structure
In accordance with its “One Company” management principle, HORIBA and its major domestic group companies convene the HORIBA Group CSR Promotion Committee. This committee discusses and decides on CSR strategy, priority policies and other matters for the group (see chart).



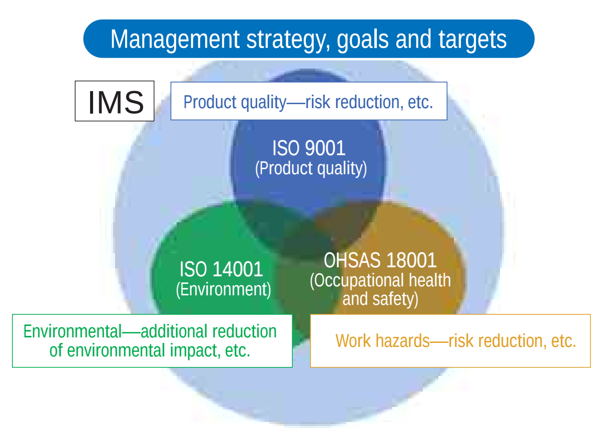
As part of its environmental education and awareness activities, HORIBA regularly holds “open house” tours of its Head Factory for local elementary, junior and senior high school students, and offers classes held in school science laboratories. During such classes, HORIBA employees use the company’s products to actually measure the pH of wastewater, or analyze elements in exhaust gas, giving easy-to-follow explanations of toxic substances and the effects they have on the human body and the environment.

HORIBA open house tours
Experiment to measure automobile emissions

Compliance and Risk Management Structure

Compliance Committees have been established under the CSR Promotion Committee. These committees work to raise awareness of compliance, as well as discuss and decide matters related to promoting compliance measures. 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, and strengthening the compliance framework. In an effort to either prevent, or quickly detect and rectify, illegal activities, we have also introduced a whistle-blowing system, a point-of-contact to consult with attorneys outside the company, and a dedicated e-mail address for employees to communicate any compliance-related concerns. 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), and OHSAS 18001 (occupational health and safety). We have also introduced the Integrated Management System (IMS) to collectively manage the required procedures throughout the Group. This system will enhance decision-making speed and improve operational efficiency, while also furthering risk management.

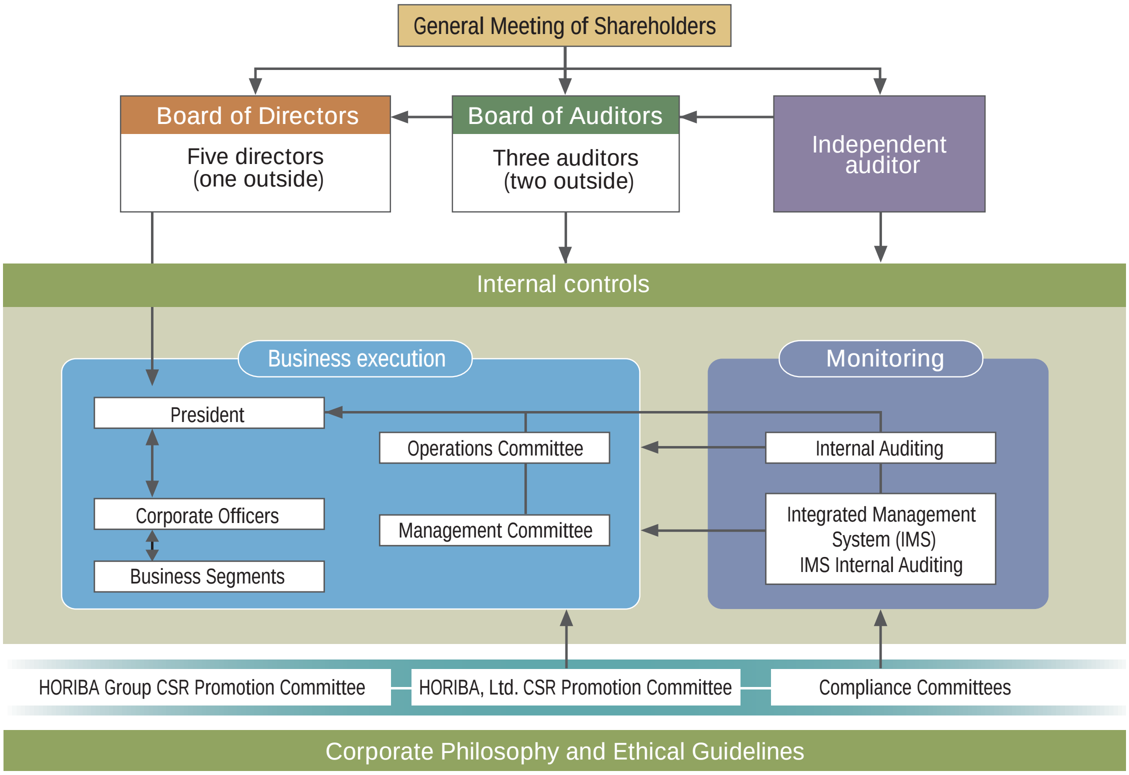


Corporate Governance

Under its basic tenet 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, and enhancing our management oversight functions and compliance framework. Meanwhile, we are also working to establish a mutually beneficial relationship 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. Further, under the corporate officer system introduced in June 1998, directors entrust corporate officers with business execution, who in turn give specific orders to the general manager of each segment and monitor activities.



Internal Controls

HORIBA is working to construct a corporate governance system 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 do so, it is enhancing its compliance, risk management and other structures, for example, by formulating basic principles regarding creation of an internal control system. Furthermore, in accordance with the requirements of the Japanese version of the Sarbanes-Oxley Act, we are currently progressing with improvements to our internal control system to ensure the accuracy of our financial reporting, as we work to establish an even more reliable financial reporting system.

Internal Auditing

The Audit Office monitors all business divisions and group companies to assess their compliance with laws, their articles of incorporation and internal company regulations, as well as the efficiency of their business activities, and other matters. The Audit Office reports results of internal audits to top management, and confirms the status of remedial measures to ensure that actions recommended by auditors have been undertaken.

Six-year Summary

HORIBA, Ltd. and Consolidated Subsidiaries
Years ended March 20

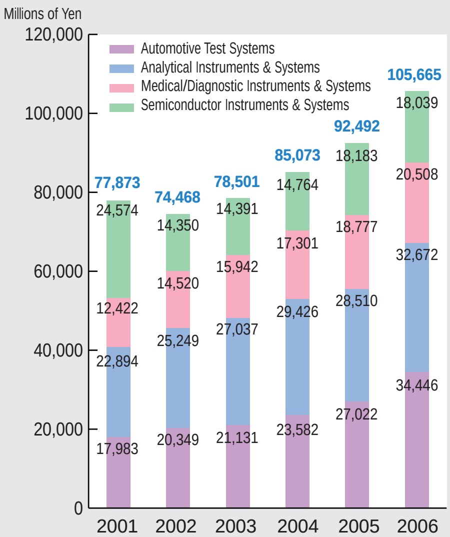
	Millions of yen						Thousands of U.S. dollars (Note 1)
	2001	2002	2003	2004	2005	**2006**	**2006**
For the Year:							
Net sales	¥ 77,873	¥74,468	¥ 78,501	¥85,073	¥92,492	**¥105,665**	**$ 909,024**
Operating costs and expenses	73,123	71,921	73,027	78,223	83,119	**94,390**	**812,026**
Operating income	4,750	2,547	5,474	6,850	9,373	**11,275**	**96,998**
Income before income taxes	5,049	464	3,119	4,780	6,105	**10,748**	**92,464**
Income taxes	3,033	1,508	2,161	2,574	2,290	**4,214**	**36,252**
Net income (loss)	1,443	(1,071)	786	2,074	3,524	**6,473**	**55,687**
Capital expenditures	3,032	3,137	3,444	3,501	3,956	**5,664**	**48,727**
Depreciation and amortization	3,276	3,381	2,915	3,037	2,944	**3,173**	**27,297**
Research and development expenses	4,938	4,336	4,044	5,129	5,636	**6,553**	**56,375**
At Year-end:							
Total assets	¥101,006	¥98,766	¥100,542	¥92,657	¥99,913	**¥119,976**	**$1,032,140**
Property, plant and equipment, net	18,541	19,279	19,000	18,841	18,481	**20,223**	**173,976**
Shareholders' equity	39,796	40,063	40,144	43,348	52,263	**65,446**	**563,025**
	(Notes 2, 3, and 4)						U.S. dollars (Note 1)
Per Share Information:							
Net income (loss)	¥ 46.43	¥ (34.47)	¥ 22.21	¥ 62.90	¥ 98.33	**¥ 154.27**	**$ 1.33**
Shareholders' equity	1,280.51	1,293.42	1,293.30	1,350.31	1,415.75	**1,548.08**	**13.32**
Cash dividends	8.50	8.50	14.50	10.00	16.00	**28.00**	**0.24**
Financial Ratios:							
Return on assets (%)	1.5	(1.1)	0.8	2.2	3.7	**5.9**	
Return on equity (%)	3.7	(2.7)	2.0	5.0	7.4	**11.0**	
Inventory turnover (days)	84	95	87	81	82	**85**	
Price-earning ratio (times)	17.8	(26.0)	34.4	21.9	19.8	**23.9**	
Shareholders' equity ratio (%)	39.4	40.6	39.9	46.8	52.3	**54.6**	
Interest coverage ratio (times)	5.9	3.0	8.2	15.5	25.4	**34.2**	
Dividend payout ratio (%)	31.5	30.9	40.8	30.3	41.8	**33.8**	

Notes:
1. The U.S. dollar amounts are provided solely for convenience at the rate of \116.24 to US$1, the rate prevailing on March 20, 2006.
2. Effective for the year ended March 20, 2001, the Company adopted the revised accounting standard for foreign currency translation. The amounts in 2000 have been restated in compliance with this revised accounting standard.
3. Effective for the year ended March 20, 2002, the Company adopted the revised accounting standards for financial instruments and employees' retirement benefits. The amounts in prior years have not been restated.
4. Effective for the year ended March 20, 2003, the Company adopted the revised accounting standard for per share information. The amounts in prior years have not been restated

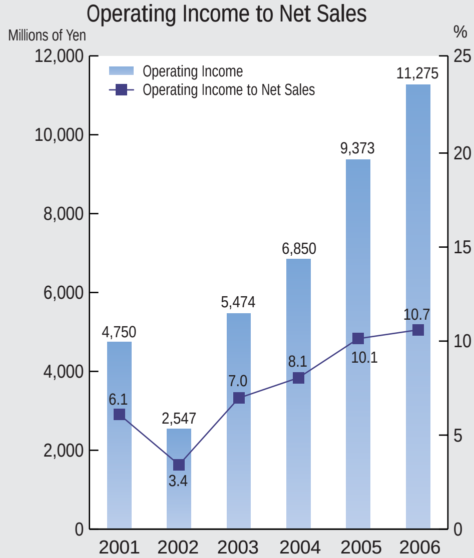
Definitions:
Net income per share (\) = 100 x [net income - projected bonuses to directors and statutory auditors]
/ [average number of shares issued and outstanding in the fiscal period, corrected for treasury stock]
Shareholders' equity per share (\) = [shareholders' equity - projected bonuses to directors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

Note: All years referred to in this annual report are fiscal years. For example, 2006 refers to the fiscal year ended March 20, 2006.

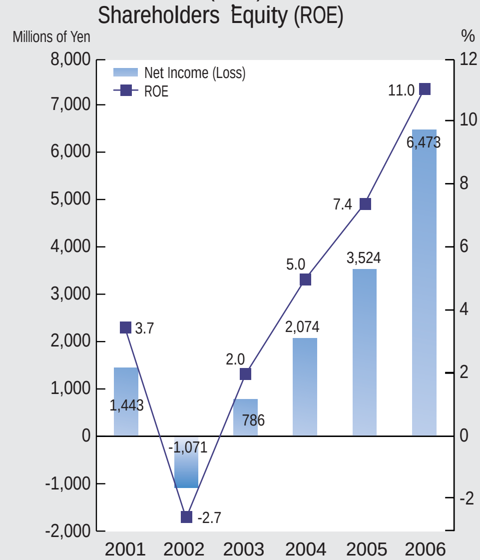
Net Sales by Segment



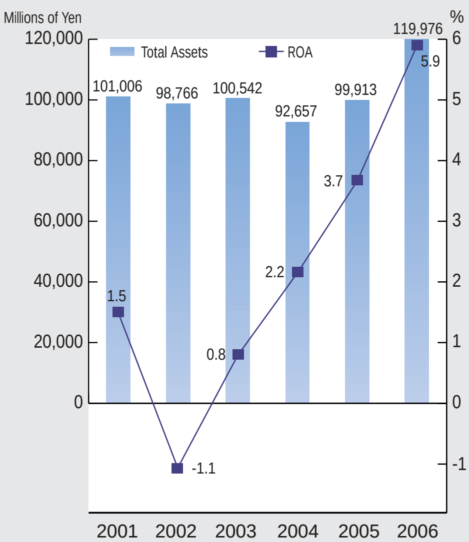
Operating Income and Operating Income to Net Sales



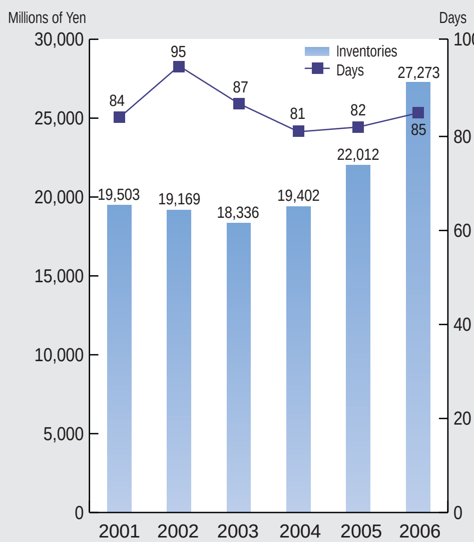
Net Income (Loss) and Return on Shareholders' Equity (ROE)



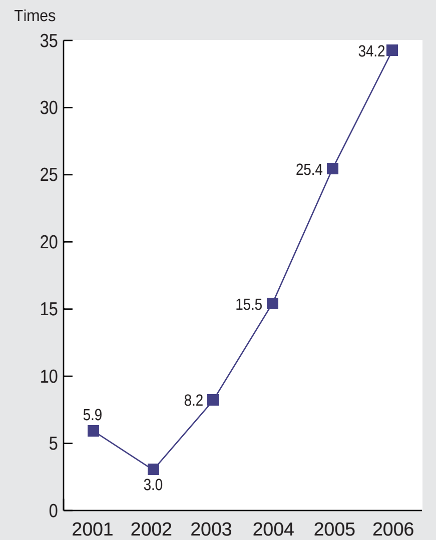
Total Assets and Return on Assets (ROA)



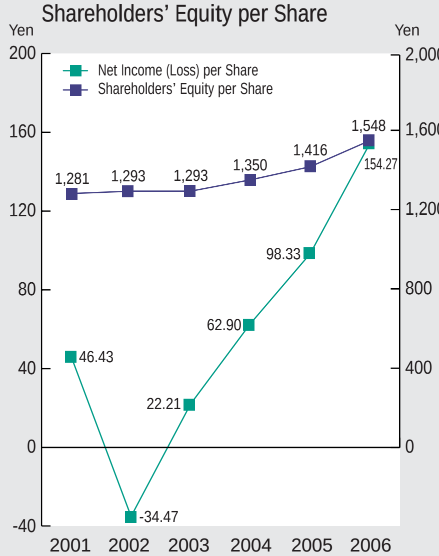
Inventories and Inventory Turnover (Days)



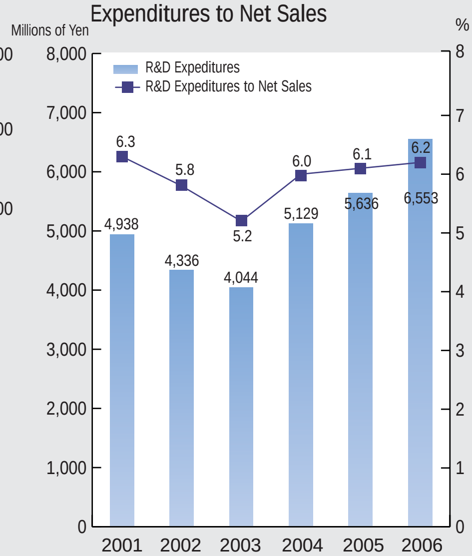
Interest Coverage Ratio



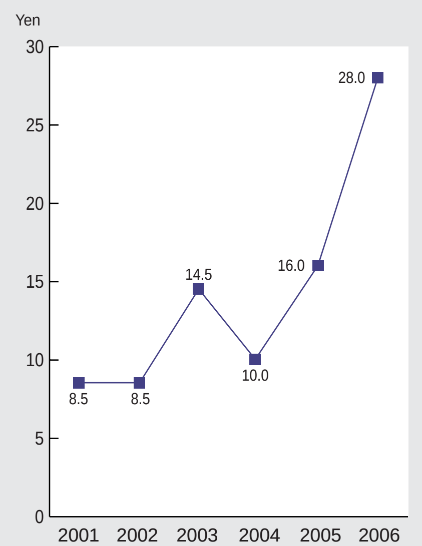
Net Income (Loss) per Share and Shareholders' Equity per Share



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



Cash Dividends per Share



The global economy was strong in the year ended March 20, 2006, with continued expansion in the U.S. centered on personal consumption, despite concerns over economic stagnation due to higher crude oil prices and natural disasters, and greater demand in Asia against a setting of continued stable growth in China. The Japanese economy, despite a rise in the cost of raw materials, continued to recover, supported by increases in capital investment and personal consumption. In the foreign currency exchange markets, the yen weakened on a yearly basis against the U.S. dollar and euro compared with the previous year.
In the measurement and analytical instruments industry, there were substantial private capital expenditures centered mainly on the Japanese automotive industry, and strong demand stemming from expansion of emerging markets, mainly in Asia. However, the fall in prices accompanying more intense competition continued, and demand in the semiconductor industry was stagnant during the first half of this fiscal year.

HORIBA, Ltd (referred to subsequently as "the Company") and its 44 subsidiaries (referred to subsequently as "HORIBA") continued to expand globally. Based on its group management principle of "The HORIBA Group is One Company," HORIBA broke down the barriers that inhibit efficiency and the sharing of resources, such as national boundaries and organizational divisions, to build cohesion in the group and increase its mid- and long-term corporate value. For its Mid-Long Term Management Plan that ended March 20, 2006, HORIBA also worked toward reaching the targets of this plan: ¥100 billion in net sales, an operating income ratio of 10%, and ROE of 8%.

As a result of these activities, HORIBA achieved record net sales and income, and fulfilled all the above targets of its Mid-Long Term Management Plan.

Net Sales

Consolidated net sales increased by ¥13,173 million, or 14.2% year on year, to ¥105,665 million, a record-high.

Business Segments

Automotive Test Systems

Segment sales rose 27.5% to ¥34,446 million. Sales of mainstay exhaust gas analyzers were strong as a result of an increase in new investments by automotive manufacturers in China, Korea, India and other Asian countries, and an upsurge in demand in North America due to the legal limits on exhaust emissions in 2007. The September 2005 acquisition of the automotive development test systems (DTS) business of Carl Schenck AG (Germany) also contributed to sales growth. By geographic region*1, sales were up 16.1% in Japan and other Asian countries, 75.4% in the Americas, and 23.7% in Europe.

Analytical Instruments & Systems

Segment sales rose 14.6% to ¥32,672 million. Sales of X-ray analyzers for Waste Electrical and Electronic Equipment (WEEE) and restriction of the use of certain hazardous substances in Electrical and Electronic Equipment (RoHS) directives were strong in Japan and Asia, and there was greater demand for sulfur-in-oil analyzers in the U.S., and for stack gas analyzers in Japan. By geographic region*1, sales rose 10.4% in Japan and other Asian countries, 50.5% in the Americas, and 13.0% in Europe.

Medical/Diagnostic Instruments & Systems

Segment sales rose 9.2% to ¥20,508 million. This was due to sales of new products such as middle sized clinical chemistry analyzers and large sized hematology analyzers, and higher sales of diagnostic reagents. By geographic region*1, sales rose 14.5% in Japan and other Asian countries and 8.0% in Europe.

Semiconductor Instruments & Systems

Segment sales declined 0.8% to ¥18,039 million. Although there were strong sales of various analytical instruments for semiconductors and liquid crystals, such as chemical monitors, and a rapid recovery in sales of our mainstay product mass flow controllers in the second half of this fiscal year, sales slumped in the first half of this fiscal year. By geographic region*1, sales rose 8.3% in Japan and other Asian countries, but declined 25.1% in the Americas and 28.6% in Europe.

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

Average foreign exchange rates applied in accounting procedures reflected an increase in the yen-dollar exchange rates from ¥108.23 to ¥110.25 and an increase in the yen-euro exchange rates from ¥134.44 to ¥136.91. If exchange rates had remained at fiscal 2005 levels, consolidated net sales in fiscal 2006 would have totaled ¥104,174 million. Thus, the rise in sales due to yen depreciation amounted to ¥1,491 million.

Cost of Sales, SG&A Expenses and Operating Income

Cost of sales increased by ¥6,885 million to ¥60,740 million and the cost of sales ratio improved by 0.7 percentage points to 57.5% (compared to 58.2% in fiscal 2005). This was primarily attributable to economies of scale resulting from higher sales in the Automotive Test Systems segment, along with comprehensive cost-cutting measures, including integrated group-wide joint purchasing from suppliers. Although the cost of sales increased by ¥6,885 million year on year, foreign exchange movements increased this amount by ¥821 million. Excluding this impact, cost of sales increased ¥6,064 million.

Selling, general and administrative expenses (SG&A) increased by ¥4,386 million to ¥33,650 million. The ratio of SG&A expenses to net sales increased by 0.2 percentage points to 31.8% (compared to 31.6% in fiscal 2005). The portion of the increase attributable to exchange rate movements was ¥445 million. Excluding this impact, the growth in SG&A expenses was ¥3,941 million.

As a result, operating income increased by ¥1,902 million, or 20.3% year on year, to ¥11,275 million. The operating income ratio improved by 0.6 percentage points to 10.7% (compared to 10.1% in fiscal 2005).

Business Segments

Automotive Test Systems

Segment operating income rose by 38.3% to ¥6,509 million due to higher sales and effectiveness in mass production.

Analytical Instruments & Systems

Segment operating income rose by 53.4% to ¥1,322 million due to higher sales and effectiveness in mass production.

Medical/Diagnostic Instruments & Systems

Segment operating income fell by 16.8% to ¥953 million due to higher selling expenses to raise sales of new products such as middle sized clinical chemistry analyzers and large sized hematology analyzers.

Semiconductor Instruments & Systems

Segment operating income fell by 6.4% to ¥2,491 million due to a decline in sales of mass flow controllers in the U.S.

Net Income

The foreign exchange gain increased by ¥185 million due to the effect of exchange rate countermeasures. Net interest expense decreased by ¥57 million due to such factors as a decline in interest payments following the conversion of convertible bonds, and amortization of goodwill declined by ¥86 million.

Special losses were down significantly from fiscal 2005, when the Company incurred substantial losses as part of a proactive program of risk management, HORIBA recorded ¥1,151 million for a provision of retirement benefits for directors and corporate auditors for prior years, ¥1,123 million of a loss on sale of property, plant and equipment due to the sale of real estate by the Company to its domestic subsidiary and other items, and ¥54 million of impairment loss of fixed assets. Minority interests declined by ¥230 million to ¥61 million due to the conversion of HORIBA STEC Co., Ltd. to a wholly owned subsidiary.

As a result, income before income taxes, aided by the substantial rise in operating income, increased by ¥4,643 million, or 76.1% year on year, to ¥10,748 million. Net income increased by ¥2,949 million, or 83.7% year on year, to ¥6,473 million.

Financial Position

Total assets as of March 20, 2006 were ¥119,976 million, up ¥20,063 million year on year. Total current assets rose by ¥13,255 million to ¥85,760 million. The main factors contributing to the increase were a ¥6,813 million rise in trade notes and accounts receivable stemming from an increase in the number of consolidated subsidiaries due to the acquisition of shares, and a ¥5,261 million of increase in inventories in response to the growth in the number of consolidated subsidiaries and the volume of products shipped. Net property, plant and equipment increased by ¥1,742 million to ¥20,223 million, due mainly to capital expenditures to expand the Aso Factory of HORIBA STEC Co., Ltd. The total value of intangibles raised by ¥2,773 million to ¥5,462 million due to an increase in the consolidation difference and in investments, such as for introduction of new enterprise resource planning (ERP), an unified operating system.

Total liabilities were ¥54,370 million, up ¥9,265 million. The main factors contributing to the increase were a ¥1,772 million rise in trade notes and accounts payable stemming from an increase in the number of consolidated subsidiaries and growth in purchases to cover a rise in production, and a ¥3,438 million increase in accounts payable-other due to the increase in the number of consolidated subsidiaries. Although bank loans increased, interest-bearing debt declined by ¥2,176 million to ¥13,866 million due to the conversion and redemption of convertible corporate bonds.

Minority interests in consolidated subsidiaries declined by ¥2,385 million to ¥160 million following the conversion of HORIBA STEC Co., Ltd. to a wholly owned subsidiary.

Total shareholders' equity was ¥65,446 million, up ¥13,183 million. The main factors contributing to the increase were a ¥5,482 million rise in retained earnings, increases in common stock and capital surplus of ¥1,929 million and ¥1,925 million, respectively, following the conversion of corporate bonds, and a ¥2,418 million rise in capital surplus following the exchange of shares with HORIBA STEC Co., Ltd.

Cash Flows

Cash Flow from Operating Activities

Net cash provided by operating activities totaled ¥8,673 million. The main factor was a significant rise of ¥10,748 million in income before income taxes, even though trade notes and accounts receivable increased by ¥4,693 million.

Cash Flow from Investing Activities

Net cash used in investing activities totaled ¥10,362 million. The main factors were payments of ¥4,019 million for purchase of property, Factory and equipment, including expansion of the Aso Factory of HORIBA STEC Co., Ltd., acquisition of demo products by the Company, and acquisition of lease assets by HORIBA ABX Group; ¥3,270 million in payments for the acquisition of seven subsidiaries (acquisition of shares and repayment of borrowings) of Carl Schenck AG (Germany); and a ¥1,766 million payment for the acquisition of intangibles, including those related to an introduction of an enterprise resource planning (ERP).

Cash Flow from Financing Activities

Net cash provided by financing activities totaled ¥129 million. The main factors were a net increase in short-term borrowings of ¥1,253 million, and proceeds from long-term debt of ¥685 million, against ¥723 million in cash dividends paid and ¥787 million in payments for redemption of convertible bonds.

As a result, there was a net decrease of ¥1,224 million in cash and cash equivalents to ¥14,884 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. (see note), with retained earnings allocated to reinvestment for continued growth. As for earnings of group companies, HORIBA receives a certain proportion of the net income from each group company as a dividend, so dividend payments are in effect made on consolidated earnings.

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

Major Business Risks

Major business risks that could have a negative impact on the financial position and/or business performance of the HORIBA Group are as follows.

1. Risks Associated With International Business Activities

HORIBA conducts business activities in the U.S., Europe, Asia, and many countries around the world. Major risks associated with the entry into these overseas markets are:

(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, delay in development of new products, etc. (See page 7 for risks specific to each business)

(2) Risks Associated with International Business Activities

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

2. Compensation for Product Liability

HORIBA conducts optimum quality control for its products and services, and strives to maintain reliability, but there is the possibility of recalls or litigation arising from unforeseen defects. The company carries insurance for product liability compensation, but there is no guarantee that this insurance will cover the full amount of any damages.

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

HORIBA conducts full and careful investigations when making acquisitions or forming alliances, in order to avoid a negative impact on earnings or cash flow. However, it is possible that such acquisitions or alliances may 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. However, the value of these shares could decline as a result of a downturn in the performance of the companies, a worsening of economic conditions, or other factors. HORIBA implemented impairment accounting in the fiscal year ended March 31, 2005, ahead of legal requirements, but it is possible that further declines in the market price or profitability of land, building or other assets may occur in the future.

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 fiscal year under review to be fully recoverable as 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. Delays in Delivery, etc., Associated With Repair of Facilities Following Natural Disasters

In the case of a major earthquake or other natural disaster, the company may incur substantial expenditures for repair of manufacturing facilities, etc., or losses may be incurred due to delays in shipments or other factors.

7. Delays in the Development of New Products

HORIBA's business field —measuring instruments— is extremely specialized, and requires high levels of technical capability. The company therefore invests large sums in product development, but it is possible that expected returns 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 terms of competitiveness. The company 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 the company will be unable to attain expected earnings. There is also a possibility of disputes over intellectual property rights with other companies.

Consolidated Balance Sheets

HORIBA, Ltd. and Consolidated Subsidiaries
At March 20, 2005 and 2006

ASSETS	Millions of yen 2005	Millions of yen 2006	Thousands of U.S. dollars (Note 1) 2006
Current Assets:			
Cash and cash equivalents	¥16,108	**¥14,884**	**$128,045**
Trade notes and accounts receivable	30,595	**37,408**	**321,817**
Allowance for doubtful receivables	(512)	**(880)**	**(7,571)**
Inventories (Note 4)	22,012	**27,273**	**234,627**
Deferred tax assets (Note 13)	2,012	**2,742**	**23,589**
Other current assets	2,290	**4,333**	**37,277**
Total current assets	72,505	**85,760**	**737,784**
Property, Plant and Equipment (Note 5):			
Land	6,564	**6,618**	**56,934**
Buildings and structures	16,097	**17,343**	**149,200**
Machinery, equipment, and vehicles	8,770	**10,183**	**87,603**
Construction in progress	81	**87**	**748**
Other property, plant and equipment	8,907	**10,159**	**87,397**
Total	40,419	**44,390**	**381,882**
Accumulated depreciation	(21,938)	**(24,167)**	**(207,906)**
Net property, plant and equipment	18,481	**20,223**	**173,976**
Investments and Other Non-current Assets:			
Investment securities (Note 3)	4,206	**5,277**	**45,397**
Investments in non-consolidated subsidiaries and affiliates	91	**120**	**1,032**
Deferred tax assets (Note 13)	704	**671**	**5,773**
Allowance for doubtful accounts	(119)	**(82)**	**(705)**
Other investments and other assets	1,356	**2,545**	**21,894**
Total	6,238	**8,531**	**73,391**
Intangibles:			
Goodwill	79	**39**	**336**
Consolidation difference	1,315	**2,365**	**20,346**
Other intangibles	1,295	**3,058**	**26,307**
Total	2,689	**5,462**	**46,989**
Total Assets	¥99,913	**¥119,976**	**$1,032,140**

See notes to the consolidated financial statements.

LIABILITIES, MINORITY INTERESTS AND SHAREHOLDERS' EQUITY	Millions of yen 2005	Millions of yen 2006	Thousands of U.S. dollars (Note 1) 2006
Current Liabilities:			
Short-term loans payable (Note 5)	¥5,468	**¥6,747**	**$58,044**
Current portion of long-term debt (Note 5)	4,131	**452**	**3,889**
Trade notes and accounts payable:			
Affiliated companies	26	**45**	**387**
Other	11,264	**13,017**	**111,984**
Accounts payable-other	5,476	**8,914**	**76,686**
Accrued income taxes	1,463	**3,121**	**26,850**
Accrued bonuses to employees	2,356	**2,900**	**24,948**
Reserve for product warranty	820	**1,025**	**8,818**
Other current liabilities	3,795	**8,157**	**70,173**
Total current liabilities	34,799	**44,378**	**381,779**
Long-term Debt (Note 5)	6,443	**6,667**	**57,355**
Employees' Retirement Benefits (Note 8)	1,348	**1,462**	**12,577**
Directors' and Corporate Auditors' Retirement Benefits	1,144	**618**	**5,317**
Deferred Tax Liabilities (Note 13)	23	**638**	**5,489**
Other Non-current Liabilities	1,348	**607**	**5,222**
Total liabilities	45,105	**54,370**	**467,739**
Contingent Liabilities (Note 11)			
Minority Interests in Consolidated Subsidiaries	2,545	**160**	**1,376**
Shareholders' Equity (Note 9):			
Common stock	9,641	**11,570**	**99,535**
Authorized – 100,000,000 shares			
Issued and outstanding – 36,797,578 shares (excluding treasury stock) in 2005			
Issued and outstanding – 42,100,053 shares (excluding treasury stock) in 2006			
Capital surplus	13,933	**18,276**	**157,226**
Retained earnings	27,422	**32,904**	**283,070**
Net unrealized holding gains on securities	1,401	**1,920**	**16,518**
Foreign currency translation adjustments	21	**850**	**7,313**
Treasury stock	(155)	**(74)**	**(637)**
(147,369 shares in 2005 and 44,699 shares in 2006)			
Total shareholders' equity	52,263	**65,446**	**563,025**
Total Liabilities, Minority Interests, and Shareholders' Equity	¥99,913	**¥119,976**	**$1,032,140**

Consolidated Statements of Income

HORIBA, Ltd. and Consolidated Subsidiaries
For the years ended March 20, 2005 and 2006

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2005	2006	2006
Net Sales (Note 14)	¥92,492	**¥105,665**	**$909,024**
Operating Costs and Expenses:			
Cost of sales	53,855	**60,740**	**522,539**
Selling, general and administrative	29,264	**33,650**	**289,487**
Total operating costs and expenses	83,119	**94,390**	**812,026**
Operating Income (Note 14)	9,373	**11,275**	**96,998**
Other Income (Expenses):			
Interest and dividend income	104	**121**	**1,041**
Interest expense	(373)	**(333)**	**(2,865)**
Foreign exchange gains (losses), net	(41)	**144**	**1,239**
Amortization of goodwill	(86)	**–**	**–**
Gain on sales of investment securities	–	**395**	**3,398**
Gain on insurance, net of related loss	–	**96**	**826**
Gain on settlement of license	–	**177**	**1,523**
Gain on sale of property, plant and equipment	39	**47**	**404**
Loss on disposal of property, plant and equipment	(46)	**(116)**	**(998)**
Loss on sale of property, plant and equipment	(1,123)	**(17)**	**(146)**
Loss on impairment of fixed assets	(54)	**–**	**–**
Retirement benefits to directors	–	**(750)**	**(6,452)**
Loss on disposal of inventories	(170)	**(68)**	**(585)**
Loss on valuation of investment securities	(35)	**(13)**	**(112)**
Loss on change of retirement benefit plan	(80)	**–**	**–**
Loss on change in accounting method for retirement benefits	(144)	**–**	**–**
Provision of retirement benefits for directors and corporate auditors for prior years	(1,151)	**–**	**–**
Loss on write-down of inventories	(76)	**(41)**	**(353)**
Other, net	(32)	**(169)**	**(1,454)**
Total other expenses, net	(3,268)	**(527)**	**(4,534)**
Income before Income Taxes	6,105	**10,748**	**92,464**
Income Taxes (Note 13):			
Current	2,353	**4,424**	**38,059**
Deferred	(63)	**(210)**	**(1,807)**
Total income taxes	2,290	**4,214**	**36,252**
Minority Interest in Earnings of Consolidated Subsidiaries	291	**61**	**525**
Net Income	¥3,524	**¥6,473**	**$55,687**

	Yen		U.S. dollars (Note 1)
	2005	2006	2006
Per Share Information:			
Net income – basic	¥98.33	**¥154.27**	**$1.33**
Net income – diluted	83.81	**146.97**	**1.26**
Cash dividends	16.00	**28.00**	**0.24**

See notes to the consolidated financial statements.

Consolidated Statements of Shareholders' Equity

HORIBA, Ltd. and Consolidated Subsidiaries
For the years ended March 20, 2005 and 2006

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2005	2006	2006
Common stock			
Balance at beginning of period	¥7,160	**¥9,641**	**$82,940**
Conversion of convertible bonds	2,481	**1,929**	**16,595**
4,610,181 shares in 2005			
5,199,805 shares in 2006			
Balance at end of period	¥9,641	**¥11,570**	**$99,535**
Capital surplus			
Balance at beginning of period	¥11,457	**¥13,933**	**$119,864**
Conversion of convertible bonds	2,476	**1,925**	**16,561**
Increase through a stock-for-stock exchange	–	**2,418**	**20,801**
Balance at end of period	¥13,933	**¥18,276**	**$157,226**
Retained earnings			
Balance at beginning of period	¥24,341	**¥27,422**	**$235,908**
Net income	3,524	**6,473**	**55,687**
Cash dividends	(327)	**(722)**	**(6,211)**
Bonus to directors and corporate auditors	(103)	**(176)**	**(1,514)**
Decrease on disposal of treasury stock	(5)	**(15)**	**(129)**
Effect of excluding a subsidiary from consolidation	(8)	**–**	**–**
Effect of accounting change in an overseas subsidiary	–	**(78)**	**(671)**
Balance at end of period	¥27,422	**¥32,904**	**$283,070**
Net unrealized holding gains on securities			
Balance at beginning of period	¥1,100	**¥1,401**	**$12,053**
Increase of net unrealized holding gains on securities	301	**519**	**4,465**
Balance at end of period	¥1,401	**¥1,920**	**$16,518**
Foreign currency translation adjustments			
Balance at beginning of period	(¥433)	**¥21**	**$181**
Increase of foreign currency translation adjustments	454	**829**	**7,132**
Balance at end of period	¥21	**¥850**	**$7,313**
Treasury stock			
Balance at beginning of period	(¥277)	**(¥155)**	**($1,333)**
Purchase of treasury stock	(89)	**(119)**	**(1,024)**
55,097 shares in 2005			
44,330 shares in 2006			
Sale of treasury stock	211	**200**	**1,720**
216,000shares in 2005			
147,000 shares in 2006			
Balance at end of period	(¥155)	**(¥74)**	**($637)**
Total shareholders' equity	¥52,263	**¥65,446**	**$563,025**

See notes to the consolidated financial statements.

Consolidated Statements of Cash Flows

HORIBA, Ltd. and Consolidated Subsidiaries
For the years ended March 20, 2005 and 2006

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2005	2006	2006
Cash Flows from Operating Activities:			
Income before income taxes	¥6,105	**¥10,748**	**$92,464**
Adjustments to reconcile income before income taxes to net cash provided by operating activities:			
Depreciation and amortization	2,944	**3,173**	**27,297**
Loss on impairment of fixed assets	54	**–**	**–**
Loss on valuation of investment securities	35	**13**	**112**
Gain on sales of investment securities	–	**(395)**	**(3,398)**
Loss on disposal of property, plant and equipment	46	**116**	**998**
Gain on sale of property, plant and equipment	(39)	**(47)**	**(404)**
Increase (decrease) in allowance for doubtful receivables	(24)	**220**	**1,893**
Increase in directors' and corporate auditors' retirement benefits	1,144	**75**	**645**
Increase in employees' retirement benefits	231	**82**	**705**
Interest and dividend income	(104)	**(121)**	**(1,041)**
Interest expense	373	**333**	**2,865**
Foreign exchange losses	23	**16**	**138**
Loss on sale of property, plant and equipment	1,123	**17**	**146**
Retirement benefits to directors	–	**770**	**6,624**
Increase in trade notes and accounts receivable	(895)	**(4,693)**	**(40,374)**
Increase in inventories	(2,281)	**(674)**	**(5,798)**
Increase in trade notes and accounts payable	2,163	**313**	**2,692**
Bonuses to directors and corporate auditors	(103)	**(176)**	**(1,514)**
Other, net	(306)	**3,447**	**29,654**
Subtotal	10,489	**13,217**	**113,704**
Interest and dividends received	100	**116**	**998**
Interest paid	(385)	**(324)**	**(2,787)**
Payment of retirement benefits to directors	(27)	**(1,341)**	**(11,537)**
Income taxes paid	(2,961)	**(2,995)**	**(25,766)**
Net cash provided by operating activities	7,216	**8,673**	**74,612**
Cash Flows from Investing Activities:			
Increase in time deposits with maturities longer than three months	(17)	**(1,594)**	**(13,713)**
Payments for purchase of investment securities	(393)	**(320)**	**(2,753)**
Proceeds from sales or redemption of investment securities	555	**506**	**4,353**
Payments for purchase of investments in a consolidated subsidiary	(19)	**–**	**–**
Payments for purchase of investments in newly consolidated subsidiaries (Note 7)	(119)	**(3,270)**	**(28,131)**
Payments for sales of investments in a consolidated subsidiary	(45)	**–**	**–**
Payments for purchase of property, plant and equipment	(2,980)	**(4,019)**	**(34,575)**
Proceeds from sale of property, plant and equipment	230	**134**	**1,153**
Increase in intangibles	(730)	**(1,766)**	**(15,193)**
Other, net	(111)	**(33)**	**(284)**
Net cash used in investing activities	(3,629)	**(10,362)**	**(89,143)**
Cash Flows from Financing Activities:			
Net increase (decrease) in short-term borrowings	(1,034)	**1,253**	**10,779**
Increase in long-term debt	1,049	**685**	**5,893**
Repayment of long-term debt	(721)	**(284)**	**(2,443)**
Payments for purchase of treasury stock	(89)	**(119)**	**(1,024)**
Proceeds from sales of treasury stock	207	**185**	**1,592**
Cash dividends paid	(328)	**(723)**	**(6,220)**
Cash dividends paid to minority interests	(72)	**(31)**	**(267)**
Payment of funds for redemption of convertible bonds	–	**(787)**	**(6,770)**
Other, net	(71)	**(50)**	**(430)**
Net cash provided by (used in) financing activities	(1,059)	**129**	**1,110**
Cash and Cash Equivalents Foreign Currency Translation Adjustments	105	**336**	**2,891**
Net Increase (Decrease) in Cash and Cash Equivalents	2,633	**(1,224)**	**(10,530)**
Cash and Cash Equivalents at Beginning of Year	13,603	**16,108**	**138,575**
Cash and Cash Equivalents of a Subsidiary Excluded from Consolidation	(128)	**–**	**–**
Cash and Cash Equivalents at End of Year	¥16,108	**¥14,884**	**$128,045**

See notes to the consolidated financial statements.

1. Basis of presenting financial statements

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

The translation of the Japanese yen amounts into U.S. dollars are included solely for the convenience of readers outside Japan, using the prevailing exchange rate at March 20, 2006, which was ¥116.24 to U.S.$1. 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 2006 presentation.

2. Summary of significant accounting policies

(a) Principles of consolidation

The consolidated financial statements include the accounts of the Company and 44 (37 in 2005) of its subsidiaries (referred to subsequently as "HORIBA"). In the year ended March 20, 2006, seven subsidiaries were acquired and newly consolidated.

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

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

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

The Company has seven affiliated companies (six in 2005). Investments in affiliates (generally 20%-50% ownership), over which the Company has the ability to exercise significant influence over operating and financial policies, and one non-consolidated subsidiary are accounted for on the cost basis, not by the equity method, as the effects on income and retained earnings are immaterial.

(b) Cash and cash equivalents

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

(c) Securities

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

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

Other:

The Company and domestic subsidiaries
- Declining balance method

Overseas subsidiaries
- Straight-line method

Estimated useful lives of the assets are principally as follows:

- Buildings and structures 3 to 60 years
- Machinery, equipment, and vehicles 2 to 17 years

(f) Software costs

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

(h) Reserve for product warranty

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

(i) Accrued bonuses to employees

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

(j) Retirement benefits and pension plans

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

Certain consolidated subsidiaries changed to defined contribution plans and a new defined-benefit corporate pension plan from a non-contributory funded retirement plan and a lump-sum severance benefit payment plan in September 2004, and adopted the new accounting standard, "Opinion on Setting Accounting Standard for Employees' Severance and Pension Benefits," issued by the Business Accounting Deliberation Council. The effect of this change was a special loss of ¥80 million. For the year ended March 20, 2005, one consolidated domestic subsidiary changed the calculation of projected benefit obligation from a simplified method to a standard method since the number of its employee increased. The effect of this change was a special loss of ¥144 million.

(k) Retirement benefits for directors and corporate auditors

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

In the year ended March 20, 2005 the Company and certain domestic subsidiaries changed to provide for retirement benefits for directors and corporate auditors at the amount to be paid based upon the internal rules at the balance sheet date. In previous years these benefits were not accrued. This change in accounting method was aimed to more appropriately state periodic income corresponding to the serving term of directors and corporate auditors, and also to promote the soundness of the financial condition.

As a result of this change, HORIBA recorded retirement benefits of ¥82 million in selling, general and administrative expenses and directors' retirement benefits for prior years of ¥1,151 million as a special loss. Compared with the previous method, operating income decreased ¥82 million, and income before income taxes decreased ¥1,144 million (net of expense reversal for 2005).

The effect of ¥41 million for directors' retirement benefits for prior years, which was caused by certain domestic subsidiaries' revising their internal rules in the 2nd half of 2005, was included in a special loss.

The effect on segment information is described in Note 14.

(l) Impairment of fixed assets

The Company and its domestic subsidiaries have adopted "Accounting Standard for Impairment of Fixed Assets" ("Opinion on Establishing Accounting Standards for Impairment of Fixed Assets" issued by Accounting Standards Board of Japan on August 9, 2002) and "Guidance on Application of Accounting Standards for Impairment of Fixed Assets" (Application Guidance on Accounting Standards Number 6, issued on October 31, 2003), which became applicable to the consolidated financial statements in the year ended March 20, 2005. By the application of the new accounting standards, HORIBA recognized a special loss on impairment of fixed assets of ¥54 million, which led to a decrease of income before income taxes of the same amount compared with the previous accounting method.

The recognized loss on impairment of fixed assets has been deducted from acquisition costs.

In applying the accounting standard for impairment of fixed assets, the Company and its domestic subsidiaries evaluated indications of impairment grouping assets on the industry segment basis. Leased assets and idle assets were evaluated on an individual asset basis. The Company and its domestic subsidiaries estimated the recoverable amount for the following assets for which there were indications of impairment due to the continuous decline in land prices in Japan and recognized a special loss of ¥54 million on impairment of fixed assets.

Location	Purpose	Assets
Otsu, Shiga	Idle	Land
Shimotakai, Nagano	Idle	Land

To assess the recoverability amount of the fixed assets, appraised prices, which were comparatively computed based on posted land prices and the standard land price, were principally used as the basis for the measurement.

(m) Foreign currency translation

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

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

(n) Finance leases

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

(o) Deferred assets

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

(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, 2005 and 2006 were ¥5,636 million and ¥6,553 million ($56,375 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. Contracts are entered into and controlled by the corporate strategy office, which reports results to the board of directors. In cases where a foreign exchange forward contract meets certain hedging criteria, the hedged item is stated at the forward exchange rate. As the interest rate swap contract was used as a hedge and met certain hedging criteria, the amounts that were paid or received on the interest rate swap contract is added to or deducted from the interest on the bonds liability for which the swap contract was executed.

(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 years commercing on April 1, 2004 or later, according to the revised local tax law, the assessment by estimation on the basis of the size of business was introduced as enterprise taxes. The tax portion due to this assessment was recorded as selling, general and administrative expenses. By this change, the amount of selling, general and administrative expenses increased by ¥139 million ($1,196 thousand), 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 numbers of common shares used in the computation for 2005 and 2006 were 34,143 thousand and 40,120 thousand, respectively. Diluted net income per share of common stock assumes full conversion of dilutive convertible bonds at the beginning of the year or the later date of issuance with an applicable adjustment for related interest expense, net of tax and dilutive stock option plans. The weighted average numbers of shares used in the computation for 2005 and 2006 were 40,371 thousand and 42,233 thousand, respectively.

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

3. Securities

The following table summarizes acquisition costs and book values (fair values) of available-for-sale securities with available fair values at March 20, 2005:

	Millions of yen		
	2005		
	Acquisition cost	Book value	Difference
Securities with book values exceeding acquisition costs:			
Equity securities	¥1,428	¥3,793	¥2,365
	1,428	3,793	2,365
Securities with book values not exceeding acquisition costs:			
Equity securities	20	12	(8)
Other	121	96	(25)
	141	108	(33)
Total	¥1,569	¥3,901	¥2,332

The following table summarizes available-for-sale securities sold for the year ended March 20, 2005:

	Millions of yen
	2005
Total sales of available-for-sale securities	¥55
Related gains	1
Related losses	–

The following table summarizes book values of securities with no available fair values as of March 20, 2005:

	Millions of yen
Available-for-sale securities:	2005
Non-listed equity securities	¥263
Limited partnership for investment	¥47
	¥310

Available-for-sale securities with maturities of ¥4 million at March 20, 2005 mature over one year, but within five years.

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			Thousands of U.S. dollars		
	2006			2006		
	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference
Securities with book values exceeding acquisition costs:						
Equity securities	¥1,630	¥4,865	¥3,235	$14,023	$41,853	$27,830
Other	120	141	21	1,032	1,213	181
	1,750	5,006	3,256	15,055	43,066	28,011
Securities with book values not exceeding acquisition costs:						
Equity securities	18	15	(3)	155	129	(26)
Other	11	11	–	95	95	–
	29	26	(3)	250	224	(26)
Total	¥1,779	¥5,032	¥3,253	$15,305	$43,290	$27,985

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

	Millions of yen	Thousands of U.S. dollars
	2006	2006
Total sales of available-for-sale securities	¥502	$4,319
Related gains	395	3,398
Related losses	–	–

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

	Millions of yen	Thousands of U.S. dollars
Available-for-sale securities:	2006	2006
Non-listed equity securities	¥208	$1,789
Limited partnership for investment	33	284
	¥241	$2,073

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

	Millions of yen		Thousands of U.S. dollars	
	2006		2006	
	Over 1 year but within 5 years	Over 5 years but within 10 years	Over 1 year but within 5 years	Over 5 years but within 10 years
Bonds				
Government bonds	¥3	¥1	$26	$9

4. Inventories

Inventories at March 20, 2005 and 2006 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2005	2006	2006
Finished products	¥9,457	**¥9,687**	**$83,336**
Work in process	6,726	**11,202**	**96,370**
Raw materials and supplies	5,829	**6,384**	**54,921**
Total	¥22,012	**¥27,273**	**$234,627**

5. Short-term loans and long-term debt

Short-term loans are generally represented by 90 and 365 day bank notes, with annual interest rates ranging from 0.48% to 5.50% and 0.46% to 7.25% at March 20, 2005 and 2006, respectively.

Long-term debt at March 20, 2005 and 2006 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
Secured:	2005	2006	2006
Loans from banks due serially from 2007 to 2011, at rates from 3.51% per annum to 4.75% per annum	¥107	**¥99**	**$852**
Unsecured:			
1.16% bonds due 2008	5,000	**5,000**	**43,014**
0.85% convertible bonds due 2006	3,863	**–**	**–**
Loans from banks due serially from 2007 to 2011, at rates from 1.79% to 6.50% per annum	1,604	**2,020**	**17,378**
Total	10,574	**7,119**	**61,244**
Current portion	(4,131)	**(452)**	**(3,889)**
Long-term debt, less current portion	¥6,443	**¥6,667**	**$57,355**

The aggregate annual maturities of long-term debt outstanding at March 20, 2006 were as follows:

Year ending March 20	Millions of yen	Thousands of U.S. dollars
2007	¥452	$3,889
2008	504	4,336
2009	5,529	47,565
2010	492	4,233
2011	123	1,058
Thereafter	19	163
Total	¥7,119	$61,244

At March 20, 2006, buildings and structures amounting to ¥141 million ($1,213 thousand), at net book value are pledged as collateral for long-term debt of ¥95 million ($817 thousand) and current portion of long-term debt of ¥4 million ($35 thousand).

The Company and its 5 subsidiaries had entered into the agreeements for bank overdrafts or loan commitments with 17 banks as of March 20, 2006 as follows:

	Millions of yen	Thousands of U.S. dollars
The maximum aggregate principal	¥14,715	$126,592
Amount utilized	4,151	35,711
Balance available	¥10,564	$90,881

6. Significant non-cash transactions

Conversion of convertible bonds:

In the year ended March 20, 2005, due to the conversion of convertible bonds, "Common Stock" and "Capital Surplus" increased ¥2,480 million, ¥2,476 million, respectively, and "Long-term debt (convertible bonds)" decreased ¥4,956 million. In the year ended March 20, 2006, due to the conversion of convertible bonds, "Common Stock" and "Capital Surplus" increased ¥1,929 million ($16,595 thousand), ¥1,925 million ($16,561 thousand), respectively, and "Long-term debt (convertible bonds)" decreased ¥3,854 million ($33,156 thousand).

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 ($20,801 thousand).

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, their assets and liabilities, the cost for the share acquisition, and the net payments to acquire the shares were as follows;

	Millions of yen	Thousands of U.S. dollars
	2006	2006
Current assets	**¥6,959**	**$59,868**
Fixed assets	**610**	**5,248**
Consolidation difference	**1,408**	**12,113**
Current liabilities	**(7,557)**	**(65,012)**
Non-current liabilities	**(167)**	**(1,437)**
Cost for share acquisition at the beginning of current period	**(1)**	**(9)**
Cost for share acquisition in current period	**1,252**	**10,771**
Repayment of loans payable	**2,380**	**20,474**
Cash and cash equivalents	**(362)**	**(3,114)**
Net cash outflow to acquire the shares of newly consolidated subsidiaries	**¥3,270**	**$28,131**

8. Employees' severance and pension benefits

The liabilities for employees' retirement benefits at March 20, 2005 and 2006 consist of the following:

	Millions of yen		Thousands of U.S. dollars
	2005	2006	2006
Projected benefit obligation	(¥2,849)	**(¥3,294)**	**($28,338)**
Pension assets	377	**790**	**6,796**
Unfunded projected benefit obligation	(2,472)	**(2,504)**	**(21,542)**
Unrecognized actuarial differences	104	**137**	**1,179**
Unrecognized differences on change of employees' retirement plan	1,020	**905**	**7,786**
Employees' retirement benefits	(¥1,348)	**(¥1,462)**	**($12,577)**

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 assets amount. A profoma portion of the Company and its certain subsidiaries calculated by the ratio of accumulated pension premiums paid were ¥5,882 million and ¥7,686 million ($66,122 thousand) as of March 20, 2005 and 2006 respectively.

Employees' retirement benefit expense for the years ended March 20, 2005 and 2006 comprise the following:

	Millions of yen		Thousands of U.S. dollars
	2005	2006	2006
Service cost	¥1,185	**¥1,255**	**$10,796**
Interest cost on projected benefit obligation	36	**44**	**379**
Expected return on plan assets	(1)	**(7)**	**(60)**
Amortization of actuarial differences	30	**29**	**249**
Amortization of prior service costs	114	**114**	**981**
Loss on change of retirement benefit plan	80	**–**	**–**
Loss on change of accounting method of retirement benefits from a simplified method to a standard method	144	**–**	**–**
Retirement benefit expenses	¥1,588	**¥1,435**	**$12,345**

Note 1 Retirement benefits expenses of consolidated subsidiaries which use simplified method are included in service cost.

Note 2 Premiums on the contributory funded retirement plan of ¥617 million and ¥695 million ($5,979 thousand) expensed for the year ended March 20, 2005 and 2006, respectively, are also included in service cost.

Assumptions used were as follows:

	2005	2006
Discount rate	2.00%	2.00%
Expected rate of return on plan assets	2.00%	2.00%
Allocation method of the retirement benefits expected to be paid at retirement dates	Straight-line method based on years of service	
Amortization period for actuarial gains / losses	5 Years	5 Years
Amortization period for unrecognized prior service cost on change of employees' retirement plan	10 years (the Company), Time of occurance (subsidiary companies)	

9. Shareholders' equity

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

In the shareholders' meeting on June 15, 2002, the shareholders approved common stock option plans for directors, statutory auditors and employees of HORIBA. Details of these option plans as of March 20, 2006 are as follows:

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

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

In the shareholders' meeting on June 14, 2003, the shareholders approved common stock option plans for directors, statutory auditors, corporate officers and employees of HORIBA. Details of these option plans as of March 20, 2006 are as follows:

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

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

In the shareholders' meeting on June 12, 2004, the shareholders approved common stock option plans for directors, statutory auditors, corporate officers and employees of HORIBA. Details of these option plans as of March 20, 2006 are as follows:

Persons granted	Number of shares	Option price per share	Exercise period	The conditions for the exercise
2 directors, 9 corporate officers, 39 employees and 3 directors, 2 corporate officers, 12 employees, of subsidiary companies	300,000 shares	¥2,265 (Note)	July 1, 2006 to June 30, 2009	• To exercise these options, the person granted the option is principally required to be a director, a statutory auditor, a corporate officer or an employee of HORIBA. • These options are not inheritable. • Other conditions follow contracts between the Company and the person granted the option according to resolution by shareholders and the Board of Directors.

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

In the shareholders' meeting on June 18, 2005, the shareholders approved common stock option plans for directors, statutory auditors, corporate officers and employees of HORIBA. Details of these option plans as of March 20, 2006 are as follows:

Persons granted	Number of shares	Option price per share	Exercise period	The conditions for the exercise
4 directors, 9 corporate officers, 37 employees and 2 directors, 4 corporate officers, 10 employees, of subsidiary companies	300,000 shares	¥3,890 (Note)	July 1, 2007 to June 30, 2010	・To exercise these options, the person granted the option is principally required to be a director, a statutory auditor, a corporate officer or an employee of HORIBA. ・These options are not inheritable. ・Other conditions follow contracts between the Company and the person granted the option according to resolution by shareholders and the Board of Directors.

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

10. Leases

At March 20, 2005 and 2006, assets leased under non-capitalized finance leases were as follows:

Acquisition cost, accumulated depreciation and balance of assets leased.

	Millions of yen		Thosands of U.S. dollars
	2005	2006	2006
Machinery, equipment, and vehicles	¥367	**¥162**	**$1,393**
Other property, plant and equipment	870	**768**	**6,607**
Other intangibles	159	**152**	**1,308**
Less accumulated depreciation and amortization	(784)	**(607)**	**(5,222)**
Total	¥612	**¥475**	**$4,086**

The above depreciation and amortization is calculated on the straight-line method over lease terms.
If the above leases were capitalizead, interest of ¥33 million and ¥27 million ($232 thousand), and depreciation and amortization of ¥227 million and ¥236 million ($2,030 thousand) would have been recorded for the years ended March 20, 2005 and 2006, respectively. Lease payments under non-capitalized finance leases were ¥268 million and ¥267 million ($2,297 thousand) for the years ended March 20, 2005 and 2006, respectively. Obligations under finance leases at March 20, 2005 and 2006 were as follows:

	Millions of yen		Thousands of U.S. dollars
Payments remaining:	2005	2006	2006
Payments due within 1 year	¥233	**¥175**	**$1,506**
Payments due after 1 year	408	**323**	**2,778**
Total	¥641	**¥498**	**$4,284**

Payments remaining under operating leases at March 20, 2005 and 2006 were as follows:

	Millions of yen		Thousands of U.S. dollars
Payments remaining:	2005	2006	2006
Payments due within 1 year	¥174	**¥273**	**$2,349**
Payments due after 1 year	1,297	**1,520**	**13,076**
Total	¥1,471	**¥1,793**	**$15,425**

11. Contingent liabilities

The Company and certain consolidated subsidiaries are contingently liable as guarantors of loans to affiliated companies and employees in the amounts of ¥378 million and ¥331 million ($2,848 thousand) at March 20, 2005 and 2006, respectively. At March 20, 2006, the Company and certain consolidated subsidiaries have discounted notes receivable in the amount of ¥34 million ($293 thousand).

12. Derivative transactions

Outstanding derivative transactions at March 20, 2005 and 2006 were as follows:

Currency related;

	Millions of yen				Millions of yen			
	2005				2006			
	Amount	Over 1 year	Market value	Gain (loss)	Amount	Over 1 year	Market value	Gain (loss)
Forwards								
Selling								
US Dollar	¥1,103	–	¥1,118	(¥15)	**¥1,152**	**–**	**¥1,150**	**¥2**
Euro	890	124	972	(82)	**920**	**–**	**990**	**(70)**
Pound	59	–	59	–	**223**	**–**	**224**	**(1)**
Buying								
US Dollar	–	–	–	–	**33**	**–**	**33**	**–**
Euro	318	–	321	3	**95**	**–**	**96**	**1**
Total	–	–	–	(¥94)	**–**	**–**	**–**	**(¥68)**

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

	Thousands of U.S. dollars			
	2006			
	Amount	Over 1 year	Market value	Gain (loss)
Forwards				
Selling				
US Dollar	**$9,911**	**–**	**$9,894**	**$17**
Euro	**7,915**	**–**	**8,517**	**(602)**
Pound	**1,918**	**–**	**1,927**	**(9)**
Buying				
US Dollar	**284**	**–**	**284**	**–**
Euro	**817**	**–**	**826**	**9**
Total	**–**	**–**	**–**	**($585)**

13. Income taxes

The Company is subject to a number of taxes based on income, which, in the aggregate, indicate a statutory income tax rate in Japan of approximately 41.90% and 40.60% for the years ended March 20, 2005 and 2006, respectively.
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, 2005 and 2006.

	2005	2006
Statutory tax rate	41.90%	**40.60%**
Expenses like entertainment expenses not qualifying for deduction permanently	1.52	**(note)**
Non-taxable dividend income	−0.20	
Per capita inhabitant tax	0.64	
Increase/decrease in valuation allowance for deferred tax assets	3.04	
Amortization of consolidation adjustment account	1.72	
Consolidated elimination of dividend income from consolidated subsidiaries	2.09	
Differences in tax rate between foreign subsidiaries and the Company	−2.94	
Tax credits	−5.26	
Other	−4.99	
Effective tax rate	37.52%	**39.21%**

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, 2005 and 2006 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2006	2006
Deferred tax assets			
Accrued enterprise tax	¥115	**¥305**	**$2,624**
Loss on write-down of inventory	178	**163**	**1,402**
Allowance for doubtful receivables	17	**188**	**1,617**
Accrued bonuses	757	**950**	**8,173**
Loss carryforwards	2,383	**2,090**	**17,980**
Unrealized gains	709	**839**	**7,218**
Employees' retirement benefits	423	**315**	**2,710**
Retirement benefits	492	**246**	**2,116**
Depreciation	300	**337**	**2,899**
Loss on valuation of investment securities	232	**282**	**2,426**
Retirement benefits to directors and corporate auditors	468	**254**	**2,185**
Other	881	**1,135**	**9,765**
Total deferred tax assets	6,955	**7,104**	**61,115**
Valuation allowance	(2,894)	**(2,908)**	**(25,017)**
Net deferred tax assets	4,061	**4,196**	**36,098**
Deferred tax liabilities			
Allowance for doubtful receivables	(1)	**–**	**–**
Reserve for deferred gains on property, plant and equipment	(51)	**(50)**	**(430)**
Net unrealized holding gains on securities	(930)	**(1,315)**	**(11,313)**
Other	(386)	**(56)**	**(482)**
Total deferred tax liabilities	(1,368)	**(1,421)**	**(12,225)**
Net deferred tax assets	¥2,693	**¥2,775**	**$23,873**

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

	Millions of yen		Thousands of U.S. dollars
	2005	2006	2006
Current assets	¥2,012	**¥2,742**	**$23,589**
Investments and other non-current assets	704	**671**	**5,773**
Deferred tax liabilities (non-current)	(23)	**(638)**	**(5,489)**
Net deferred tax assets	¥2,693	**¥2,775**	**$23,873**

14. Segment Information

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

1) Automotive Test Systems
   Emission Measurement Systems, On-Board Emission Measurement Systems,
   In-Use Automotive Emission Analyzers, Catalyst Test and Evaluation Systems, Fuel Cell Evaluation Systems,
   Laboratory Automation Systems, Driveline Test Systems, Vehicle Performance Test Systems, Brake Test Systems,
   Transportation Management Systems, Driving Recorders
2) Analytical Instruments & Systems
   Particle-size Distribution Analyzers, X-ray Fluorescence Analyzers, Raman Spectrophotometers,
   ICP Optical Emission Spectrometers, Diffraction Gratings, Water Quality Analysis and Examination, pH Meters,
   Air Pollution Analyzers, Stack Gas Analysis Systems
3) Medical Diagnostic Instruments & Systems
   Equipment for blood sample analysis (Hematology Analyzers, Equipment for measuring immunological responses,
   clinical 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 in the above-mentioned industry segments for the years ended March 20, 2005 and 2006 and foreign operations and sales to foreign customers of HORIBA for the years ended March 20, 2005 and 2006, is as follows:

(a) Operations in different industries

	Millions of yen					
	2005					
	Automotive	Analytical	Medical Diagnostic	Semiconductor	Unallocated	Consolidated
Sales to outside customers	¥27,022	¥28,510	¥18,777	¥18,183	–	¥92,492
Operating expenses	22,317	27,648	17,631	15,523	–	83,119
Operating income	¥4,705	¥862	¥1,146	¥2,660	–	¥9,373
Assets	¥22,588	¥24,110	¥15,741	¥15,746	¥21,728	¥99,913
Depreciation and amortization	¥574	¥686	¥1,254	¥430	–	¥2,944
Capital expenditures	¥937	¥1,128	¥1,386	¥505	–	¥3,956

	Millions of yen					
	2006					
	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**

	Thousands of U.S. dollars					
	2006					
	Automotive	Analytical	Medical Diagnostic	Semiconductor	Unallocated	Consolidated
Sales to outside customers	**$296,335**	**$281,073**	**$176,428**	**$155,188**	**–**	**$909,024**
Operating expenses	**240,339**	**269,700**	**168,229**	**133,758**	**–**	**812,026**
Operating income	**$55,996**	**$11,373**	**$8,199**	**$21,430**	**–**	**$96,998**
Assets	**$287,448**	**$245,690**	**$141,423**	**$159,265**	**$198,314**	**$1,032,140**
Depreciation and amortization	**$6,418**	**$6,248**	**$9,953**	**$4,680**	**–**	**$27,297**
Capital expenditures	**$10,100**	**$12,491**	**$9,240**	**$16,896**	**–**	**$48,727**

Note 1: Unallocated assets of ¥21,728 million and ¥23,052 million ($198,314 thousand) at March 20, 2005 and 2006, respectively, mainly include cash and cash equivalents and marketable and investment securities.

Note 2: As shown in "summary of significant accounting policies", the accounting method for retirement benefits for directors and corporate auditors was changed in the year ended March 20, 2005. As a result, for the year ended March 20, 2005, operating expenses increased ¥20 million in automotive test systems, ¥25 million in analytical instruments & systems, ¥4 million in medical/diagnostic instruments & systems and ¥33 million in semiconductor instruments & systems. Operating income decreased by the same amounts accordingly.

(b) Foreign operations

	Millions of yen					
	2005					
	Japan	America	Europe	Asia	Elimination and/or unallocated	Consolidated
Sales to outside customers	¥45,288	¥9,965	¥35,529	¥1,710	–	¥92,492
Interarea	9,889	261	2,103	627	(¥12,880)	–
Total sales	55,177	10,226	37,632	2,337	(12,880)	92,492
Operating expenses	47,813	10,099	36,199	2,090	(13,082)	83,119
Operating income	¥7,364	¥127	¥1,433	¥247	¥202	¥9,373
Assets	¥45,824	¥5,710	¥25,567	¥1,084	¥21,728	¥99,913

	Millions of yen					
	2006					
	Japan	America	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**

	Thousands of U.S. dollars					
	2006					
	Japan	America	Europe	Asia	Elimination and/or unallocated	Consolidated
Sales to outside customers	**$434,471**	**$115,244**	**$341,406**	**$17,903**	**–**	**$909,024**
Interarea	**95,836**	**4,173**	**24,828**	**8,852**	**($133,689)**	**–**
Total sales	**530,307**	**119,417**	**366,234**	**26,755**	**(133,689)**	**909,024**
Operating expenses	**453,535**	**112,896**	**355,076**	**23,821**	**(133,302)**	**812,026**
Operating income	**$76,772**	**$6,521**	**$11,158**	**$2,934**	**($387)**	**$96,998**
Assets	**$450,542**	**$81,383**	**$287,612**	**$14,289**	**$198,314**	**$1,032,140**

Note 1 Unallocated assets of ¥21,728 million, and ¥23,052 million ($198,314 thousand) at March 20, 2005 and 2006, respectively, mainly include cash and cash equivalents and marketable and investment securities.

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

Note 3 As shown in "summary of significant accounting policies", the accounting method for retirement benefits for directors and corporate auditors was changed in the year ended March 20, 2005. As a result, for the year ended March 20, 2005, in the Japan segment operating expenses increased ¥82 million and operating income decreased by the same amount accordingly.

(c) Sales to foreign customers

	Millions of yen			
	2005			
	America	Europe	Asia	Total
Sales to outside customers	¥17,705	¥24,926	¥10,972	¥53,603

	Millions of yen			
	2006			
	America	Europe	Asia	Total
Sales to outside customers	**¥22,555**	**¥27,062**	**¥13,002**	**¥62,619**

	Thousands of U.S. dollars			
	2006			
	America	Europe	Asia	Total
Sales to outside customers	**$194,038**	**$232,811**	**$111,855**	**$538,704**

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

15. Subsequent events

At the June 17, 2006 annual meeting, the Company's shareholders approved:

(1) The payment of cash dividends of ¥22 ($0.19) per share aggregating ¥926 million ($7,966 thousand) to shareholders of record at March 20, 2006.

(2) The payment of bonuses to directors and corporate auditors totaling ¥208 million ($1,789 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, 2005 and 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, 2005 and 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 the following:
(1) As explained in Note 2 (k), in the year ended March 20, 2005, the Company and certain domestic subsidiaries changed their method of accounting for retirement benefits for directors and corporate auditors.
(2) As explained in Note 2 (l), in the year ended March 20, 2005, the Company and domestic subsidiaries adopted the new Japanese accounting standard for impairment of fixed assets.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 20, 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
June 19, 2006

Consolidated Balance Sheets

HORIBA, Ltd. and Consolidated Subsidiaries

ASSETS	1997	1998
Current Assets:		
Cash and cash equivalents	¥15,750	¥10,681
Trade notes and accounts receivable	20,799	26,717
Allowance for doubtful receivables	(316)	(686)
Marketable securities	3,084	3,085
Inventories	16,985	22,175
Deferred tax assets	-	-
Other current assets	2,775	4,178
Total current assets	59,077	66,150
Property, Plant and Equipment:		
Land	6,475	6,472
Buildings and structures	7,478	10,879
Machinery, equipment, and vehicles	2,933	4,340
Construction in progress	1,772	719
Other property, plant and equipment	5,811	6,667
Total	24,469	29,077
Accumulated depreciation	(10,325)	(12,527)
Net property, plant and equipment	14,144	16,550
Investments and Other Non-current Assets:		
Investment securities	1,510	1,469
Investments in non-consolidated subsidiaries and affiliates	53	50
Deferred tax assets	-	-
Allowance for doubtful accounts	(1)	(1)
Other investments and other assets	1,977	1,746
Total	3,539	3,264
Intangibles:		
Goodwill	28	22
Consolidation difference	337	2,292
Other intangibles	59	67
Total	424	2,381
Foreign Currency Translation Adjustments	630	-
Total Assets	¥77,814	¥88,345

LIABILITIES, MINORITY INTERESTS AND SHAREHOLDERS' EQUITY	1997	1998
Current Liabilities:		
Short-term loans payable	¥5,222	¥5,715
Current portion of long-term debt	146	6,884
Trade notes and accounts payable:		
Affiliated companies	38	46
Other	7,352	11,253
Accounts payable-other	3,662	2,965
Accrued income taxes	1,146	1,763
Accrued enterprise tax	328	489
Accrued bonuses to employees	-	-
Reserve for product warranty	467	746
Other current liabilities	2,104	3,815
Total current liabilities	20,465	33,696
Long-term Debt	16,543	11,574
Employees' Retirement Benefits	1,791	1,773
Directors' and Corporate Auditors' Retirement Benefits	-	-
Deferred Tax Liabilities	-	-
Other Non-current Liabilities	96	637
Total liabilities	38,895	47,680
Foreign Currency Translation Adjustments	-	66
Minority Interests in Consolidated Subsidiaries	1,882	2,240
Shareholders' Equity:		
Common stock	6,569	6,570
Authorized - 100,000,000 shares		
Issued and outstanding - 36,797,578 shares (excluding treasury stock) in 2005		
Issued and outstanding - 42,100,053 shares (excluding treasury stock) in 2006		
Capital surplus	10,867	10,867
Retained earnings	19,631	20,963
Net unrealized holding gains on securities	-	-
Foreign currency translation adjustments	-	-
Treasury stock	(30)	(41)
(147,369 shares in 2005 and 44,699 shares in 2006)		
Total shareholders' equity	37,037	38,359
Total Liabilities, Minority Interests, and Shareholders' Equity	¥77,814	¥88,345

Millions of yen

1999	2000	2001	2002	2003	2004	2005	2006
¥16,388	¥15,264	¥17,443	¥16,625	¥22,061	¥13,603	¥16,108	**¥14,884**
24,427	27,387	31,960	29,622	29,594	29,143	30,595	**37,408**
(941)	(513)	(617)	(397)	(463)	(521)	(512)	**(880)**
1,538	3,049	2,688	–	–	–	–	**–**
18,829	16,207	19,503	19,169	18,336	19,402	22,012	**27,273**
–	896	2,035	1,413	2,000	2,178	2,012	**2,742**
3,695	2,503	2,340	2,109	2,292	1,922	2,290	**4,333**
63,936	64,793	75,352	68,541	73,820	65,727	72,505	**85,760**
7,477	7,431	7,534	7,756	7,510	7,476	6,564	**6,618**
12,065	11,784	13,565	14,570	14,762	15,369	16,097	**17,343**
5,785	5,786	6,246	7,024	7,080	7,731	8,770	**10,183**
740	50	68	192	827	158	81	**87**
6,791	7,244	7,574	7,974	8,152	8,604	8,907	**10,159**
32,858	32,295	34,987	37,516	38,331	39,338	40,419	**44,390**
(13,767)	(14,573)	(16,446)	(18,237)	(19,331)	(20,497)	(21,938)	**(24,167)**
19,091	17,722	18,541	19,279	19,000	18,841	18,481	**20,223**
1,165	1,732	1,861	6,021	3,721	3,938	4,206	**5,277**
51	128	141	187	189	94	91	**120**
–	338	1,399	1,175	968	651	704	**671**
(1)	–	(81)	(113)	(121)	(140)	(119)	**(82)**
2,185	1,772	1,655	1,843	1,577	1,366	1,356	**2,545**
3,400	3,970	4,975	9,113	6,334	5,909	6,238	**8,531**
–	–	–	704	351	84	79	**39**
1,894	1,196	644	470	301	1,207	1,315	**2,365**
1,186	1,323	1,494	659	736	889	1,295	**3,058**
3,080	2,519	2,138	1,833	1,388	2,180	2,689	**5,462**
869	–	–	–	–	–	–	**–**
¥90,376	¥89,004	¥101,006	¥98,766	¥100,542	¥92,657	¥99,913	**¥119,976**
¥8,793	¥6,021	¥7,465	¥7,942	¥6,715	¥6,352	¥5,468	**¥6,747**
262	218	567	906	9,684	641	4,131	**452**
38	55	79	43	51	58	26	**45**
7,562	10,073	12,081	7,887	9,147	8,700	11,264	**13,017**
3,658	2,891	3,712	4,547	4,533	5,651	5,476	**8,914**
519	1,193	2,919	619	2,079	2,053	1,463	**3,121**
298	–	–	–	–	–	–	**–**
–	–	–	1,067	2,013	2,095	2,356	**2,900**
629	580	737	795	938	886	820	**1,025**
4,217	4,253	3,773	2,264	2,803	2,935	3,795	**8,157**
25,976	25,284	31,333	26,070	37,961	29,371	34,799	**44,378**
19,999	20,572	22,513	26,140	16,819	14,466	6,443	**6,467**
1,638	1,631	2,421	2,389	2,235	1,109	1,348	**1,462**
–	–	–	–	–	–	1,144	**618**
–	–	30	20	22	21	23	**638**
1,997	1,743	1,827	1,169	801	2,002	1,348	**607**
49,610	49,230	58,124	55,788	57,838	46,969	45,105	**54,370**
–	–	–	–	–	–	–	**–**
2,371	2,560	3,086	2,915	2,560	2,340	2,545	**180**
6,578	6,578	6,578	6,578	6,578	7,160	9,641	**11,570**
10,875	10,875	10,875	10,875	10,875	11,457	13,933	**18,276**
21,205	21,989	23,924	22,480	22,937	24,341	27,422	**32,904**
–	–	–	608	406	1,100	1,401	**1,920**
–	(1,987)	(1,438)	(236)	(402)	(433)	21	**850**
(263)	(241)	(143)	(242)	(250)	(277)	(155)	**(74)**
38,395	37,214	39,796	40,063	40,144	43,348	52,263	**65,446**
¥90,376	¥89,004	¥101,006	¥98,766	¥100,542	¥92,657	¥99,913	**¥119,976**

Consolidated Statements of Income

HORIBA, Ltd. and Consolidated Subsidiaries

	1997	1998
Net Sales	¥50,315	¥62,426
Operating Costs and Expenses:		
Cost of sales	33,927	38,695
Selling, general and administrative	12,771	18,829
Total operating costs and expenses	46,698	57,524
Operating Income	3,617	4,902
Other Income (Expenses):		
Interest and dividend income	220	281
Interest expense	(485)	(838)
Foreign exchange gains (losses), net	213	300
Commission	(284)	(1)
Gain on discharge of indebtedness	712	–
Amortization of goodwill	–	–
Reversal of reserve for product warranty	–	–
Casualty insurance premium income	–	–
Gain on transfer of WDM business	–	–
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
Loss on disposal of property, plant and equipment	–	–
Loss on sale of property, plant and equipment	–	–
Loss on impairment of fixed assets	–	–
Retirement benefits to directors	(64)	(185)
Loss on disposal of inventories	–	(169)
Loss on valuation of investment securities	(74)	(50)
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	–	–
Effect of change of accounting for pension plan	–	–
Loss on write-down of inventories	–	–
Loss on valuation of property, plant and equiptment	–	–
Other, net	29	(47)
Total other expenses, net	267	(500)
Income before Income Taxes	3,884	4,402
Income Taxes:		
Current	1,941	2,808
Deferred	(46)	(397)
Total income taxes	1,895	2,411
Minority Interest in Earnings of Consolidated Subsidiaries	396	379
Net Income (Loss)	¥1,593	¥1,612

	1997	1998
Per Share Information:		
Net income (loss) – basic	¥51.03	¥51.63
Net income – diluted	44.95	40.80
Cash dividends	7.00	10.50

Millions of yen

1999	2000	2001	2002	2003	2004	2005	2006
¥67,597	¥71,030	¥77,873	¥74,468	¥78,501	¥85,073	¥92,492	**¥105,665**
41,191	44,353	50,185	47,970	47,675	50,418	53,855	**60,740**
24,113	22,860	22,938	23,951	25,352	27,805	29,264	**33,650**
65,304	67,213	73,123	71,921	73,027	78,223	83,119	**94,390**
2,293	3,817	4,750	2,547	5,474	6,850	9,373	**11,275**
351	210	208	143	122	85	104	**121**
(815)	(713)	(838)	(890)	(685)	(449)	(373)	**(333)**
(184)	(237)	390	145	(879)	(236)	(41)	**144**
–	–	–	–	–	–	–	**–**
–	–	–	–	–	–	–	**–**
–	–	–	(294)	(292)	(301)	(86)	**–**
–	–	–	138	–	–	–	**–**
–	–	228	–	–	–	–	**–**
–	–	1,302	–	–	–	–	**–**
–	–	–	–	–	–	–	**395**
–	–	–	–	–	–	–	**96**
–	–	–	–	–	–	–	**177**
11	155	10	–	–	121	39	**47**
–	(229)	(36)	(102)	(91)	(57)	(46)	**(116)**
–	–	(315)	(21)	(203)	(26)	(1,123)	**(17)**
–	–	–	–	–	–	(54)	**–**
(123)	(48)	(39)	(256)	(133)	–	–	**(750)**
–	(177)	(261)	(209)	(24)	(68)	(170)	**(68)**
(124)	(39)	(84)	(717)	(320)	(136)	(35)	**(13)**
–	–	–	–	132	–	–	**–**
–	–	–	–	–	(442)	(80)	**–**
–	–	–	–	–	–	(144)	**–**
–	–	–	–	–	–	(1,151)	**–**
–	(172)	(66)	–	–	–	–	**–**
–	(115)	–	–	–	–	–	**–**
–	–	–	–	(44)	(345)	(76)	**(41)**
–	–	–	–	–	(134)	–	**–**
496	417	(200)	(20)	62	(82)	(32)	**(169)**
(388)	(948)	299	(2,083)	(2,355)	(2,070)	(3,268)	**(527)**
1,905	2,869	5,049	464	3,119	4,780	6,105	**10,748**
802	1,302	4,184	1,037	2,393	2,937	2,353	**4,424**
243	112	(1,151)	471	(232)	(363)	(63)	**(210)**
1,045	1,414	3,033	1,508	2,161	2,574	2,290	**4,214**
283	355	573	27	172	132	291	**61**
¥577	¥1,100	¥1,443	(¥1,071)	¥786	¥2,074	¥3,524	**¥6,473**

Yen

1999	2000	2001	2002	2003	2004	2005	2006
¥18.56	¥35.39	¥46.43	(¥34.47)	¥22.21	¥62.90	¥98.33	**¥154.27**
15.38	29.72	38.75	–	18.31	50.10	83.81	**146.97**
11.00	6.00	8.50	8.50	14.50	10.00	16.00	**28.00**

Consolidated Statements of Cash Flows

HORIBA, Ltd. and Consolidated Subsidiaries

						Millions of yen
	2001	2002	2003	2004	2005	2006
Cash Flows from Operating Activities:						
Income before income taxes	¥5,049	¥464	¥3,119	¥4,780	¥8,105	**¥10,748**
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**
Loss on impairment of fixed assets	–	–	–	–	54	**–**
Loss on valuation of investment securities	84	717	320	136	35	**13**
Gain on sales of investment securities	–	–	–	–	–	**(395)**
Loss on disposal of inventories	261	209	24	–	–	**–**
Loss on disposal of property, plant and equipment	–	102	91	57	46	**116**
Gain on change in subsidiary's retirement benefits plan	–	–	(132)	–	–	**–**
Gain on sale of property, plant and equipment	(10)	–	–	(121)	(39)	**(47)**
Loss on valuation of property, plant and equipment	–	–	–	134	–	**–**
Increase (decrease) in allowance for doubtful receivables	152	(222)	54	11	(24)	**220**
Increase in directors' and corporate auditors' retirement benefits	–	–	–	–	1,144	**75**
Increase (decrease) in employees' retirement benefits	782	(32)	(36)	(1,138)	231	**82**
Interest and dividend income	(208)	(143)	(122)	(85)	(104)	**(121)**
Interest expense	838	890	685	449	373	**333**
Foreign exchange losses (gains)	(44)	(25)	5	(12)	23	**16**
Loss on sale of property, plant and equipment	315	21	203	26	1,123	**17**
Gain on transfer of WDM business	(1,302)	–	–	–	–	**–**
Casualty insurance premium income	(228)	–	–	–	–	**–**
Retirement benefits to directors	39	256	133	–	–	**770**
Decrease (increase) in trade notes and accounts receivable	(3,384)	3,631	397	689	(895)	**(4,693)**
Decrease (increase) in inventories	(3,099)	1,204	813	(881)	(2,281)	**(674)**
Increase (decrease) in trade notes and accounts payable	1,349	(4,951)	1,216	(358)	2,163	**313**
Bonuses to directors and corporate auditors	(68)	(109)	(66)	(98)	(103)	**(176)**
Other, net	650	(779)	863	2,615	(306)	**3,447**
Subtotal	4,452	4,614	10,482	9,241	10,489	**13,217**
Interest and dividends received	209	164	124	85	100	**116**
Interest paid	(837)	(836)	(685)	(519)	(385)	**(324)**
Casualty insurance premium received	228	–	–	–	–	**–**
Payment of retirement benefits to directors	(39)	(256)	(81)	(30)	(27)	**(1,341)**
Income taxes paid	(2,547)	(3,376)	(879)	(2,987)	(2,961)	**(2,995)**
Net cash provided by operating activities	1,466	310	8,961	5,790	7,216	**8,673**
Cash Flows from Investing Activities:						
Decrease (increase) in time deposits with maturities longer than three months	(262)	(9)	241	2	(17)	**(1,594)**
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)**
Proceeds from sales or redemption of investment securities	18	53	1,933	451	555	**508**
Payments for purchase of investments in a consolidated subsidiary	–	–	(453)	(169)	(19)	**–**
Payments for purchase of investments in newly consolidated subsidiaries	–	–	–	(273)	(119)	**(3,270)**
Payments for sales 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)**
Proceeds from sale of property, plant and equipment	230	120	365	261	230	**134**
Increase in intangibles	–	(420)	(305)	(419)	(730)	**(1,766)**
Proceeds from sale of WDM business	1,290	–	–	–	–	**–**
Other, net	(762)	(1)	(142)	415	(111)	**(33)**
Net cash used in investing activities	(1,937)	(4,124)	(1,337)	(2,766)	(3,629)	**(10,362)**
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**
Increase in long-term debt	2,481	300	446	248	1,049	**685**
Repayment of long-term debt	(786)	(1,058)	(1,006)	(1,618)	(721)	**(284)**
Payments for purchase of treasury stock	(8)	(118)	(8)	(27)	(89)	**(119)**
Proceeds from sales of treasury stock	–	24	–	–	207	**185**
Cash dividends paid	(217)	(263)	(264)	(450)	(328)	**(723)**
Cash dividends paid to minority interests	(74)	(183)	(19)	(40)	(72)	**(31)**
Payment of funds for redemption of convertible bonds	–	–	–	–	–	**(787)**
Other, net	(62)	(179)	(115)	(121)	(71)	**(50)**
Net cash provided by (used in) financing activities	2,488	2,723	(2,355)	(11,597)	(1,059)	**129**
Cash and Cash Equivalents Foreign Currency Translation Adjustments	129	273	167	115	105	**338**
Net Increase (Decrease) in Cash and Cash Equivalents	2,146	(818)	5,436	(8,458)	2,633	**(1,224)**
Cash and Cash Equivalents at Beginning of Year	15,264	17,443	16,625	22,061	13,603	**16,108**
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**

Corporate Philosophy

HORIBA's company precept "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 majority 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 Group, apply of 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, improve the quality the development and benefit human health. Group companies 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 ordinary business activities. In addition, all 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 an 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. Group companies are obliged to attain 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 the Company's activities. This slogan encompasses not only production lead times but also development, marketing and sales, service, and control functions.

Responsibility to the 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 potentially interested parties. A timely responsive management control system will be established by group companies to ensure that company objectives are met, profit generated and the information disclosed the truthful representation of the performance of the Company as well as its management.

Employees

We are proud of the entrepreneurial spirit that led to the creation of the HORIBA Group. 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 Group employees to achieve their individual goals and maximize their potential. To further employees' personal and professional growth, we encourage employees to think from a global perspective and establish a global personnel development program and performance evaluation system. We value employees who challenge their personal abilities and recognize their 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 regulation 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, Minamiku, Kyoto 601-8306, Japan
Phone +81-(0)75-321-7184／+81-(0)75-321-7291
Main Businesses HORIBA Advanced Techno is a manufacturer specializing in water quality analysis and environment-related 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 \100,000,000
Address Building No. 1, No. 1211 Ye Cheng Road, Jia Ding 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, 192Yakdae-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. (Korea)

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 280 New Road, Kwaeng Sampanthawong, Khet Sampanthawong, Bangkok, Thailand
Phone +66-2-223-18-07／FAX +66-2-223-18-51
Main Businesses Sales and services of hematology analyzers

HORIBA Trading (Shanghai) Co., Ltd.

Capital US$200,000
Address Room 1103, 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 measuring devices

HORIBA Automotive Test Systems Ltd. (Korea)

Capital W1,350,000,000
Address 604-1, Yoksam-Dong, Kangnam-Ku, Seoul, Korea
Phone +82-25-62-7296／FAX +82-25-62-7630
Main Businesses Sales and maintenance service of automotive test systems such as engine 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, especially gets the No. 1 market share for difraction gratings and spectrometers. It holds HORIBA Jobin Yvon joined the HORIBA Group 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, joined the HORIBA Group 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 Manufacture and sales of measuring devices

HORIBA Europe GmbH

Capital EUR8,802,000
Address Hans-Mess-Str. 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 +44-1604-542500／FAX +44-1604-542699
Main Businesses Manufacture/assembling and sales of measuring devices

HORIBA Europe Automation Division GmbH

Capital EUR127,822.97
Address Zabergaeustr. 3, D-73765 Neuhausen, Germany
Phone +49-7158-933-300／FAX +49-7158-933-399
Main Businesses Manufacture and sales of measuring devices

HORIBA Automotive Test Systems GmbH

Capital EUR5,000,000
Address Landwehrstrasse 55, D-64293, Darmstadht, 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 aims at being a total solution provider by utilizing its complementary relationship between HORIBA, Ltd. and Schenck-DTS, which was purchased 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 BRL15,000,000
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, manufacture and sales of automotive test systems such as engine test systems

HORIBA ABX Inc.

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

HORIBA Instruments Incorporated

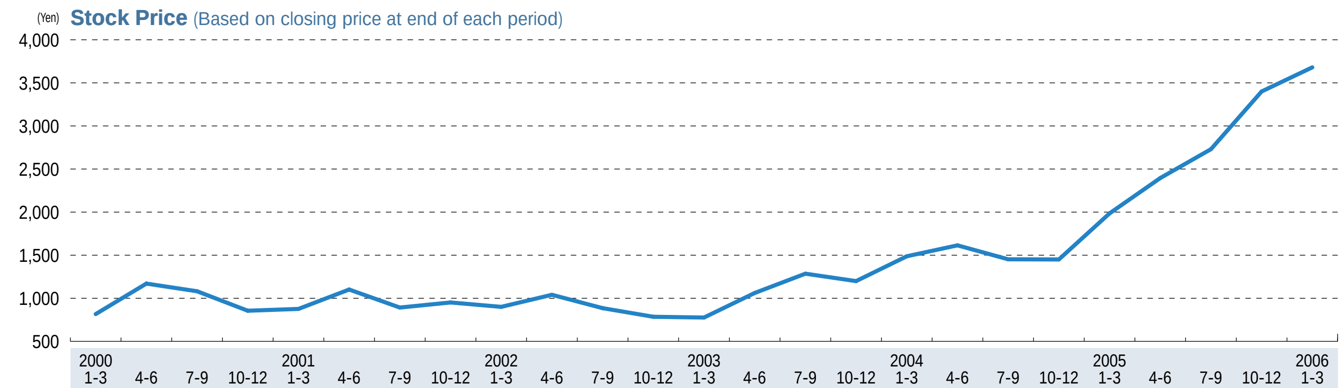
Capital US$7,500,000
Address 17671 Armstrong Avenue, Irvine, CA 92614, U.S.A.
Phone +1-949-250-4811／FAX +1-949-250-0924
Main Businesses Manufacture and sales of measuring devices

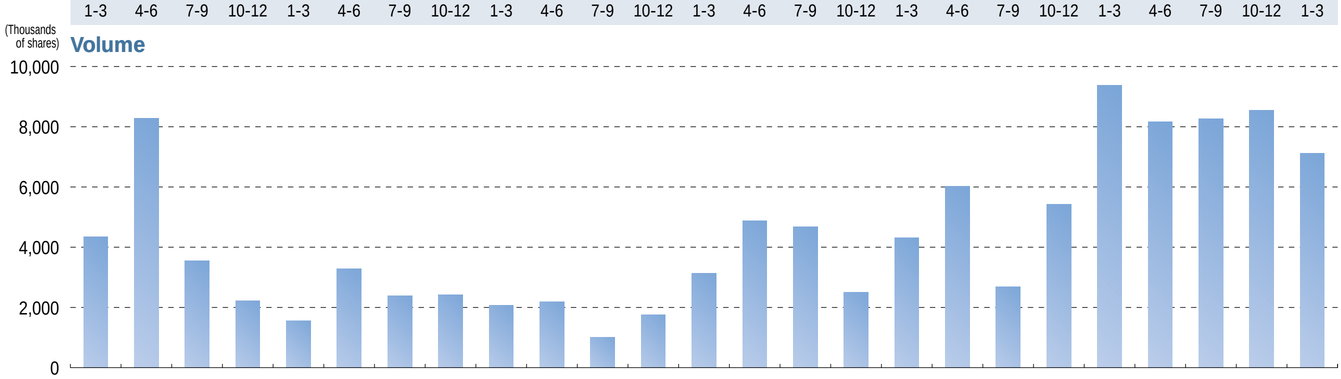
HORIBA Automotive Test Systems, Corp.

Capital US$5,200,000.00
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, manufacture and sales of automotive test systems such as engine test Development, manufacture systems

Stock Information

Stock Price Index





Stock Price and Volume

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

Convertible Bonds

Convertible Bonds	**None** As of March 20, 2006

Notes 1: Acquired an A- rating to deventure (Amount ¥5,000million, Maturity Date: August 20, 2008) from R&I (Rating and Investment Information, Inc.)
2: Acquired an A- rating to senior debt from JCR (Japan Credit Rating Agency, Ltd.)

Corporate Data

Board of Directors

As of June 18, 2006

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 Law Office of Chiyoda Kokusai, Attorney at Law
Auditor (Outside)	Keisuke Ishida	Chairman of the Board, CEO, Shashin Kagaku Co., Ltd.

Corporate Information

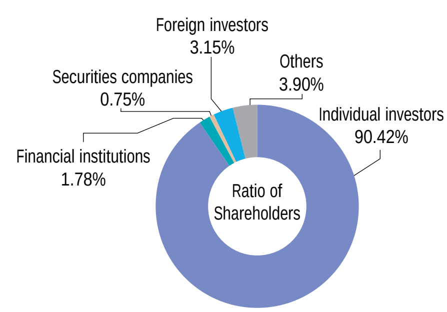
As of March 20, 2006

Head Office	2, Miyanohigashi-cho, Kisshoin, Minami-ku, Kyoto 601-8510, Japan
Founded	October 17, 1945
Incorporated	January 26, 1953
Paid-in Capital	11,569,516,480 yen
Number of Employees	4,461 (Consolidated)
Fiscal Closing Date	March 20, annually * Closing date will change to the end of December from Year 2006
Annual Meeting of Shareholders	Held in June * Move to March following change in fiscal year-end
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 March 20, 2006

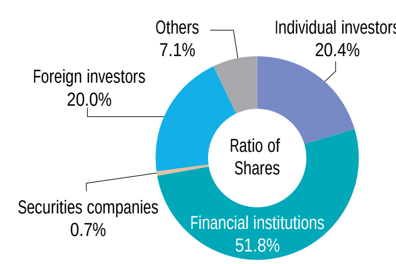
Name of Shareholders	Shares (Thousands)	Percentage (%)
The Master Trust Bank of Japan, Ltd.	5,889	13.97
Japan Trustee Service Bank, Ltd.	5,391	12.79
Bear Stearns & Co. Inc.	2,778	6.59
Masao Horiba	1,700	4.03
Mitsui Asset Trust and Banking Company, Limited	1,102	2.61
Sony Life Insurance Co., Ltd.	1,056	2.50
Mizuho Corporate Bank, Ltd.	836	1.98
The Bank of Kyoto, Ltd.	828	1.96
HORIBA Employee Stock Ownership Association	786	1.86
Kyoto Chuo Shinkin Bank	645	1.53



Number of Shareholders: 4,156

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
42,144,752

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

R100 Printed on recycled paper.

PRINTED WITH SOY INK™ Trademark of American Soybean Association

Printed in Japan
HRE-0015-TZR-Y (GS) 33