

ANNUAL REPORT Fiscal 2008

**HORIBA**

Explore the future



J O Y  
a n d  
F U N

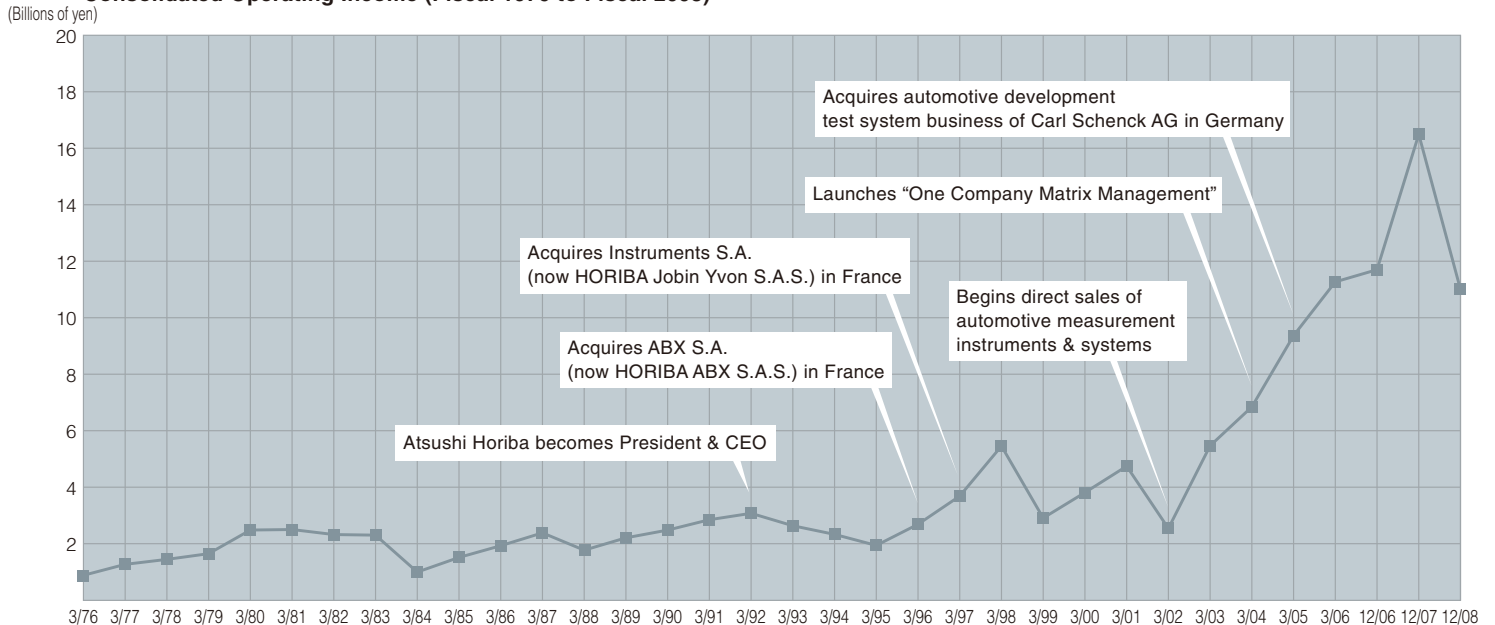


### The HORIBA Motto: "Joy and Fun"

"Joy and Fun" represents our desire to see all employees performing work that is rewarding and allows them to lead happy and fulfilling lives. We want our people to put "Joy" into their work through their own efforts by making the most of the time they spend in the workplace. To that end, the company provides places where employees can work with a sense of "Joy and Fun." Furthermore, if employees do work with a sense of "Joy and Fun," their ability to generate ideas increases, their imagination expands, their efficiency also rises, and corporate value increases. This results in a "win-win" relationship for customers, shareholders, suppliers, and the society.

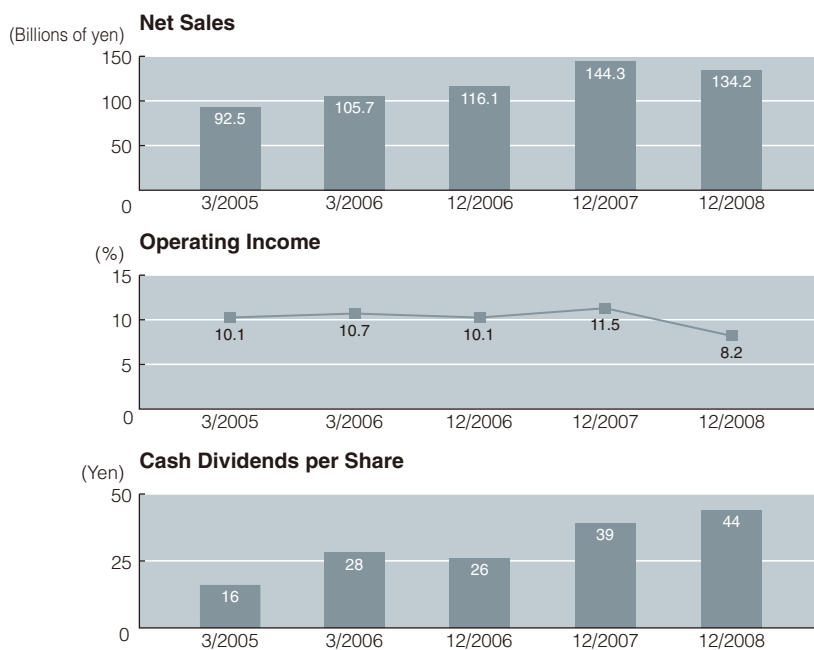
The cover of this annual report is filled with faces of 1,650 employees of the HORIBA Group. It reflects our firm belief that HORIBA's corporate value is an aggregate of values of each individual employee.

### Consolidated Operating Income (Fiscal 1976 to Fiscal 2008)



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Note: For 11-year summary, please refer to pages 35-38.

## [Fiscal 2008 Earnings Results]

For fiscal 2008 HORIBA reported lower sales and profits for the first time in seven years. Automotive Test Systems segment sales of emission measurement systems were favorable, thanks to increased investment by the automobile industry to develop new engines for enhanced fuel economy. The euro's appreciation against the U.S. dollar in the first half of 2008 reduced profitability in the automotive development test systems (DTS) business and the Medical-Diagnostic Instruments & Systems segment. The Semiconductor Instruments & Systems segment recorded a large decline in profit following the sharp fall of capital investment in the semiconductor industry. In general, the deteriorating economy led to a slowdown in private-sector capital investment. New product launch delays in the Analytical Instruments & Systems segment resulted in lower sales and profits. As operating income and ordinary income declined, we also recorded a decline in net income despite recoding an extraordinary gain from reversing a provision for possible litigation losses. Despite the operating income decline, we raised the annual dividend to ¥44 per share, due to increased dividends from the group companies. HORIBA reported an increase in net income on a non-consolidated basis.

### Change of Fiscal Year-End

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

### Disclaimer Regarding Future Plans and Forecasts

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



# HORIBA Group



## is One Company

HORIBA uses matrix management by business segment and by region. Every employee has a sense of ownership, is united within a common corporate culture expressed by principles such as the HORIBA motto "Joy and Fun," and "multiplies" and shares their strengths in order to increase corporate value.

# To Our Stakeholders

## HORIBA Reports Lower Sales and Profits in Fiscal 2008, First Time in Seven Years

For the fiscal year ended December 31, 2008 (fiscal 2008), HORIBA posted lower sales and profits for the first time in seven years. Consolidated net sales totaled ¥134.2 billion, operating income ¥10.9 billion, and net income ¥6.0 billion. The Automotive Test Systems segment reported higher profit resulting from increased investment by the automobile industry in the development of new engines for enhanced fuel economy.

However, the Semiconductor Instruments & Systems segment recorded a large decline in profit as a result of a sharp drop in capital investment in the semiconductor industry. In the second half of 2008, the world economy rapidly deteriorated, and sales in the Automotive Test Systems segment entered a slowdown. Since the start of the fiscal year, beginning January 1, 2009, conditions have remained very challenging.

## “What We Will Change,” “What We Will Not Change”

Since its founding in 1945, HORIBA has faced several major economic crises. Just since 1992 when I became President, HORIBA recorded a decline in profits during the Asian currency crisis in 1997 and the bursting of the IT bubble in 2001–2002. While overcoming such setbacks, we feel it is important to clarify “what we will change” and “what we will not change.” In the past, we proactively managed to change the management balance (business fields and regional expansion), globalize, and reduce the distance to our customers (change to direct sales). As a result, we simultaneously realized medium-term growth and business stability.

On the other hand, what we are determined not to change is our continued investment in “Invisible Values” (assets that do not appear in the financial statements), such as human resources and technology. While cycles of recession and economic boom repeat, our continued investment has, without fail, been the driving force behind substantial growth in subsequent recovery phases. On this occasion our earnings are under pressure, but we are relying upon our accumulated experience as we continue to invest in human resources and technology while cutting costs. In this way, we are preparing for our future growth.

### What we have changed

- Management balance (business segments and regional expansion)
- Globalization (business and human resources)
- Distance from customers (promotion of direct sales)
- Size of the company (sales, profits and number of employees)

### What we will never change

- Company motto: “Joy and Fun”
- Corporate culture: “Open and Fair” and “a Venture Spirit”
- Continuing human resource development
- Continuing R&D investment

## Realizing "One Company" Management

The theme of the Mid-Long Term Management Plan, which we announced in March 2006, is to "realize One Company management and aim to be a first-class, global company." In fiscal 2007, three years ahead of plan, we achieved the plan's fiscal 2010 (final year) operating income target of ¥15.5 billion, and were very close to the net sales target of ¥150.0 billion. Therefore, we mentioned in last year's annual report that we were embarking on the formulation of a new Mid-Long Term Management Plan targeting the year 2013. However, the external economic environment changed dramatically in the second half of 2008, and the earnings outlook from fiscal 2009 and beyond became extremely uncertain. Under these circumstances, we decided to achieve, as soon as possible, net sales of ¥150.0 billion, an operating income ratio of 10.0% or more, and ROE (return on equity) of at least 11.0%, the numerical targets in the current Mid-Long Term Management Plan and our original plan.

A negative impact on our earnings by the deteriorating global economic conditions has been unavoidable. Nevertheless, we are steadily making progress toward building a platform for ¥200 billion in sales, building a well-balanced business portfolio, and building our "Invisible Values," the core elements in the Mid-Long Term Management Plan. HORIBA has on-going measures that include M&A and other corporate alliances, new factories and sales bases in emerging countries, direct sales in our marketing activities, and integration of regional operations (Sharing business infrastructure in "One Company Matrix Management"). These are all bearing fruit. In these challenging economic times, I believe we need to sow seeds that will bear fruit in ten years. To this end, we will make further endeavors to promote our management and businesses.

### Mid-Long Term Management Plan (2006–2010)

#### Achieving "One Company" Management and Becoming a First-Class, Global Company

Numerical targets for fiscal 2010	Net sales	¥150.0 billion (¥134.2 billion and ¥144.3 billion in fiscal 2008 and 2007)
	Operating income ratio	10.0% or more (8.2% and 11.5% in fiscal 2008 and 2007)
	ROE (Return on equity)	11.0% or more (7.7% and 11.4% in fiscal 2008 and 2007)

#### Core Elements of Mid-Long Term Management Plan

- Building a platform for ¥200 billion in sales
- Building a well-balanced business portfolio
- Increasing our "Invisible Values"

#### Current Initiatives

- ◆ Reorganizing group companies in the Americas and Europe / building development bases for semiconductor-related products in the U.S.
- ◆ Improving the sales balance in each region (hedging foreign exchange risk)
- ◆ Blackjack Project, HORIBA COLLEGE, training center

## Changes in World Values and Paradigms Represent Great Business Opportunities in Environmental and Medical Fields

We believe that if HORIBA develops and sells highly functional analytical instruments and systems, we will be able to make a significant contribution to social progress. The current recession is likely to bring about fundamental changes all over the world. Over the medium to long term, I expect this to be beneficial for HORIBA's operations in the environmental, life science, and medical fields. For example, as administrations, such as the Obama administration in the U.S., are adopting policies that put greater emphasis on the environment, then investment in new fields related to the expanding environmental regulations and global warming countermeasures is likely to accelerate at a greater-than-expected pace. This may be seen in specific examples in connection with the spreading use of solar cells and the commercialization of electric vehicles. This will produce growth opportunities for HORIBA's systems businesses related to automotive development, environmental analysis, and semiconductor manufacturing. Cutting-edge technologies require highly functional analytical instruments and systems, and HORIBA, which has continued to invest in analytical technologies during economic booms and recessions, will be able to utilize its strengths in these areas.

Furthermore, one of HORIBA's major strengths is the fact that it has established strong management and on-site level partnerships with companies that have survived amid the changes in global values and paradigms and have had a great impact on the actual formation of those paradigms.

In the medical field, the medical expense burden has become overbearing in many regions of the world. This fact points to an urgent need to improve the efficiency of healthcare management. Worldwide reform of medical systems is advancing, and so we expect new opportunities for expanding our medical business.

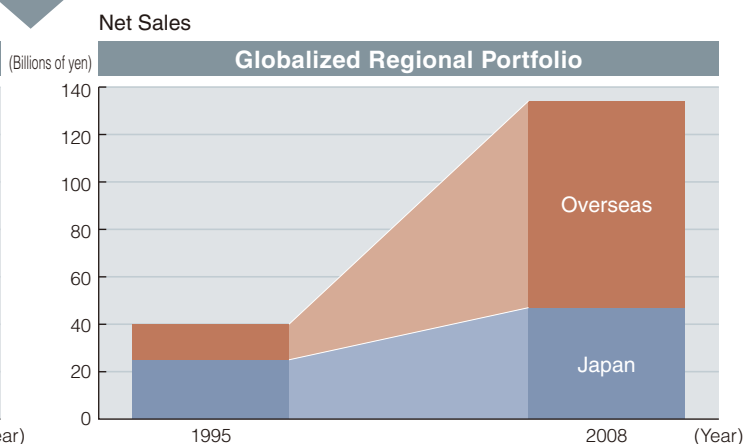
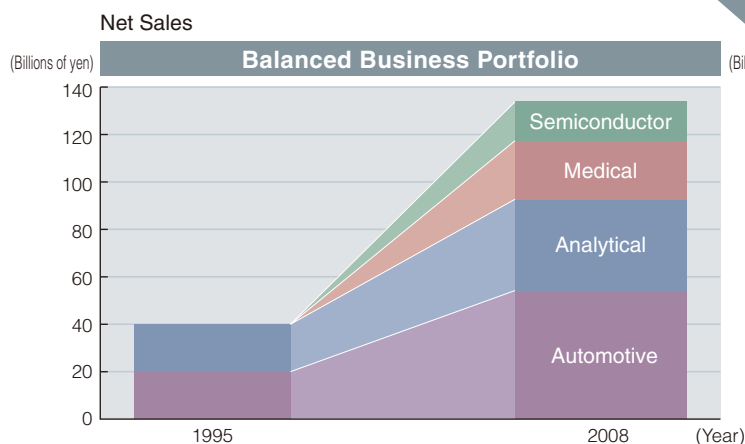
We see the current financial and economic crisis and the yen's appreciation as a good opportunity to carry out M&A. Our past M&A acquisitions included the acquisition of a medical equipment maker in France (HORIBA ABX S.A.S.), an analytical instruments maker (HORIBA Jobin Yvon S.A.S.), and an automotive development test systems (DTS) business in Germany (formerly the automotive test systems business of Carl Schenck AG in Germany). Consequently, we have improved our operating balance, which previously relied heavily on sales and profits generated by the Japanese market and emission measurement systems. This has enabled us to benefit from a certain degree of earnings support, even during downturns in the automobile and semiconductor industries. The intent of our M&A activities is not to acquire low-cost production bases for the sake of cost cutting, but rather to acquire excellent engineers and new, to HORIBA, businesses possessing technologies that HORIBA does not have and thereby expanding its existing business fields. This strategy has not changed, and we intend to continue to promote differentiation through M&A.

### M&A

HORIBA ABX (Medical field in France)

HORIBA Jobin Yvon (Analytical field in France)

DTS business (Automotive industry in Germany)





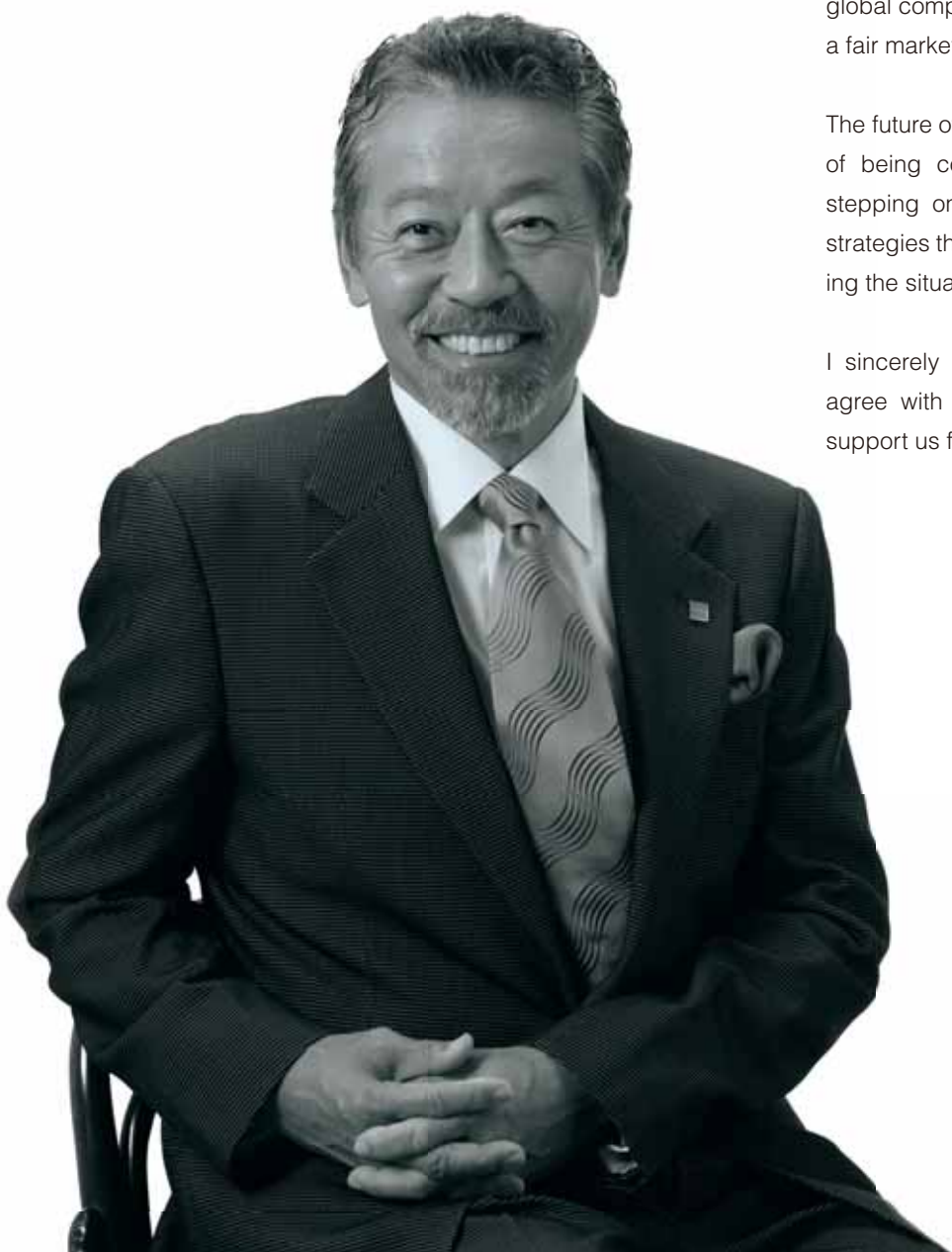
## Aiming to Create Long-Term Corporate Value

Since its founding 56 years ago, HORIBA has consistently focused on a unique corporate culture symbolized by the company motto “Joy and Fun.” This corporate culture cultivates “Invisible Values,” such as human resources and technologies that are valued worldwide. We ultimately deliver these “Invisible Values” to customers in the form of real “products” that create corporate value and earnings. Through economic booms and recessions, we will continue to pursue management objectives aimed at the enhancement of our “Invisible Values.”

Our headquarters are located in Japan, but HORIBA is not simply another Japanese entity that conducts business around the world. Rather, our objective is to be a first-class, global company that understands the culture, customs, and values, of the countries and regions where we do business and conducts business in harmony with the local area and its employees. In April 2009, we appointed three non-Japanese employees from our foreign operations as executive officers of HORIBA, Ltd. This is just one specific example of how we have implemented this policy. By selecting management based on this corporate philosophy, I firmly believe that, as a global company, we will ensure sustained growth and receive a fair market valuation from investors around the world.

The future of the global economy is unclear. However, instead of being complacent, running away from risk, or blindly stepping on the brake, we intend to pursue management strategies that turn risk into opportunity by correctly ascertaining the situation and acting boldly.

I sincerely hope that all our stakeholders understand and agree with our management policies and will continue to support us for many years to come.



April 2009

A handwritten signature in black ink, appearing to read 'Atsushi Horiba'.

Atsushi Horiba  
Chairman, President & CEO

Years ago HORIBA established itself as the global leader in the field of automotive emissions test systems and today enjoys a commanding 80%\* share of the worldwide automotive emissions market. In light of the current environmental and energy supply problems, the development of vehicles based on alternative energy sources, other than petroleum, is now a top priority. In this context we interviewed Segment Leader Hiroshi Kawamura regarding the ways HORIBA's Automotive Test Systems segment will continue to expand its business operations. \* HORIBA's estimate

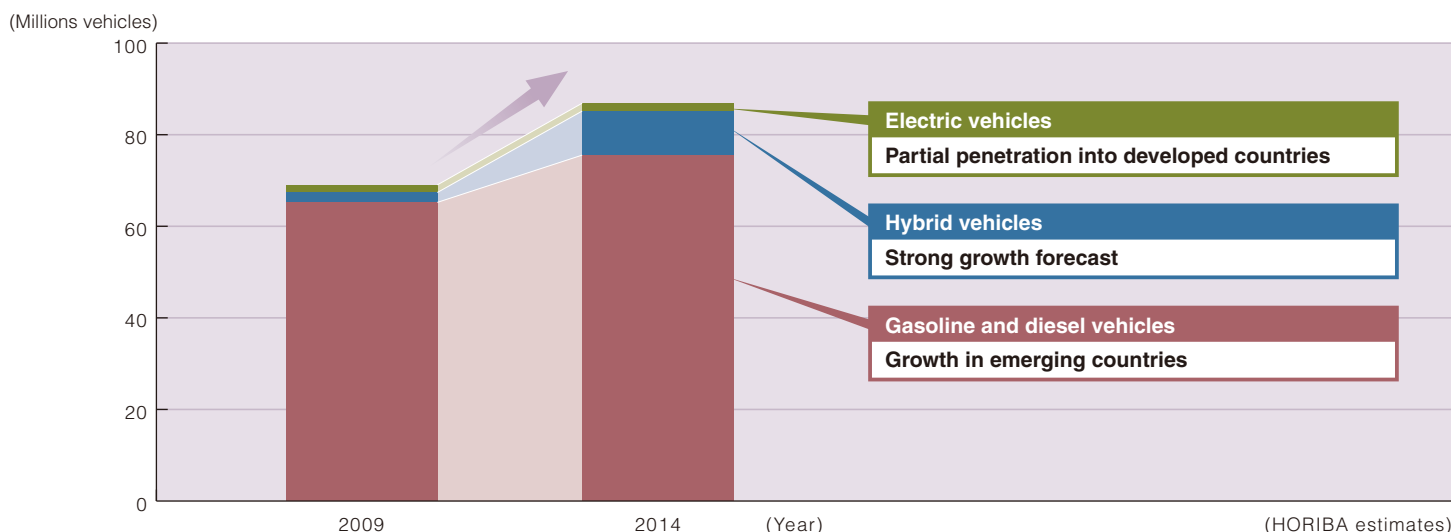
**Q:** Vehicles have been traditionally powered by internal combustion engines, but now hybrid vehicles, electric vehicles, and fuel cell vehicles, are being developed. So, how do you think our car-oriented society will change in the near future?

**A:** I think that the development of vehicles that use alternative energies, primarily hybrid vehicles, will advance. This is a good business opportunity for HORIBA. Hybrid vehicles will probably become commonplace in 5–10 years and the use of electric vehicles is likely to grow in some developed countries. However, for the next 10 years, we believe the majority of passenger vehicles and almost all large vehicles will continue to be powered by conventional engines.

At present, almost all of the vehicles driving on the earth are powered by internal combustion engines. The Ford Model T, one of the first vehicles, was developed in 1908, more than 100 years ago. Now, the history of vehicle propulsion is about to change significantly. In light of the current environmental and energy resource problems, the people's way of thinking about energy has changed significantly, and automakers are therefore pursuing the development of alternative types of power such as hybrid, electric, and fuel cell. This trend will create substantial business opportunities for HORIBA, which supplies measurement instruments and systems. Many countries are also putting greater emphasis on environmental conservation measures. We expect the development of more efficient gasoline and diesel engines

and the proliferation of hybrid vehicles will advance simultaneously. In the case of hybrid vehicles, we estimate that the proliferation rate will reach around 5–10% in five years, but penetration into markets in emerging countries will probably take longer. I expect people will start to use electric vehicles in some countries. Over a span of the next 5–10 years, mainly because of economic factors, their use will probably be limited to cities, travel to nearby locations, and within countries with a lot of traffic congestion such as Japan. Moreover, the trucks and buses that play a vital role in distribution require a high power output, the development of these electric vehicles will likely take considerable time unless there are major technical breakthroughs in motor and battery technology.

### Worldwide Sales Growth Forecasts by Driving Force



**Q: Do you think emission regulations will continue to be strengthened?**

**A:** Because emissions regulations have been reinforced over a long period, automobile emissions have become very clean. However, emission regulations are still becoming increasingly severe. Factors, such as stricter regulations that require super low exhaust emissions and expanding regulations will require more advanced technology for emission measurement. Furthermore, there are efforts underway to tighten regulations on fuel economy to reduce green house gas emissions. These efforts provide additional business opportunities for HORIBA.

In 2009, the next round of emission regulations will be introduced in Japan, the EU, and the U.S. And, emission regulations in many other countries will be raised to a more rigorous level. In the EU, the enforcement of even stricter standards (EURO6) is anticipated around 2014. To date, the main emphasis has been the regulation of harmful substances, with the main targets of these regulations being carbon monoxide, nitrogen oxides, hydrocarbons, and soot. However, emissions from some vehicles have already been purified to a level where they are cleaner than the surrounding air. Going forward, in addition to more difficult regulations, including particulates, regulators will focus on stricter regulations in additional areas such as motorbikes, small utility engines, boats, and aircraft, which have so far been lenient.

Moreover, fuel efficiency regulations (carbon dioxide emission regulations) will be introduced or strengthened in many countries. In California, emission regulations have been progressively strengthened since the 1970s. In the EU stricter regulations will be implemented from 2012. In 2015, Japan will introduce new regulations that reduce emissions by nearly 30% from the current level. A feature of many of these fuel efficiency requirements will be imposed huge fines or penalties if targets are not achieved. Therefore, all automakers will be forced to concentrate on developing vehicles that meet low fuel consumption standards.

**Vehicle-related Regulations and Possibilities for HORIBA**

**Achievement of super-low exhaust emission** → **Emission regulations move to a new field**

**Emission regulations**

- New regulations such as those regulating particulate emissions
- Strengthening of regulations for non-passenger vehicles and vehicles in emerging countries

- |   |   |
|---|---|
| 2004–2009<br>2009<br><br>2014 (planned) | <ul style="list-style-type: none"> <li>• Progressive introduction of Tier 2 regulations (U.S.)</li> <li>• EURO5 (EU)</li> <li>• Post new long-term regulations (Japan)</li> <li>• EURO6 (EU)</li> </ul> |
|---|---|

**Responses and Possibilities at HORIBA**

1. New product introductions for PM measurement to cope with new measurement laws (measurement of the number of particles)
2. Expansion of demand from component manufacturers and from non-automotive sources
3. Growth of demand in emerging countries

**Fuel efficiency regulations (CO<sub>2</sub> emission regulations)**

- Penalties such as fines, if standards not met
- At present all manufacturers are falling short of regulation targets

- |   |   |
|---|---|
| Progressive reinforcement<br>2012<br>2015 | <ul style="list-style-type: none"> <li>• CAFE regulations (California)</li> <li>• European Commission fuel efficiency requirements</li> <li>• Fuel efficiency requirements (Japan)</li> </ul> |
|---|---|

1. Increased demand for high performance emission measurement systems for the development of hybrid vehicles
2. Growth of demand in emerging countries

**Q:** Do you think HORIBA's business will expand in response to the development of hybrid vehicles and electric vehicles?

**A:** Highly sensitive emission analysis is required for developing hybrid vehicles. This requirement represents a major business opportunity for HORIBA. However, emissions measurement is not required in the development of all-electric vehicles. Nevertheless, I think demand for measurement not involving engines will increase. Electric drive train testing is a part of our automotive development test systems (DTS), which we acquired as a business in 2005, so this is also a growth opportunity for HORIBA.

With the development of hybrid vehicles the gases emitted by those vehicles will diminish, which will require higher measurement accuracy. Furthermore, 4-5 times more development tests than conventional gasoline engines is required to develop the software and controls for the optimal performance of the engine and motor. Consequently, the development of hybrid vehicles will boost the demand for both emission measurement and drive train testing.

In contrast to hybrid vehicles, in electric vehicles the gasoline or diesel engine is no longer present, which eliminates the need for emissions measurement instruments. However, measuring the driving force that transmits power to the four wheels becomes more sophisticated for both measurement instruments and software. In September 2005, HORIBA acquired the DTS business of Carl Schenck AG, in Germany, and thereby expanded operations into solutions that support the full scope of automotive development. As a world class total solution based manufacturer that provides integrated measurement systems for automotive development, this acquisition has equipped us with the capability to supply advanced solutions for electric vehicle development.

The greatest challenge to the future of electric vehicles is the development of highly efficient motors and batteries. In this regard, major technological breakthroughs are required in technically difficult areas such as analysis of torque and efficiency in motors and battery performance. HORIBA also possesses technologies accumulated in business fields other than the automotive field, including the Analytical Instruments & Systems segment and the Semiconductor Instruments

& Systems segment. I firmly believe that the technologies in these fields will also make a significant contribution to the automotive segment.

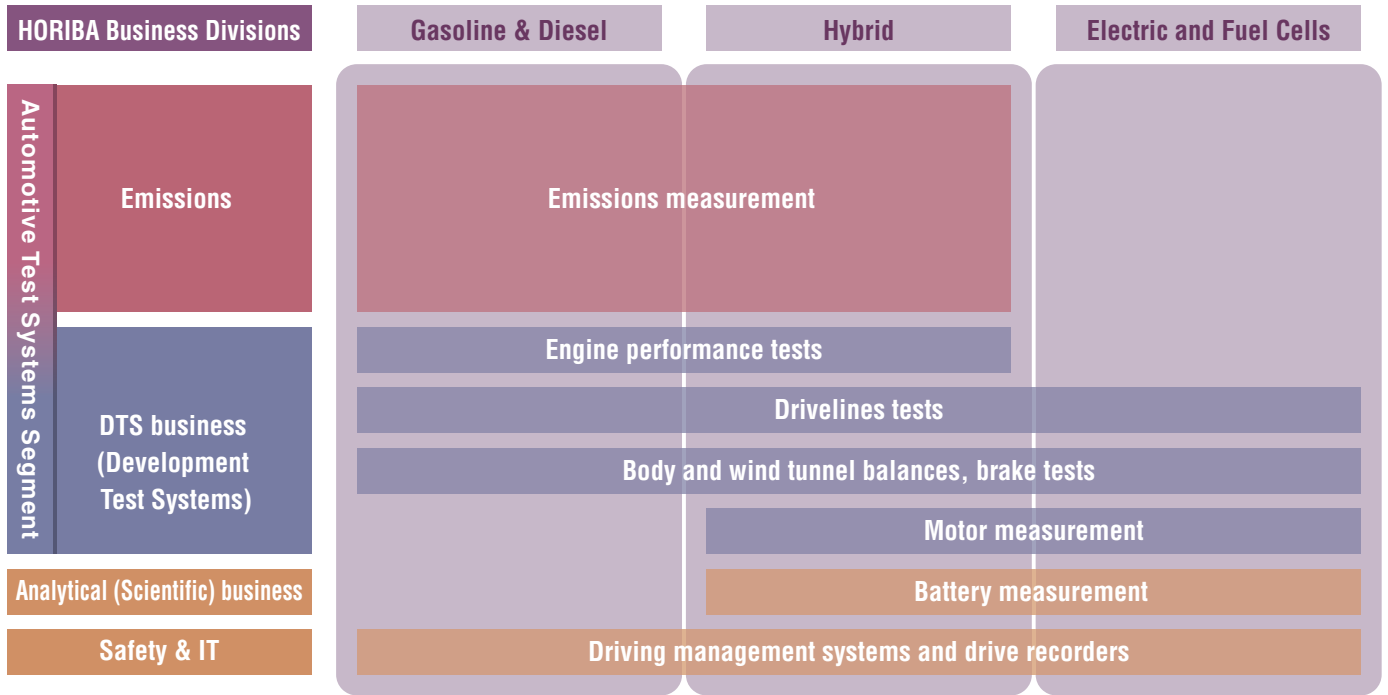
We engage in serious discussion with executives and engineers from the world's major automakers about the environment on a daily basis. By quickly grasping new trends in development and making use of our technical capabilities that have been refined through continuous investment, we will contribute to the future of automobile technology and maintain our enthusiasm for growth as a company.

#### **Hiroshi Kawamura**

Born in 1965, Hiroshi Kawamura joined HORIBA in 1992. After his participation in the development of the MEXA-7000 engine emission measurement system, he was stationed overseas in three assignments in the U.S. and U.K. He served as General Manager of the Automotive Business Development Department and was appointed General Manager of the Automotive Test Systems Division in 2006. At present he is also the concurrent Segment Leader of the Automotive Test Systems Segment.

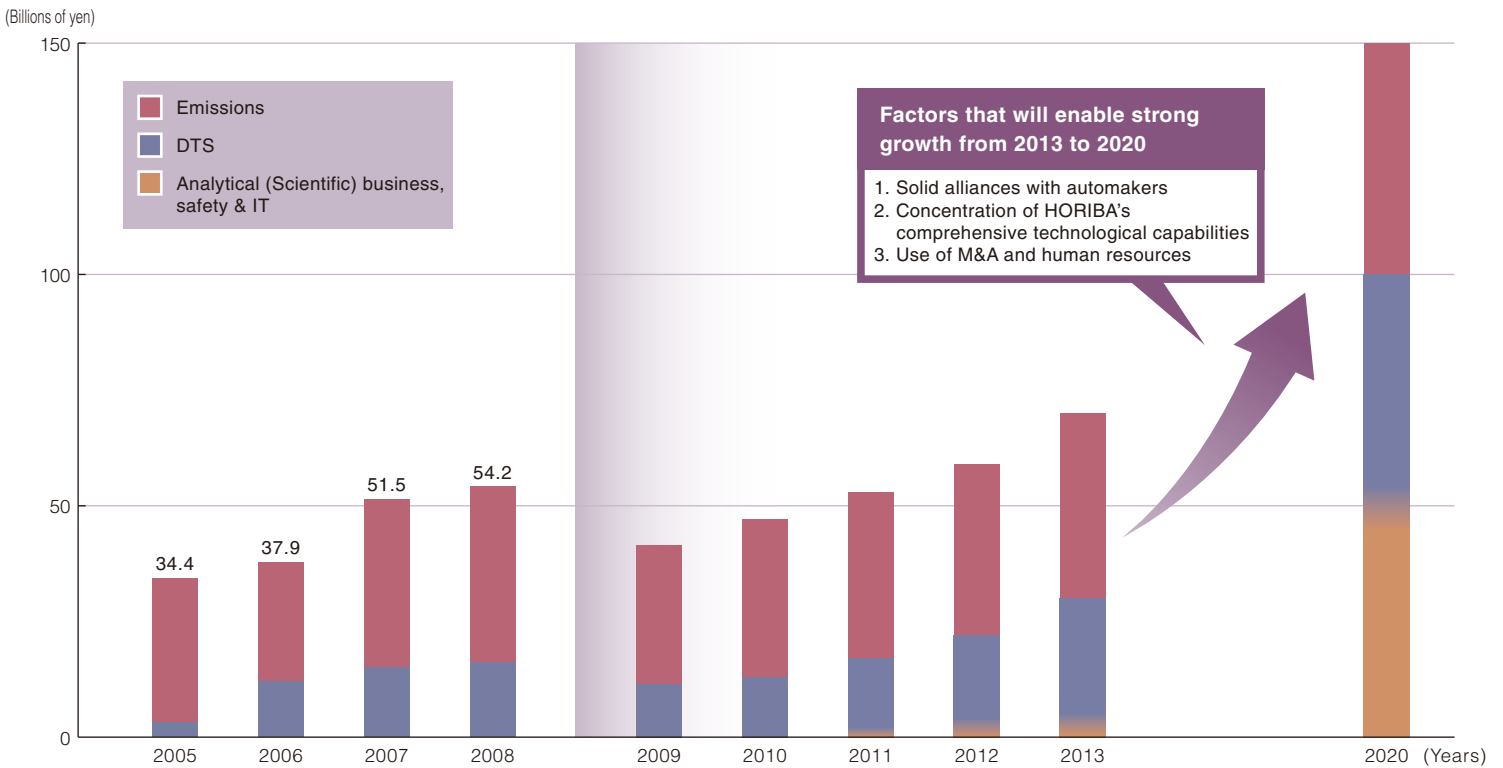


**HORIBA's Automotive Business Fields**



**Automotive business fields in which HORIBA is active are expanding**

**Long-term Sales Forecasts for HORIBA's Automotive Business**



# Evolution in “One Company” Management

## One Company Matrix Management

HORIBA adopted matrix management for its four business segments and three operating regions. Under our corporate culture umbrella, each business segment and region has “ownership” of its business operations. Each segment and region also shares its strengths and best practices with other segments and regions within the HORIBA Group. We will continue to raise our corporate value by exploiting the benefits of this multiplier effect.

### Restructuring of regional group companies

In 2008, we conducted an organizational restructuring in the U.S. and Europe by integrating local group companies into regional holding companies. Now it is easier for regional companies to utilize the resources of previously separated companies. We also expect to improve our efficiency by expanding cross-selling synergies between businesses and by sharing business resources.

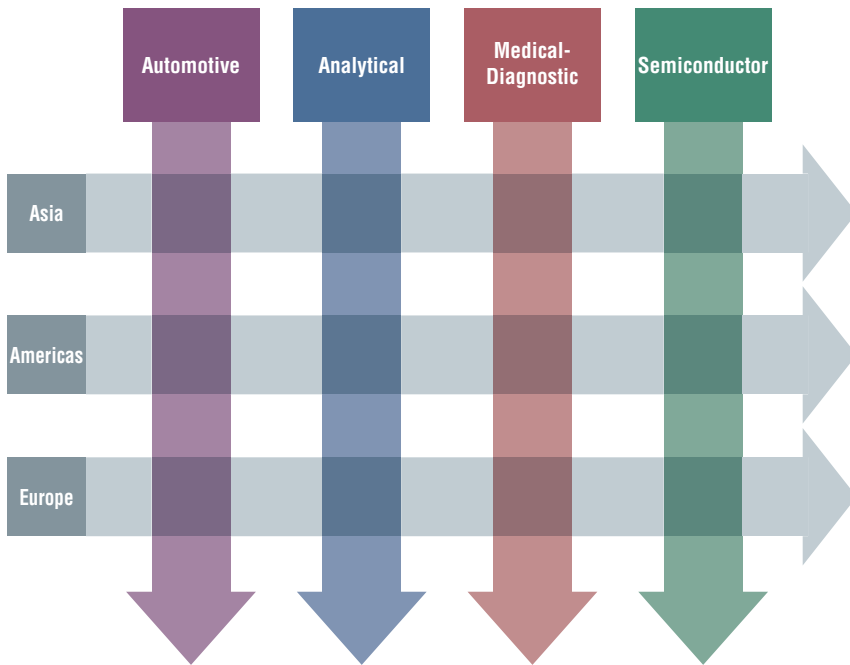
### Sharing business infrastructure

In January 2008, we completed the introduction of a core enterprise resource planning system at four domestic companies, including HORIBA, Ltd. This followed the introduction of ERP systems in Germany and China. We expect to improve productivity and accelerate decision making by taking advantage of the advanced sharing of business infrastructure in administrative divisions for accounting, personnel, and legal affairs, as well as the common functional divisions for IT services and purchasing.

## Business Segment Leaders with President



## One Company Matrix Management



HORIBA and its group companies are “One Company,” sharing common resources in the pursuit of management efficiency and globalization. The Group is shifting from an independent corporate entity management to a “One Company” matrix management based on four business segments forming the vertical axis and three operating regions (Europe, the Americas, and Asia) forming the horizontal axis.

## Regional Segment Leaders with Vice President

Yuichi Muroga  
Region Leader of Japan/Asia

Kozo Ishida  
Executive Vice President

Masayuki Adachi  
Region Leader of Americas

Takashi Nagano  
Region Leader of Europe

# Evolution in “One Company” Management

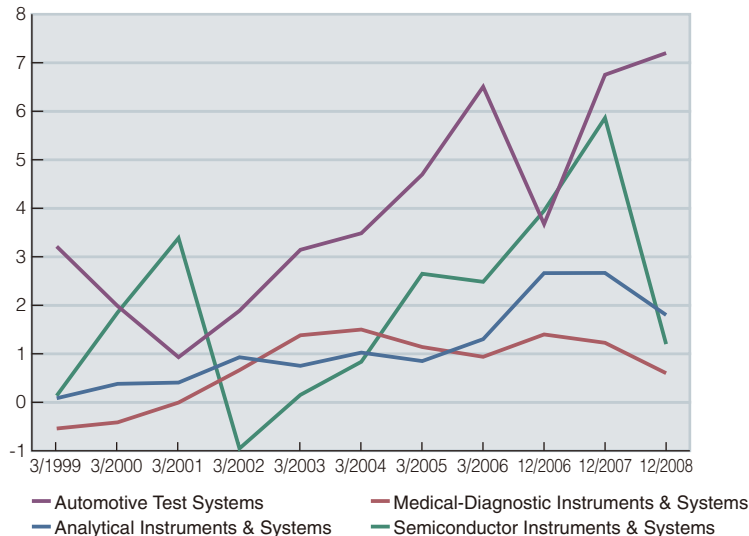
## HORIBA’s Well-Balanced Management

HORIBA has four business segments and three operating regions. We will deliver sustainable growth with well-balanced management as one integral entity, without dependence on any one segment or region.

### Balance Among Business Segments

Until the mid-1990’s, the Automotive Test Systems segment and the Analytical Instruments & Systems segment generated a majority of HORIBA’s sales, while the Automotive Test Systems segment made the predominant contributions to profits. From the mid-1990’s, strategic M&A activities improved the sales and profit balance among business segments. Our challenge going forward is to create stable growth in the Medical-Diagnostic Instruments & Systems segment and the Analytical Instruments & Systems segment that will generate profit and support the entire corporate group when downturns in the highly volatile Semiconductor Instruments & Systems segment and the Automotive Test Systems segment may occur at the same time.

**Operating Income by Business Segment**  
(Billions of yen)

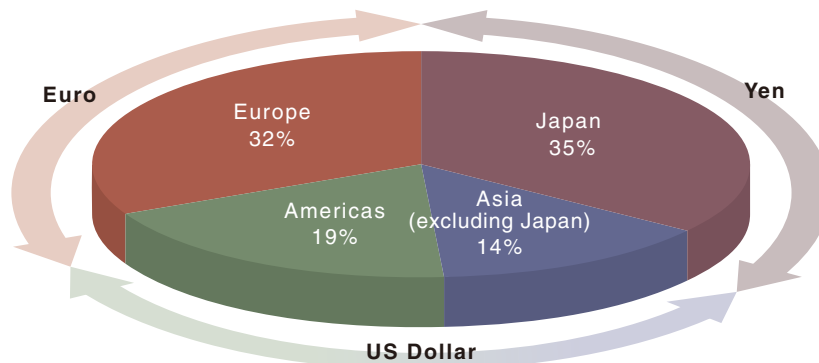


Note: For the fiscal year ended December 31, 2006, the accounting term for the Company was 9 months and 11 days as a result of a change in its fiscal year-end from March 20 to December 31 (see page 2 for details.)

### Balance Among Operating Regions and Transaction Currencies

Before the mid-1990’s the Japan domestic market generated the majority of HORIBA’s sales. Subsequent overseas expansion, leveraged by M&A activities, reduced our dependence on the domestic market in Japan to the current 35% of total sales. In the medium-term, growth in Asia and sales expansion in the U.S., a region of strategic focus, are expected to reduce the dependency on any particular regional market.

The impact of transactional currency fluctuations has been lessened by achieving a good balance between the yen, the U.S. dollar, and the euro. On the other hand, a balance among production bases is a medium-term challenge. The present high production ratio in Japan and Europe and the weakening U.S. dollar against the yen and euro are factors leading to lower profitability. We plan to expand U.S. operations in the medium-term and achieve a better global production balance partly by taking advantage of M&A opportunities.



**Breakdown of Net Sales by Region and Transaction Currency (FY2008)**



## Growth and Value Creation through M&A Activities

Since the mid-1990's HORIBA has sought overseas M&A opportunities to accelerate its growth. This has enabled us to achieve a better balance by reducing our sales and profit dependence on the Japanese market and emission measurement systems. We find that the current difficult financial crisis and the strong yen are presenting good M&A opportunities. In particular, we think that there are great opportunities in the medical-diagnostic area where we wish to grow in the medium to long-term; the semiconductor area where the industry may see industry-wide restructuring during the current recession; and in new energy or materials technology.

### M&A Targets

- Companies that have technology or markets that are complementary to those of HORIBA
- Companies that have high potential for business growth but are not able to invest sufficiently in R&D or human resources
- R&D-oriented companies or businesses that are not able to fully utilize their creative resources

### M&A Characteristics

- Acquire companies that HORIBA is familiar with through business relationships or other contexts and with which HORIBA is on friendly terms.
- Focus on acquisitions that are most likely to bring synergies in business strategy. Do not seek better economies of scale or improved efficiency through restructuring.
- Make certain that HORIBA's employees are directly involved in the M&A process, including negotiations, the assessment of enterprise value, and due diligence. With more employees being involved in these initiatives, HORIBA can accumulate M&A know-how, which will be beneficial in the future.

## Post-Acquisition Integration

### Globalization of Personnel

A core objective of acquisition is to acquire globally competent human resources. Constructive acquisitions have raised HORIBA's ratio of non-Japanese employees to 57%. This high ratio was not achieved by pursuing low-cost overseas labor forces. In fact, HORIBA has gained very

talented people, many holding doctorate degrees. This makes us a very unique Japanese company. Some current corporate officers have been promoted from among the non-Japanese employees of acquired companies.

### Measures to Facilitate Integration

After significant acquisitions, HORIBA does not seek short-term results. We take adequate time to integrate the acquired companies into the HORIBA culture by motivating the acquired personnel and letting them fully exercise their talent and potential. It is essential in making a successful

acquisition to share the corporate culture, integrate operational systems, promote the exchange of personnel, etc. To this end, HORIBA is continuing to build a framework to facilitate these activities.

#### • Sharing corporate culture

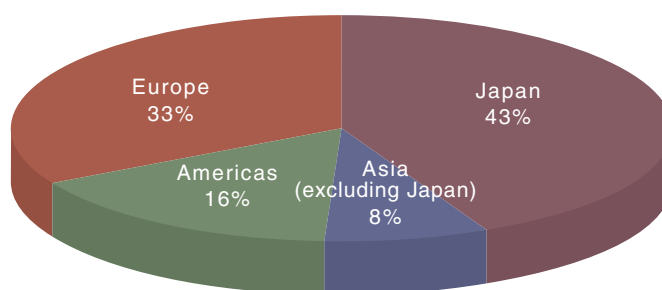
HORIBA has published the HORIBA Brand Book in six languages and has distributed it worldwide to all personnel.

#### • Integrating enterprise resource planning system

Since 2007, HORIBA has been implementing a group-wide core enterprise resource planning system.

#### • Promoting the global exchange of personnel

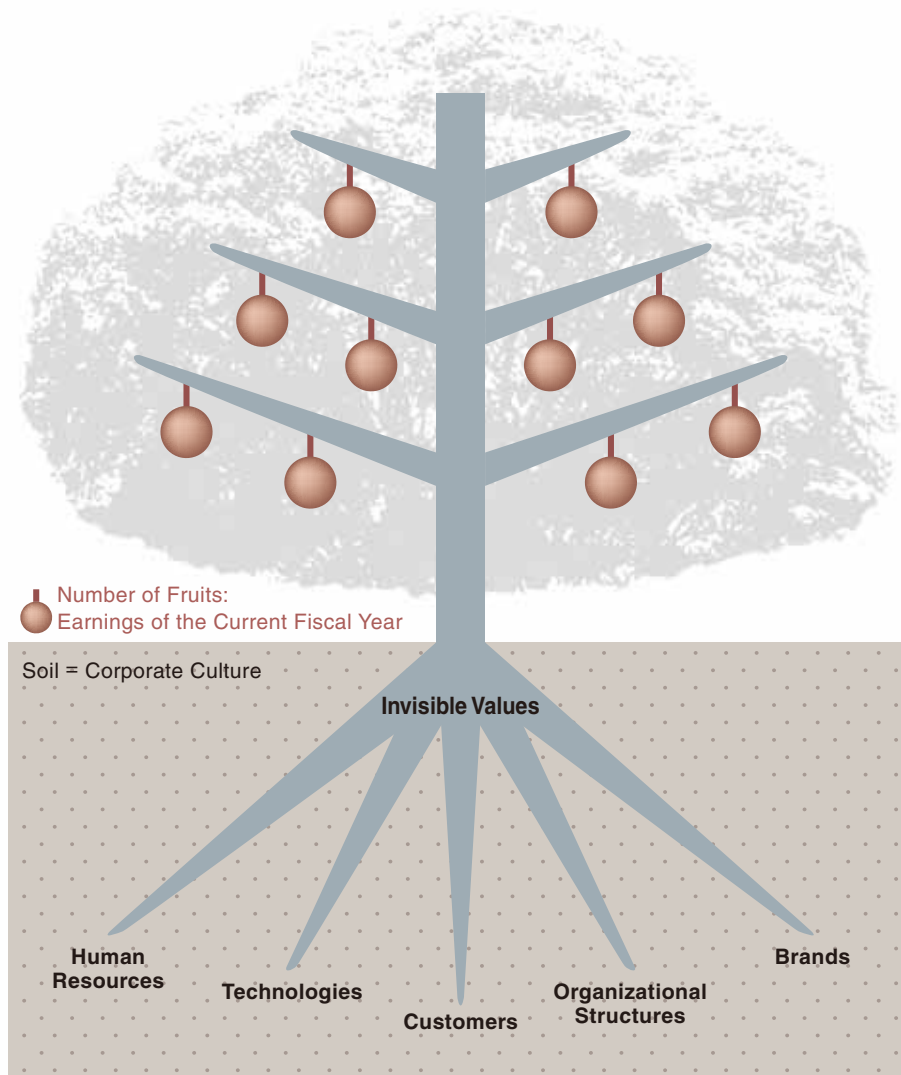
HORIBA's segments hold international meetings, implement personnel exchange programs, and introduce the Blackjack Project. We are now using a new training center to enhance the global experience.



Employee Ratios by Region (End of 2008)

# Value Creation Based on Invisible Values

Our “Invisible Values” (assets that do not appear in the financial statements)” are created within HORIBA and are very important to the company. Of course, the fruit (earnings) and the trunk, leaves, and branches (the balance sheet), are both visible and important values. However, we believe that the essence of good management is to grow strong thick roots (invisible values such as human resources, technology, know-how, customer relations, organizational power, and brands) in rich soil (the corporate culture). We do not believe that management’s emphasis on maximizing short-term earnings and neglecting investment in invisible values will foster sustainable growth or increased corporate value.



## Rationale of Invisible Values

The number of fruits and the value of the harvest are important but it is more important that the roots are growing strong



**HORIBA**

J O Y  
a n d  
F U N



Elevator in headquarters building

# Value Creation Based on Invisible Values

## Human Resource Development: Kutsuki Training Center (Nicknamed Fun House) and HORIBA COLLEGE

### Policy on Human Resource Development

HORIBA has continued to invest in human resources for these are precious “invisible assets,” regardless of economic conditions, booms or busts. When every single employee understands HORIBA’s corporate culture, expressed in company mottos such as “Joy and Fun,” “Open and Fair,” and “a Venture Spirit,” and implements this culture in their work, their achievement becomes the foundation for new corporate value. In particular, it is essential that employees of a global entity such as HORIBA communicate with counterparts

elsewhere in the corporate group, expressing and sharing their own country’s customs, values, culture, and history. At the same time, it is desirable that they become human assets with the ability to understand an international way of thinking so they may properly understand and accept foreign cultures. For an organizational framework to support these objectives, we have created global training and exchange programs for employees to foster core human resources that can play an active role.

### Kutsuki Training Center (Nicknamed Fun House)

HORIBA firmly believes that a training center creates more added-value than a plant, and has been using the Fun House for many training programs and global conferences since its opening in 1991. The Fun House is HORIBA’s flagship place to develop human resources and to disseminate and reinforce its corporate culture. The training center is an important utensil for human resource development, similar to the way the platters and dishes selected for Japan’s “kaiseki” haute cuisine are of vital importance, comparable to the food itself. Based on our conviction that first rate human resources will double in value by the use of first-rate utensils, we expanded our training center in January 2009 and opened the HORIBA COLLEGE.

### HORIBA COLLEGE

HORIBA, with its 50 years of history, thinks that passing on our accumulated know-how and skills is indispensable for HORIBA’s lasting development. In time for the renewal of the training center, we have initiated our unique training programs, collectively called HORIBA COLLEGE. Its curriculum consists of approximately 100 classes designed and taught by our own employees. Our belief is expert knowledge that is directly linked to business operations and experiences should be shared within the Group. Implanting HORIBA’s corporate culture at the same time leads to the effective development of high-quality personnel. This program was launched despite the difficult economic environment, and represents an important endeavor that will facilitate HORIBA’s ability to make long strides in advancing to its next growth stage.



Fireplace in Fun House



A training session at Fun House

## Blackjack Project

The Blackjack Project (BJ) is HORIBA's activity to continuously improve our operating processes and communication methods within our work sites. It is named after the card game in which twenty-one is the highest card total, reflecting our strong wish to continue growing in the 21st century. The objective of Blackjack activities, not limited to our manufacturing divisions, is to improve general productivity and organizational power by fostering innovation in the mind-set and action of all our people.

### [Human Resource Development]

Since 1997, when the BJ project started, BJ improvement and innovation activities have yielded many positive results, the most important of which are the changes in our employees' mind-sets and actions. HORIBA's employees have become more strongly committed to improvement and innovation in their daily tasks, and now participate in a sense of ownership in the company.

### [Best Practice Sharing]

To kick HORIBA's "One Company Management" up one

notch, we must share superb ideas and successful experiences. When our employees bring their ideas for improvement and innovation to the attention of their colleagues, we get a "multiplication" effect.

Since 2007, the BJ World Cup competition has been held to select the best theme from over 500 entries from employees in HORIBA group companies worldwide. BJ plays an important role in sharing our corporate culture, experiences and knowledge. This sharing is essential, not only in HORIBA, Ltd., but globally, helping us evolve into a truly global company.

### Award-winning Themes in the 2008 BJ World Cup (Excerpt)

- Judging the skill, improving ability  
(Introduction of a skills evaluation system)  
HORIBA Instruments (Shanghai) Co., Ltd.
- Brown Bag Lunch  
(Improvement in intra-division communication)  
HORIBA INTERNATIONAL CORPORATION (U.S.)
- Give a shout to raise self-realization and work on a mountain of assignments  
(Method of solving difficult tasks in developing new products)  
HORIBA, Ltd.



Blackjack Awards, 2008 World Cup

## Example of a Blackjack Project

**Theme: How to manage foreign suppliers**

**Team: HORIBA, Ltd. (Japan), HORIBA ABX (France), and a supplier (Morocco)**

In the Medical-Diagnostic Instruments & Systems segment, products are developed and manufactured in Japan and France, and products from each country are sold in both. Before the BJ project launched, these operations faced a pressing issue of how to solve a high defect ratio. They then started a campaign with the participation of an external supplier in Morocco to reduce defects in products developed in France and sold in Japan.

The campaign faced three challenges: language, distance, and involvement of a non-group company. As a first step, principal members from HORIBA, Ltd. and HORIBA ABX formed a team, and had video conferences to thrash out all the problems. By seeing the faces of each other, the obstacles of language and distance were overcome. Then, they began a dialogue with a parts manufacturer in Morocco, where the root of the problem was located. In the final stage the team members visited Morocco and gave technical

guidance to the supplier. This visit resulted in a more than expected reduction in the defect ratio.

The Medical-Diagnostic Instruments & Systems segment is in the midst of accelerating new product launches. The campaign has cultivated a concerted effort on the part of developers, manufacturers, and suppliers, which is facilitating a stable supply of quality products after their launch.



Supplier's employees with improved product after BJ program

# Evolution in “One Company” Management

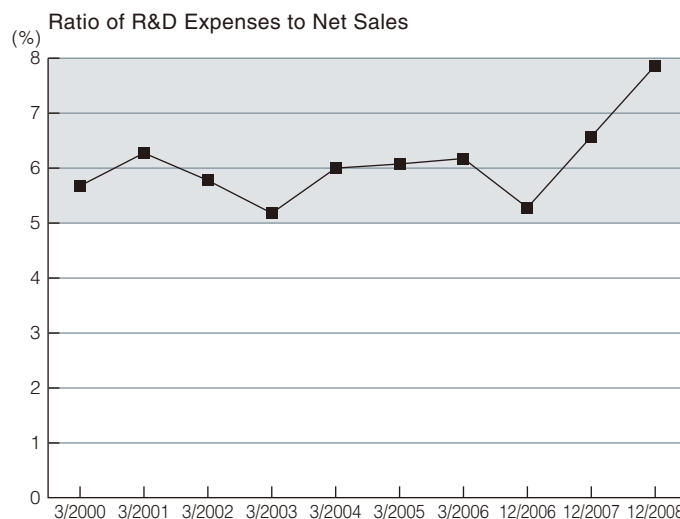
## Technical Development is the Source for Value Creation

We believe technical development will be the most important driving force in generating sales of ¥200 billion or more. For manufacturers, technical development is the source for creating value and the lifeline of the enterprise. HORIBA has continued to grow without halting the value creating cycle by maintaining R&D investment at 5-7% of sales during times when earnings are favorable and when they are not. Even in a harsh business environment, such as the current down cycle, we will not alter our policy. Technical capability is like physical strength, it must be maintained to stay in top condition. If a person neglects physical training, even temporarily, his physical strength will quickly fail and the person will be unable to draw upon his power when needed.

### Strengthening Technologies with Acquisitions and Collaborations

The acquisition of the present HORIBA ABX S.A.S., in France, in 1996 has allowed HORIBA to make a full-scale entry to the medical-diagnostic instruments and systems business. Using technology developed and improved by HORIBA, Ltd., and the proprietary technology and marketing strength of HORIBA ABX S.A.S., sales in this segment have grown to 20% of total HORIBA sales. In the Analytical Instruments & Systems segment, HORIBA acquired the present HORIBA Jobin Yvon S.A.S., in France, in 1997. By synergizing HORIBA Jobin Yvon's strong technologies with those of HORIBA, Ltd., we are accelerating product launches into new markets (food, drugs, and cosmetics), and both businesses are now contributing to HORIBA's balanced management with new product lifelines.

We will continue proactive investment in product development, including improving existing products, developing new technologies and new products, engaging in M&A, and expanding operations into new business fields. Creating high



value added technologies that combine HORIBA's existing technologies with new ones will ensure dominance in the market and pass on more advanced technologies to the next generation.

### Masao Horiba Awards

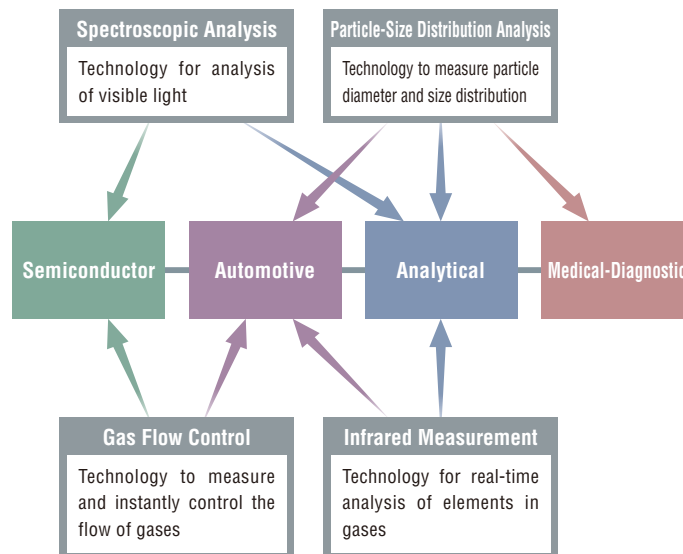
HORIBA established the Masao Horiba Awards in 2003, the 50th anniversary of the Company's founding. The awards bear the name of our founder. The annual award is given to support young researchers and engineers in Japan and overseas who are engaged in research and development that generates innovative and unique analysis and measurement technology and enhances the position of measurement technology in science and technology. An applicable theme for the awards is determined every year and centers on a basic, unique and fundamental technology which should have achievement, or potential achievement, with global appeal.



2008 Masao Horiba Awards Ceremony

## Flexibility to Respond to Changes in the Environment

The current worldwide economic crisis is likely to bring significant changes to many industries. For example, the automotive industry is developing vehicles that use alternative energy sources such as electricity, fuel cells, or bio fuels. Up to now, HORIBA has supported the “development of engines” in the automotive field. Going forward, we define this as meaning we have to be ready and able to satisfy a wide range of development needs of “all industries that are related to automotive development.” HORIBA is already well equipped with analytical and measurement technologies needed for such development. We have also accumulated many practical accomplishments by responding to application needs in a variety of industries. We think that there are great opportunities to demonstrate our high level of flexibility, which is our ability to apply our advanced technical know-how to product development.



### Application of Basic Technologies

HORIBA allocates its development resources by focusing on core analytical and measurement technologies. The company efficiently applies these core technologies to new product development in four business segments, each with different markets.

### Kozo Ishida

Kozo Ishida was born in 1944. He joined HORIBA, Ltd. in 1970 and has been engaged in the development of gas analyzers, particularly non-dispersive infrared analyzers, since he joined the company. He was appointed as President of HORIBA Europe GmbH in 1985. In 1988, he was appointed as a Director of HORIBA, Ltd., and he is concurrently serving as General Manager of the HORIBA, Ltd. R&D Center. He was appointed as Vice President and Director of HORIBA, Ltd. in 2002 and Representative Director of HORIBA, Ltd. in 2005. While still serving as a leader in some industry-academia-government research projects, he teaches graduate students as a visiting professor of Doshisha University. He has a Doctor of Engineering.



# HORIBA at a Glance

## Summary by Business Segment

### Automotive Test Systems



#### Strongly support automotive development sites

HORIBA's automotive emission measurement systems have set the global standard and command an 80% global market share. Recent business acquisitions have expanded our product line-up into complete turn-key systems for automotive development. These test systems are used at the forefront of research and

development and quality control. Our systems are indispensable for developing new types of engines and powertrains, such as hybrid and diesel, and alternative fuels. Recently, the speed of automotive product development has accelerated due to surging fuel prices and the global warming challenge.

Principal products	emission measurement systems, in-use automotive emission analyzers, on-board emission measurement 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
Risk factor	The global automotive industry's shifting investments for research and development

### Analytical Instruments & Systems



#### Achieve a good balance to create unique analytical measurement technologies and business operations

HORIBA manufactures and sells over 500 types of instruments that serve a wide range of markets ranging from leading edge scientific technology to environmental measurement for atmospheric and water pollution to many other environmental aspects. These products command leading market shares

thanks to our high-level of analytical technology know-how and enhanced customer support system. The segment develops basic analytical and measurement technologies and plays a key role in providing new technologies to other business segments.

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
Risk factor	Price competition and downward pressure on sales prices, as well as demand fluctuation following changes in environmental regulations

## Business Summary by Region

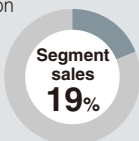
### Asia

- Japan (71% of Asia): Steady growth and high market shares mainly among products related to R&D applications and environmental regulations
- China, India, and other Asian countries: High growth



### Americas

- Account for 40% of the global demand for analytical and measurement instruments, with high potential for market share expansion
- Use the HORIBA Technology Center as a base to enhance competitiveness
- Focus on product development and marketing for the medical and semiconductor fields



### Europe

- Sales growth generated by the effects of several M&As (HORIBA ABX, HORIBA Jobin Yvon, and the DTS business)
- Expect growth in demand in the East European and Russian markets





## Medical-Diagnostic Instruments & Systems



### Proactive product development in a large market with stable growth

In the in-vitro diagnostics market, with over ¥2 trillion in global annual sales, HORIBA products are primarily blood testing instruments and reagents. The segment's business model is based on earnings generated from reagent sales. In addition to original, small-sized blood cell testing instru-

ments, new large-sized blood cell testing instruments and clinical chemistry analyzers have been launched with the aim of expanding sales of testing reagents.

<b>Principal products</b>	equipment for blood sample analysis (hematology analyzers, equipment for measuring immunological responses, clinical chemistry analyzers, blood glucose measurement systems)
<b>Major customers</b>	medical testing centers, small- and medium-sized hospitals, medical practitioners
<b>Product applications</b>	health and diagnostic testing, disease diagnosis
<b>Risk factor</b>	Impact on earnings from changes in medical insurance systems in different countries

## Semiconductor Instruments & Systems



### Contribute to yield improvement in semiconductor manufacturing processes

The semiconductor industry is cyclical but continues to grow. HORIBA's main products are mass flow controllers – devices that control gas and liquid flows in the semiconductor manufacturing process, but also include many types of monitoring equipment.

HORIBA provides customers with high-level solutions by quickly responding to technical advances in miniaturization and yield enhancement.

<b>Principal products</b>	mass flow controllers, chemical concentration monitors, thin-film analyzers for semiconductors and LCD inspection, reticle/mask particle detection systems, residual gas analyzers
<b>Major customers</b>	semiconductor production equipment manufacturers, semiconductor device makers, semiconductor cleaning equipment manufacturers
<b>Product applications</b>	control of gas flows and monitoring of cleaning fluid concentrations in semiconductor manufacturing processes, semiconductor and LCD quality control inspections
<b>Risk factor</b>	Significant demand fluctuation caused by the "silicon cycle" in the semiconductor industry and investments that are related to solar cell and other alternative energy sources

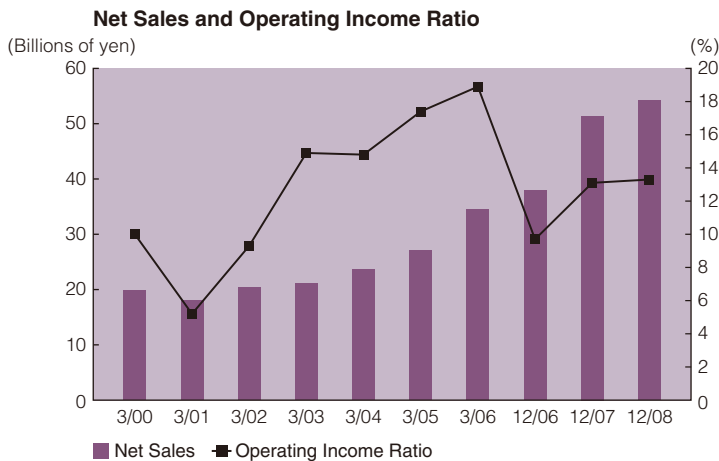
### Impact of the financial crisis and foreign exchange rate fluctuations

HORIBA's earnings are expected to be affected by a declining demand caused by financial uncertainty and the deteriorating global economy, and/or the appreciation of the yen against the U.S. dollar in the foreign exchange market.

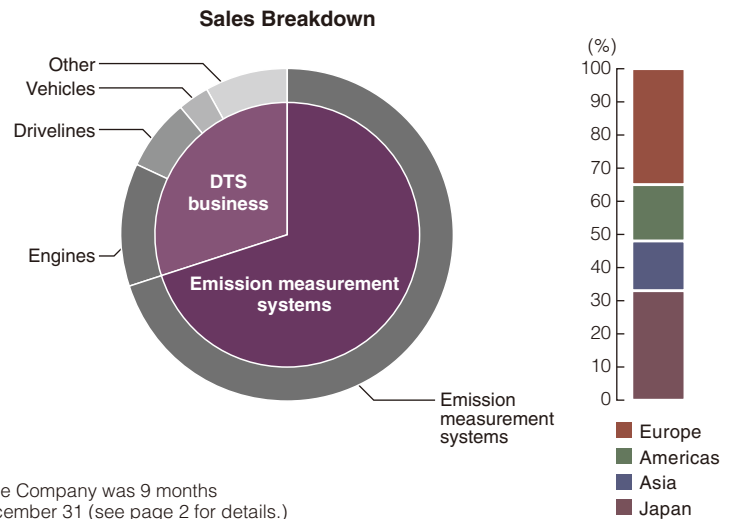
A significant drop in capital investment by the automotive industry and the semiconductor manufacturing equipment market is anticipated. In the environmental measurement,

advanced science and technology, and medical equipment fields, we expect relatively stable business conditions. In particular, the weaker euro against the U.S. dollar should result in more competitiveness for HORIBA products, despite some concerns over deflated sales amounts caused by the stronger yen.

# Automotive Test Systems



Note: For the fiscal year ended December 31, 2006, the accounting term for the Company was 9 months and 11 days as a result of a change in its fiscal year-end from March 20 to December 31 (see page 2 for details.)



## Command 80%\* share of the worldwide market for emission measurement systems

HORIBA's Automotive Test Systems segment has consistently met the quality and performance requirements of the Japanese automakers, the world's most demanding customers. This has enabled us to command an 80%\* worldwide market share of the emission measurement systems market. We have seen in recent years a rising demand for more fuel efficient diesel, gasoline, and hybrid powertrains to respond to global warming and higher oil prices. These recent developments are contributing to our Automotive Test Systems sales growth. (\*HORIBA's estimate)

## Acquisition benefits and future development of the DTS business

The acquisition of the DTS business of Carl Schenck AG in Germany in September 2005 has allowed us to engage in a broader, total solutions business that entails supporting the full scope of automotive development, including engines, power trains, bodies, wind tunnels, and brakes. This has exploded our target market from ¥40 billion to ¥200 billion, substantially magnifying HORIBA's growth potential. We are expanding our market share as we grow our business in the hybrid and electric vehicle market.

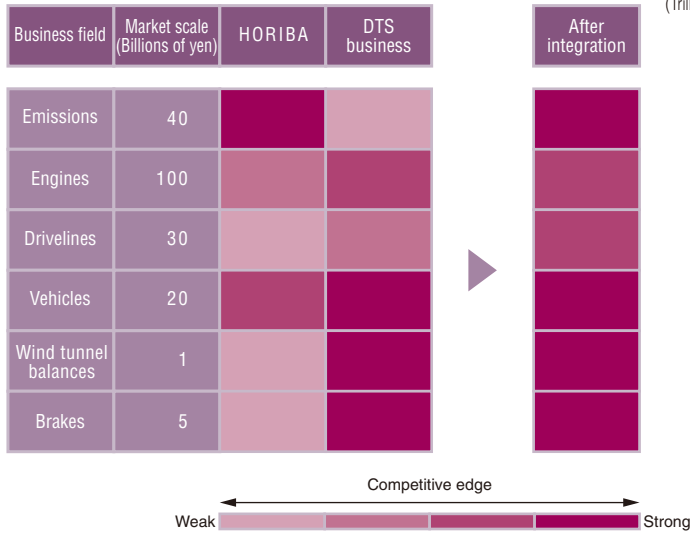
## Anticipating a harsh business environment in 2009

In 2008, the automobile manufacturers' aggressive investment in developing fuel efficient engines contributed to HORIBA's growth in orders received. We posted record high sales and operating income. In sharp contrast, in 2009, the automakers' capital investment and R&D are certain to be cut back in Japan and Europe. In the U.S. market, the growth in demand for fuel efficient engines and environmental measures are favorable for HORIBA and the automotive development test systems (DTS) business, in particular, is performing well. However, there is a risk our business will be affected by restructuring within the automotive industry.

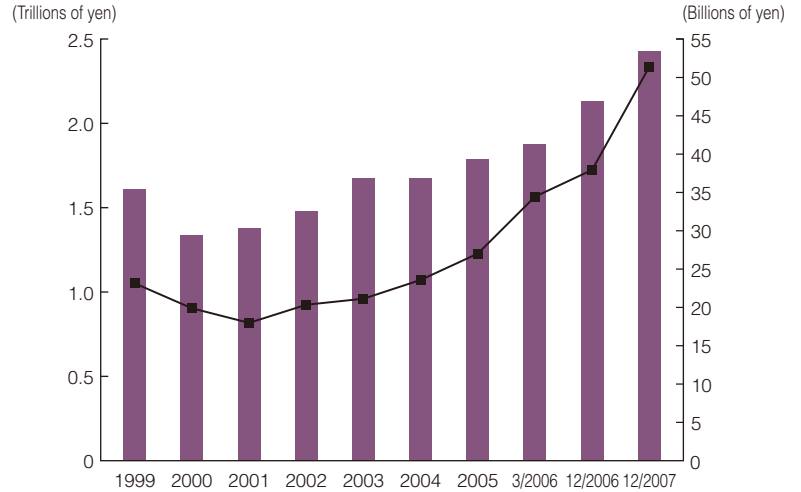
## Responsive to all development needs, on the back of close relationship with the automotive industry

HORIBA has built a long established and trusting relationship with the automotive industry and the related government agencies. Our emission measurement systems have earned a solid position as the gold standard for the industry. With the emergence of hybrid and electric vehicles, the automotive industry is at a dramatic turning point. HORIBA is committed to use all its analytical technologies and respond to every measurement need related to these new automotive developments.

**Synergy Matrix for Integration of HORIBA and DTS**

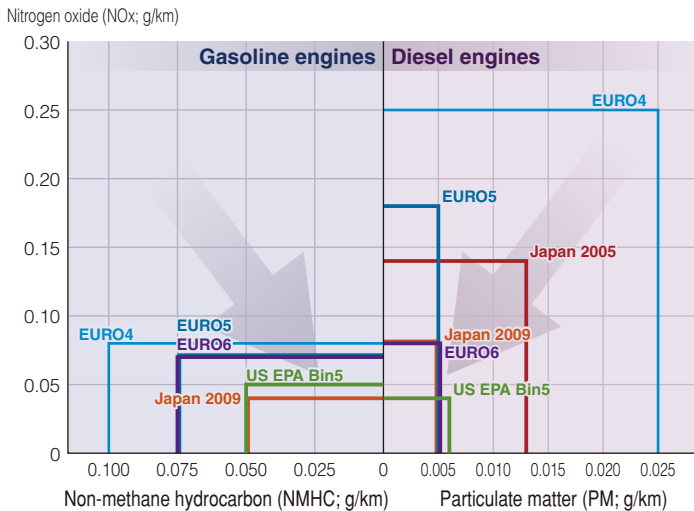


**Comparison of R&D Expenses in the Japanese Automotive Industry and HORIBA's Automotive Test Systems Segment Sales**



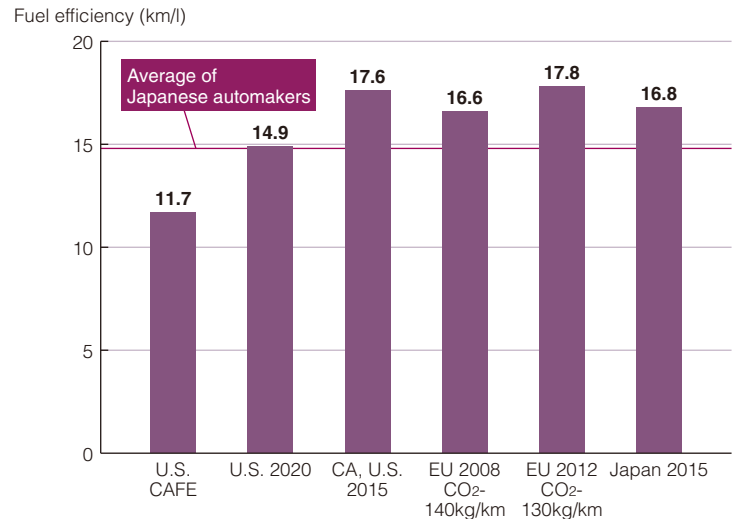
Source: 2007 Survey of Research and Development, R&D Expenditures by Industry (Ministry of Internal Affairs and Communications)

**Emission Control Standards of Countries and Regions**




Source: Ministry of the Environment; Japan Automobile Manufacturers Association, Inc.

**Fuel Efficiency Requirement Targets of Countries**



Source: Japan Automobile Manufacturers Association Inc., Report of December 2008; Ministry of Economy, Trade and Industry

**Major Products and Market Share**




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

World market share

**80%**

Segment sales

**54%**



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

World market share

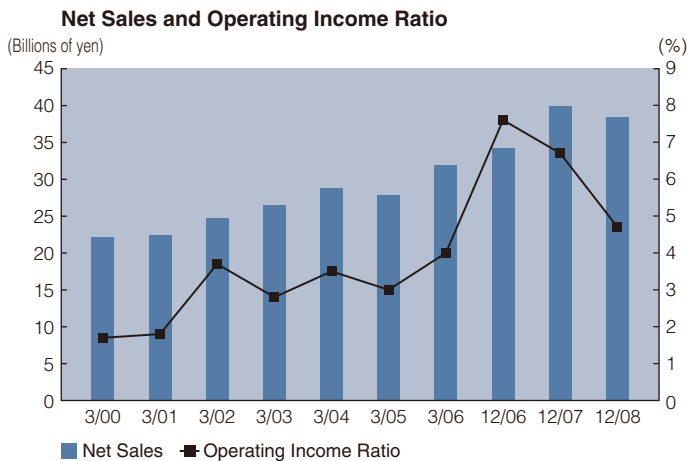
**15%**

Segment sales

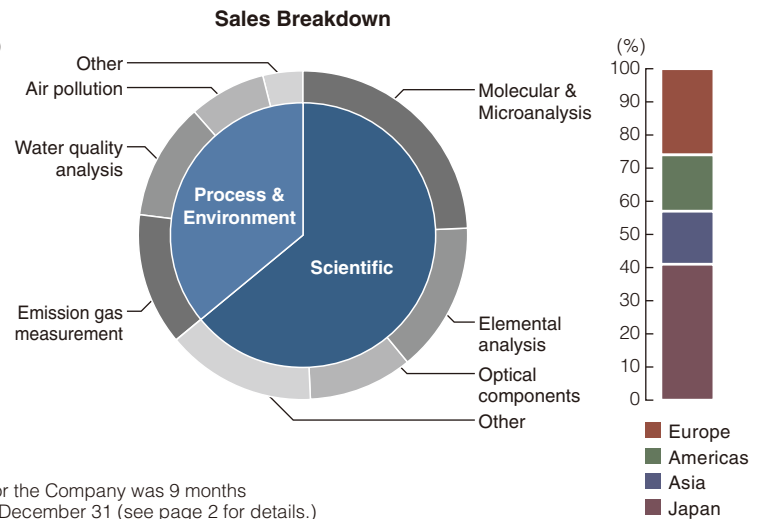
**12%**

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

# Analytical Instruments & Systems



Note: For the fiscal year ended December 31, 2006, the accounting term for the Company was 9 months and 11 days as a result of a change in its fiscal year-end from March 20 to December 31 (see page 2 for details.)



## Develop analytical/measurement technology and business

The need to analyze and measure is steadily increasing in today's society, where appropriate responses to environmental and safety related issues, such as the emission of pollutants and food sanitation, are strong requirements. HORIBA has participated in this business line since its inception, and continued growth is anticipated. In addition to continued product development in this segment, we are steadfast in making pro-active investments to develop new core technology for use in all HORIBA business segments.

## Scientific field: Expanding HORIBA's position of strength from the high grade market to the middle grade market

The markets keep expanding where HORIBA displays much of its strength for products such as carbon nanotubes and generic drugs. We anticipate increased sales in the scientific field by integrating the strength of HORIBA Jobin Yvon S.A.S. in the sophisticated instrument market and the high quality manufacturing technology and development capability of HORIBA, Ltd.

## Cutting-edge products and environmental business performance are steady, but industrial business is weak

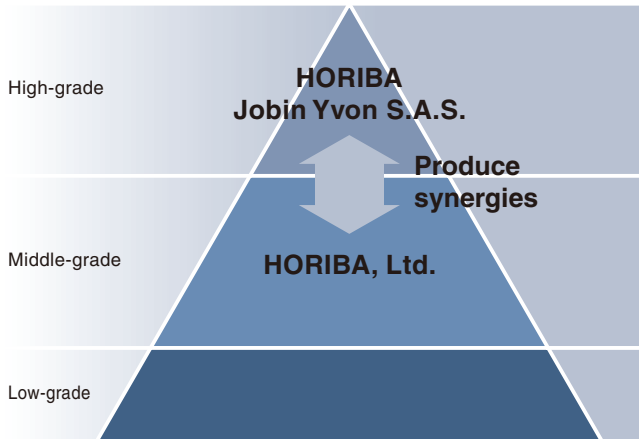
Following the global economic down turn, R&D investment was cutback, and we witnessed a decline in orders received for industrial products in 2008. Fortunately, sales grew steadily, thanks to an increase in demand for replacement products in the cutting-edge nanomaterials and pharmaceuticals markets. In 2009, we are expecting the weakness of the euro will make products manufactured by HORIBA Jobin Yvon S.A.S. (France) more cost competitive in the U.S. and Asia, which will improve their margins. On the other hand, the strong yen is expected to contribute to depressed sales of competitive industrial products made by HORIBA, Ltd. We expect the steady 2008 sales of environmental related products to carry over into 2009.

## Environmental field: Accumulated Japanese technology to be used in China and other emerging markets

Since the 1960's when people first began paying attention to pollution issues in Japan, HORIBA has responded to customers' needs with a wide range of products to "measure" the natural environment, including analyzers of emission from factory and quality analyzers of water intake from rivers. At present, we are engaged in both the environment regulation businesses and in industrial processes to improve productivity. We are targeting business growth in China and other emerging countries where our technology and know-how accumulated in Japan is urgently needed to meet growing environmental challenges.

## Expanding from the high grade market to the middle grade market

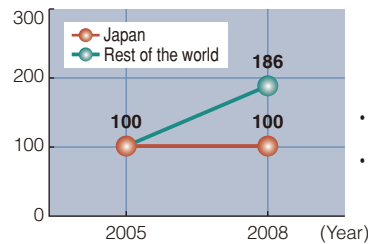
### Business Model of Scientific Instruments & Systems



We are developing products in the recently-expanding middle to high grade instrument market by integrating the strengths of HORIBA, Ltd. and HORIBA Jobin Yvon S.A.S.

- A wide range of products ranging from sophisticated products for research to reliable products for quality inspection
- Possible growth in the application markets (bio-industry, pharmaceuticals, arts, etc.)
- Strong connections with universities and other R&D institutions

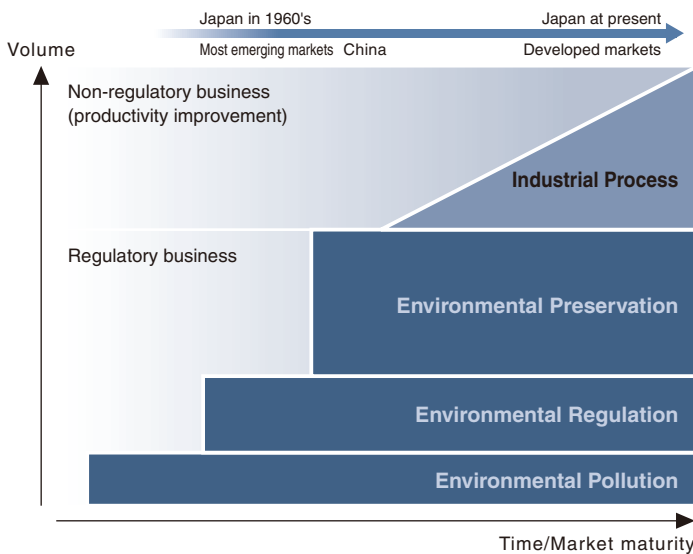
### Sales of Raman Spectrophotometers(100 in 2005)



- Significant growth of Raman spectrophotometers in overseas markets
- Market expansion to applications in the pharmaceutical, art and archaeological fields

## From regulation oriented to monitoring of industrial processes

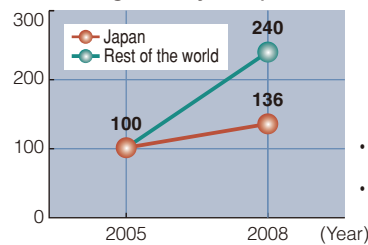
### Business Model of Process & Environmental Instruments & Systems



We will leverage our long-term business experience in Japan, where environmental regulations are stringent, to support the need for environmental measurement associated with the economic development of emerging countries. At the same time, we are expanding the application of our products and technologies, which have been developed to deal with pollution problems or environmental regulations, into applications serving clients with industrial process needs such as monitoring safety, quality, and productivity in industrial plants and monitoring processes for clean water.


- Air pollution analyzers: For control and measurement at power stations, and process monitors at refineries
- Water quality analyzers: For tap water quality control and boiler water control

### Stack gas analyzers (100 in 2005)



- Simultaneous sales expansion in overseas and Japanese markets
- Potential growth in Asia

## Major Products and Market Share



**Stack Gas Analyzers**


These analyzers provide highly sensitive and precise measurements of the NO<sub>x</sub>, SO<sub>2</sub>, CO, CO<sub>2</sub>, and O<sub>2</sub> content of gases emitted by boilers and furnaces in thermal power stations. This single unit can simultaneously and continuously measure all five gases. HORIBA has a top share in the competitive market with over 50 competitors.

World market share

**20%**

Segment sales

**15%**



**Raman Spectrophotometers**

Raman spectroscopy is a spectroscopic technique that effectively identifies the chemical composition of physical materials and analyzes molecular structures. In recent years, it has been attracting attention for applications in cutting-edge research. Raman scattering is typically very weak, so a highly-sensitive and optimal optical design is needed. HORIBA Jobin Yvon's outstanding record in optics-related technology has successfully been utilized in pursuit of extremely high performance Raman spectrophotometers.

World market share

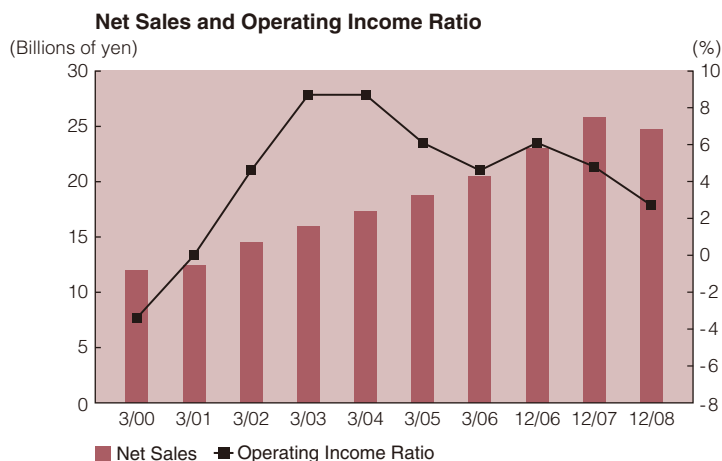
**30%**

Segment sales

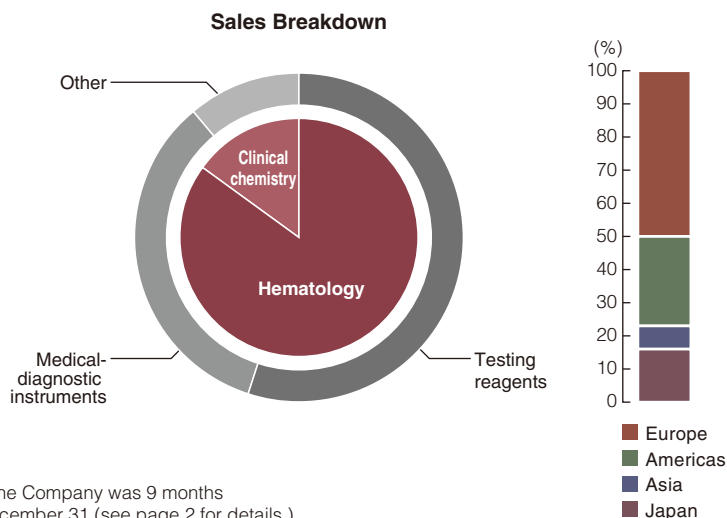
**12%**

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

# Medical-Diagnostic Instruments & Systems



Note: For the fiscal year ended December 31, 2006, the accounting term for the Company was 9 months and 11 days as a result of a change in its fiscal year-end from March 20 to December 31 (see page 2 for details.)



## World leader in small-size hematology analyzers

HORIBA has an approximate 8%\* worldwide market share in small-size hematology analyzers. The products yield blood analysis results in simple, quick tests in familiar medical environments such as private practitioner clinics or hospital testing rooms. Leveraging our sales network for small-size hematology analyzers, we will launch and sell other products for small-size clinical chemistry tests and blood glucose measurement. (\*HORIBA's estimate)

## Stable earnings base supported by sales of reagents

HORIBA's business model in this segment is characterized by generating steady profits from the sale of supplies, namely the reagents used in testing. Our reagents are manufactured in-house and profit from sales each year to the installed base, which is in line with the growth of units in operation. In recent years, the ratio of supply sales to total sales has risen. Our future target is to see this ratio increase to over 60% with improved operating margins (see page 30 for details).

## Supported by a weak euro. Limited impact from economic downturn

We manufacture most of our medical-diagnostic products in France, so the appreciation of the euro in 2008 made us less price competitive in world markets with decreased profits. In contrast, the euro is now weakening and is anticipated to improve our segment profitability in 2009. In addition, we expect a limited decline in medical equipment sales relative to sales of general industrial-use equipment. Expanding the installed base of instruments and adding new products will increase our sales of reagents for use in diagnostic analyzers.

## Active use of M&A opportunities for achieving medium-term growth

HORIBA has proactively used M&A activities for business expansion. For example, the acquisition of ABX S.A. (Now HORIBA ABX S.A.S.), in France in 1996, gave us an immediate, full-scale entry into the medical-diagnostic instrument market. We will continue to look for acquisition or merger opportunities for new technologies that are needed to expand our product line-up and strengthen our global sales network. We will thus build a strong business base, which is indispensable for medium to long-term growth.

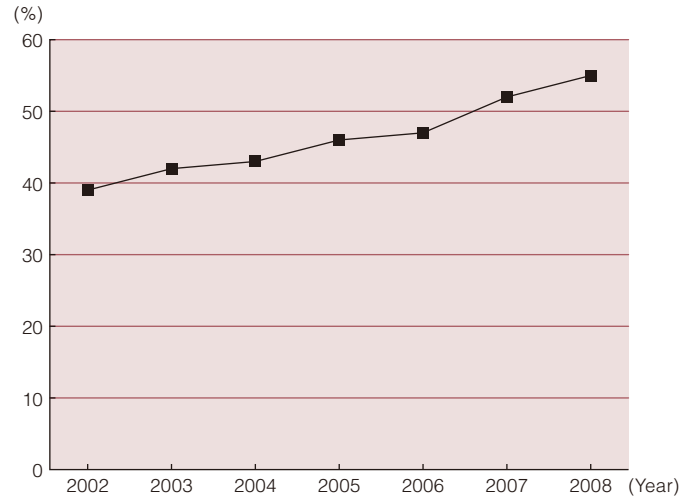
**Product Development in the In-Vitro Diagnostics Analysis Market**

Actively promote product development ranging from conventional small-sized hematology to medium- and large-sized analyzers on a vertical axis and to clinical chemistry analyzers on a horizontal axis.

Test category	Clinical chemistry	Hematology		Immunology
		Hematology analyzers	Coagulation	
Market scale	¥1 trillion	¥0.2 trillion	¥0.1 trillion	¥1 trillion
Hospitals	Large hospitals testing centers	Hematology analyzer systems		CRP counters for asthma medication
	Medium- and small-sized hospitals	Clinical chemistry	Medium- and small-sized hematology analyzers	
Private practitioners	Blood glucose measurement systems		Coagulation reagents	
Hospital units and surgery rooms (POCT)	small-sized clinical chemistry analyzers			

**Sales Ratio of Testing Reagents in HORIBA's Medical-Diagnostics Instruments & Systems Segment**

The sales ratio of testing reagents is increasing in proportion to the growth in the number of units in operation.



**HORIBA's business development and strengths in the medical-diagnostic instrument business**

**Business development**

**Promote exploiting the small-size equipment market which targets private practitioner clientele**

The acceptance of small-size, in-vitro diagnostic devices for blood testing and other medical practices is low. The rate is less than 20% at private practitioner clinics in Japan. However, the acceptance rate is expected to rise in the future, as the use of this diagnostic equipment contributes to the quick and accurate diagnosis of medical conditions plus reduced medical expenses by restraining the over-prescription of drugs. HORIBA will continue to exploit this market by pioneering new, small-size hematology analyzers and blood glucose measurement equipment.

**Evolution by adding large-size hematology analyzers and clinical chemistry measurement equipment**

HORIBA is leveraging its technological know-how and product development capability for small-size hematology analyzers to develop and sell large-size products for large hospitals and testing laboratories. It may take time to penetrate this competitive market but we will continue our efforts due to the expected high volume and profitability from reagent sales. We will launch a number of clinical chemistry products by starting with small-size products and using our well-established sales network for small-size hematology analyzers.

**Strengths**

**Product development capability**

Use of HORIBA's integrated analytical technologies and know-how

**Sales network**

Solid base in the market for private practitioners

**Originality**

Unique product concept (i.e., CRP simultaneous counters)

**Low running cost**

Reduced users' expense per test

**Foreign exchange hedging**

Bipolar production structure of France and Japan

**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.



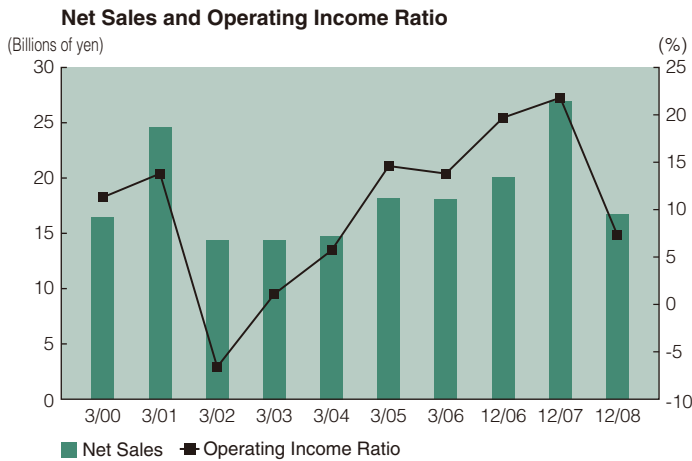
**Automatic Blood Cell Counter plus CRP**

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

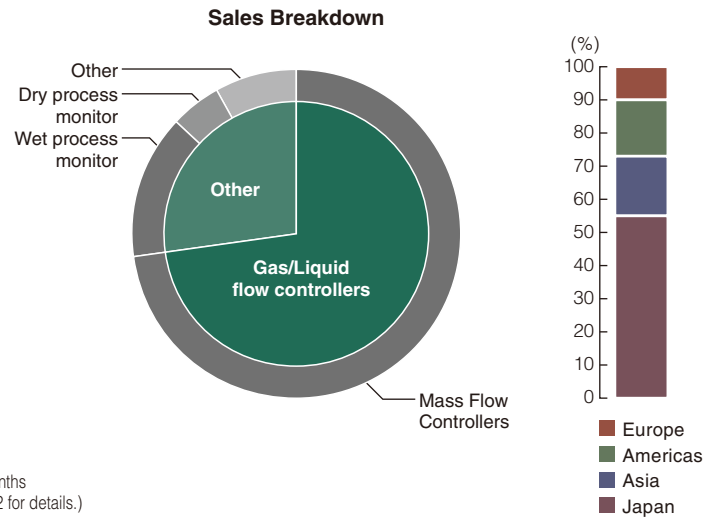


Note: Market shares quoted are estimates by HORIBA, Ltd. \*Segment sales include sales of testing reagents.

# Semiconductor Instruments & Systems



Note: For the fiscal year ended December 31, 2006, the accounting term for the Company was 9 months and 11 days as a result of a change in its fiscal year-end from March 20 to December 31 (see page 2 for details.)



## HORIBA mass flow controllers incorporate leading-edge technology

HORIBA has captured a 33%\* global market share for mass flow controllers, which regulate gas and liquid flow rates in semiconductor manufacturing equipment. In the future, we expect more miniaturization in semiconductor wafer processing as part of efforts to improve semiconductor productivity and performance. HORIBA's high-performance, high-quality products are expected to gain a larger share of this important semiconductor market. (\*HORIBA's estimate)

## Staying close to our customers for development, marketing, and services

In the semiconductor industry joint product development with the customer is an indispensable process. Likewise, building a 24-hour service and support system to maintain close relationships with customers is also indispensable. In 2007 HORIBA added the HORIBA Technology Center in Silicon Valley, California in the U.S., to its already established, thorough marketing and sales network. HORIBA is now actively engaged with its customers in semiconductor product development as it works in the heart of the semiconductor industry.

## Harsh business environment to continue in 2009

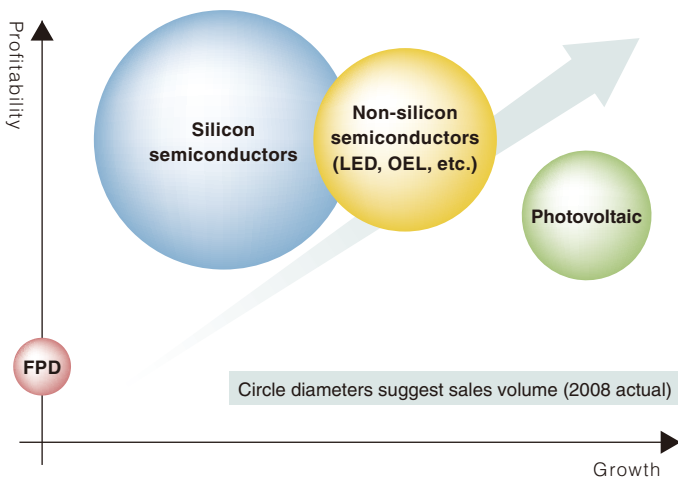
Demand for semiconductor manufacturing products has dropped sharply since 2008. Semiconductor manufacturers are experiencing deteriorated margins triggered by a price decline for DRAMs and other semiconductor end products plus the prolonged difficult financial conditions caused by the worldwide financial crisis. Thus, there is a valid concern that the cutbacks in capital investment may be protracted. In 2009, we are experiencing difficult and unprecedented business conditions. We are working hard to maintain profitability by efficiently shifting personnel to other segments and reducing fixed costs.

## Expand business to non-silicon semiconductor areas

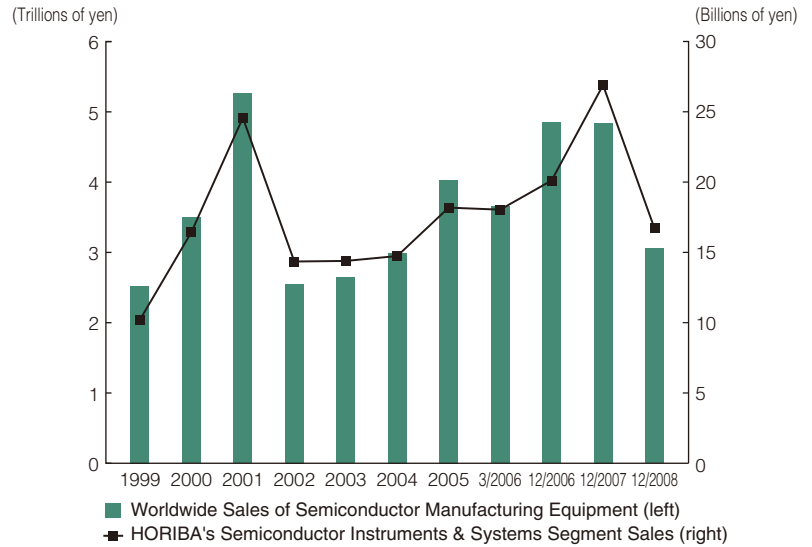
HORIBA has traditionally focused on business opportunities related to silicon semiconductor devices. In the future non-silicon semiconductors, using photovoltaic, compound semiconductors, and other new technologies, are expected to be in great demand. We anticipate future business expansion by focusing on new applications for mass flow controllers, analyzers and measurement equipment tailored to these new areas.



**Future Image of Mass Flow Controllers**



**Comparison of Worldwide Sales of Semiconductor Manufacturing Equipment and HORIBA's Semiconductor Instruments & Systems Segment Sales**



Source: Semiconductor Equipment Association of Japan

**Strengths of HORIBA Mass Flow Controllers**

**Silicon semiconductors**

- HORIBA leads the competition in developing new products that incorporate differential pressure flow measuring methods. These products achieve both high precision and high performance.
- The U.S. production and development bases are equipped with high precision equipment and technology. New technology and products are developed by working closely with key customers.

**Photovoltaic**

- Specialized product development in photovoltaic manufacturing equipment
- Value-added products (liquid gasification systems and integrated modules that regulate both gas and liquid flow)

**Non-silicon semiconductors (compound semiconductors, organic EL, etc.)**

- Increase in adopting LED has a high growth potential
- Increase in market share for equipment to coat glass, film, etc.

**(%) HORIBA's Share of Global Market for Mass Flow Controllers**



Note: Estimates by HORIBA, Ltd

**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.

# Governance & CSR Policy

## Corporate Governance

Since the time when little attention was paid to corporate governance, HORIBA has pledged to improve its corporate governance by implementing the following policies, which focus on the responsibility to the company's owners based on the corporate motto, "Open and Fair."

### Election of External Directors and Corporate Auditors

In order to avoid management with introverted logic, HORIBA has always appointed directors and corporate auditors from outside the company. This practice started with the company's origin in 1953 and is followed through to the present day.

### Open General Meetings of Shareholders

Since its initial listing in 1972, HORIBA has encouraged all shareholders to attend the General Shareholders Meeting. Shareholder meetings are held on Saturdays to facilitate public attendance.

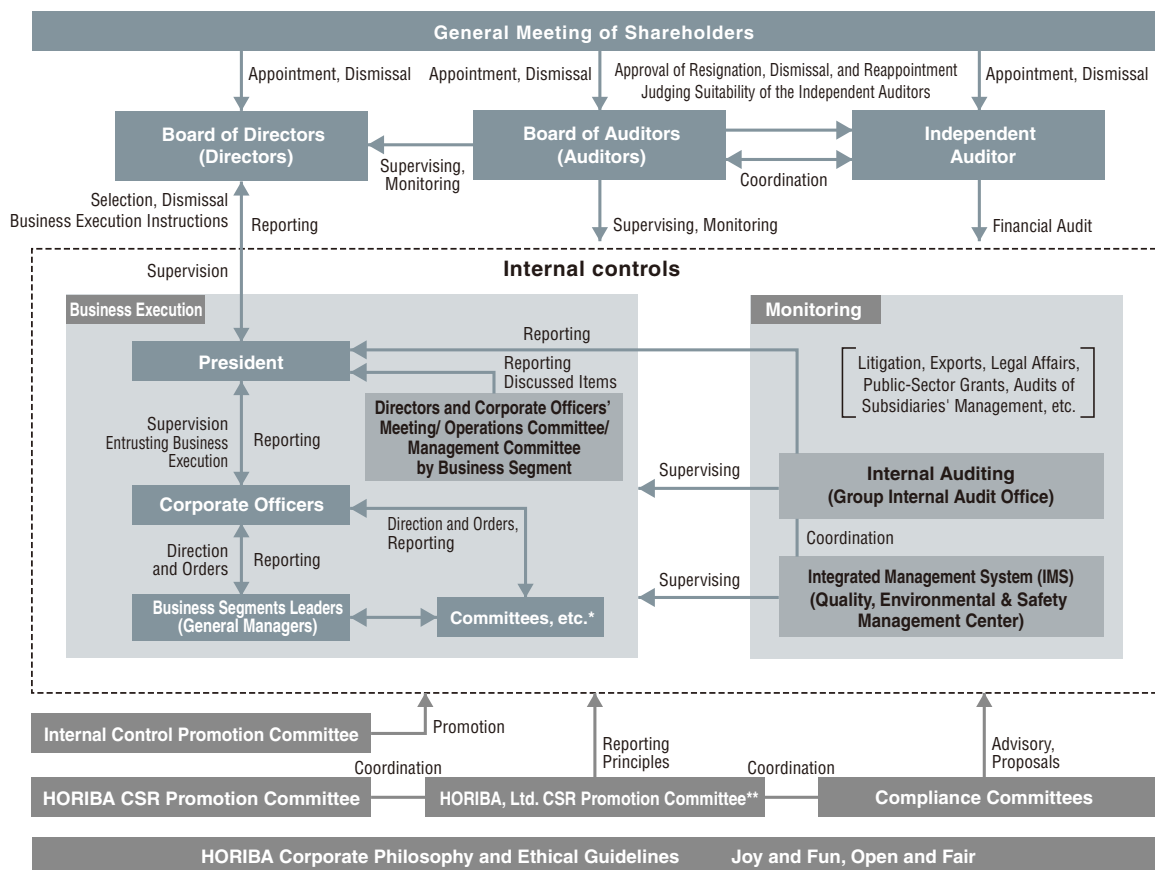
### Implementation of Dividend Policy that Emphasizes Shareholder Returns

HORIBA was the first listed Japanese company to start paying shareholder dividends based on a payout ratio (30% of parent net earnings) in 1972 and has paid dividends without interruption for 36 years.

### Adoption of a Corporate Officer System

HORIBA has decreased the number of directors to prevent the Board of Directors from becoming inflexible and avoiding lively discussion. In addition, we introduced a corporate officer system in 1998.

Corporate Governance Structure Chart



\* Committees, etc. refer to committees and conferences that are established and registered based on the "Regulations concerning conferences and committees," such as the Promotion Committee for Management of Business with Public Subsidies and the Safety and Health Committee.

\*\* The CSR Promotion Committee decides on the CSR Policy and priority measures and organizes CSR-related specific activities. In addition, it discusses and approves the issues and the measures concerning the promotion of risk management.

### Appointment of Three Non-Japanese Corporate Officers

HORIBA appointed three non-Japanese corporate officers in April 2009. They are the first non-Japanese to hold such positions in the company. Given HORIBA's global thrust, we realize that direct, non-Japanese participation in corporate management is essential, as our overseas sales ratio is at 65% and our ratio of non-Japanese employees stands at 57%. During the selection process, we evaluated their potential for implementing concerted group-wide management policy in line with our corporate motto "HORIBA Group is One Company." and their leadership ability in global business operations. In addition, the candidates were judged on their compatibility with our corporate motto of "Joy and Fun" and their ability to make it known to all employees engaged in overseas operations. With these appointments, HORIBA now has seven executive corporate officers and six corporate officers, all of whom are dedicated to strong global management.

### Corporate Social Responsibility Policy: Promote CSR in the Course of Day to Day Operations

HORIBA's products, which are divided into four business segments (automotive, analytical, medical, and semiconductor) are intimately linked with the key issues of the global environment, human health, public safety, and energy. We believe that our corporate activities, which will continue to focus on our core business, are CSR activities themselves and will continue to contribute to society.

### CSR Report: Gaiareport 2009

HORIBA has published the "Gaiareport" as an annual environmental and corporate social responsibility report. Our activities for environmental protection and contribution to society are introduced in it. Please visit our website for details.

<http://www.horiba.com/social-responsibility/csr-reports/>

### Elimination Order by Fair Trade Commission and HORIBA's Response

On November 12, 2008, HORIBA received an order to eliminate its unlawful behavior and pay a surcharge from the Japan Fair Trade Commission (JFTC) for having violated the anti-trust law in bidding for the sale of air pollution monitors to the national and local governments. At the Board of Directors meeting of November 20, 2008, held subsequent to the JFTC ruling, the Board acknowledged that such behavior had actually taken place, and resolved that such behavior would then be eliminated and would never be repeated in the future. The resolutions were immediately announced to all employees. By solemnly acknowledging the ruling, we, as an integrated team, shall redouble our compliance efforts in order to prevent any such recurrence and regain social trust.

### Conducting Environmental Events Associated with the G8 Toyako Summit

In July 2008, the Group of Eight Summit met in Toyako, Hokkaido. Before the meetings HORIBA hosted events in Kobe and Sapporo for hands-on scientific experiments demonstrating how HORIBA's instruments work with everyday products. The events were initiated by our employees' desire to convey to the participants the importance of, and fascination with, analysis and have them understand how environmental problems are closely related to their lives. In total, 300 people attended these events. In addition, at the G8 Foreign Ministers' Meeting held in Kyoto, HORIBA exhibited equipment demonstrating photosynthesis and introduced some of our unique technology. We presented ourselves as one of the leading companies in environmental measurement.



Exhibition in Kobe

# Eleven-Year Summary

HORIBA, Ltd. and Consolidated Subsidiaries

The years ended March 20, 1999 - 2006, the year ended December 31, 2006 - 2008.

Millions of yen

	3/1999	3/2000	3/2001	3/2002	3/2003
<b>For the Year</b>					
Net sales	¥67,597	¥71,030	¥77,873	¥74,468	¥78,501
Operating costs and expenses	65,304	67,213	73,123	71,921	73,027
Operating income	2,293	3,817	4,750	2,547	5,474
Net income (loss)	577	1,100	1,443	(1,071)	786
Capital expenditures	6,980	3,090	3,032	3,137	3,444
Depreciation and amortization	2,869	3,448	3,276	3,381	2,915
Research and development expenses	3,466	4,030	4,938	4,336	4,044
<b>At Year-End</b>					
Total assets	¥90,376	¥89,004	¥101,006	¥98,766	¥100,542
Cash and cash equivalents	16,388	15,264	17,443	16,625	22,061
Trade notes and accounts receivable					
Affiliated companies	-	-	-	-	-
Other	24,427	27,387	31,960	29,622	29,594
Inventories	18,829	16,207	19,503	19,169	18,336
Property, plant and equipment, net	19,091	17,722	18,541	19,279	19,000
Trade notes and accounts payable					
Affiliated companies	38	55	79	43	51
Other	7,562	10,073	12,081	7,887	9,147
Liabilities with interest	29,053	26,811	30,545	34,989	33,218
Shareholders' equity	38,395	37,214	39,796	40,063	40,144
Share price at end of fiscal period (¥)	1,225	786	825	896	765
Number of employees (consolidated)	3,044	3,257	3,540	3,583	3,691
(Notes 2, 3, 4, 5, 6)					
<b>Per Share Information</b>					
Net income (loss) - basic	¥18.56	¥35.39	¥46.43	(¥34.47)	¥22.21
Net income - diluted	15.38	29.72	38.75	-	18.31
Net assets	1,235.59	1,197.12	1,280.51	1,293.42	1,293.30
Cash dividends	11.00	6.00	8.50	8.50	14.50
<b>Financial Ratios</b>					
Operating income to net sales (%)	4.3	5.4	6.1	3.4	7.0
Return on assets (%)	0.7	1.2	1.5	(1.1)	0.8
Return on equity (%)	1.5	2.8	3.7	(2.7)	2.0
Shareholders' equity ratio (%)	42.5	41.8	39.4	40.6	39.9
Consolidated dividend payout ratio (%)	59.3	17.0	18.3	-	57.2
Non-consolidated dividend payout ratio (%)	33.5	32.3	31.4	30.9	40.8

Notes: 1. The U.S. dollar amounts are provided solely for convenience at the rate of ¥91.03 to US\$1.00, the rate prevailing on December 31, 2008.

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. However, the amounts in prior years have not been restated.

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.

5. Effective for the year ended December 31, 2006, the Company adopted the revised accounting standard for presentation of net assets in the balance sheet.

The amounts in prior years have not been restated.

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

Millions of yen						Thousands of U.S. dollars (Note 1)
3/2004	3/2005	3/2006	12/2006	12/2007	12/2008	12/2008
¥85,073	¥92,492	¥105,665	¥116,099	¥144,283	<b>¥134,248</b>	<b>\$1,474,767</b>
78,223	83,119	94,390	104,392	127,753	<b>123,290</b>	<b>1,354,389</b>
6,850	9,373	11,275	11,707	16,530	<b>10,958</b>	<b>120,378</b>
2,074	3,524	6,473	6,510	8,691	<b>6,039</b>	<b>66,341</b>
3,501	3,956	5,664	5,059	9,336	<b>6,645</b>	<b>72,998</b>
3,037	2,944	3,173	3,246	4,161	<b>4,955</b>	<b>54,433</b>
5,129	5,636	6,553	6,136	9,474	<b>10,662</b>	<b>117,126</b>
¥92,657	¥99,913	¥119,976	¥129,236	¥154,367	<b>¥133,279</b>	<b>\$1,464,122</b>
13,603	16,108	14,884	15,673	20,565	<b>22,660</b>	<b>248,929</b>
-	-	-	-	-	<b>63</b>	<b>692</b>
29,143	30,595	37,408	42,485	45,873	<b>37,330</b>	<b>410,085</b>
19,402	22,012	27,273	30,947	33,734	<b>29,802</b>	<b>327,386</b>
18,841	18,481	20,223	21,700	24,071	<b>23,115</b>	<b>253,928</b>
58	26	45	44	53	<b>40</b>	<b>439</b>
8,700	11,264	13,017	14,917	16,792	<b>11,063</b>	<b>121,532</b>
21,460	16,042	13,866	16,224	25,177	<b>20,984</b>	<b>230,517</b>
43,348	52,263	65,446	72,371	80,377	<b>76,829</b>	<b>843,996</b>
1,380	1,950	3,690	4,400	4,100	<b>1,237</b>	<b>13.59</b>
3,808	3,984	4,461	4,697	4,976	<b>5,146</b>	<b>U.S. dollars (Note 1)</b>
(Notes 2, 3, 4, 5, 6)						U.S. dollars (Note 1)
¥62.90	¥98.33	¥154.27	¥154.23	¥205.01	<b>¥142.76</b>	<b>\$1.57</b>
50.10	83.81	146.97	153.70	204.39	<b>142.71</b>	<b>1.57</b>
1,350.31	1,415.75	1,548.08	1,710.75	1,892.64	<b>1,816.96</b>	<b>19.96</b>
10.00	16.00	28.00	26.00	39.00	<b>44.00</b>	<b>0.48</b>
8.1	10.1	10.7	10.1	11.5	<b>8.2</b>	
2.2	3.7	5.9	5.2	6.1	<b>4.2</b>	
5.0	7.4	11.0	9.4	11.4	<b>7.7</b>	
46.8	52.3	54.6	56.0	52.1	<b>57.6</b>	
15.3	16.5	18.1	16.9	19.0	<b>30.8</b>	
30.3	41.8	33.8	30.0	30.1	<b>30.0</b>	

Computation:

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

Net assets per share (¥) = (shareholders' equity – projected bonuses to directors and corporate auditors)\*  
/ (number of shares issued and outstanding, corrected for treasury stock)

Operating income to net sales (%) = 100 x operating income / net sales

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

Shareholders' equity ratio (%) = 100 x shareholders' equity / total assets

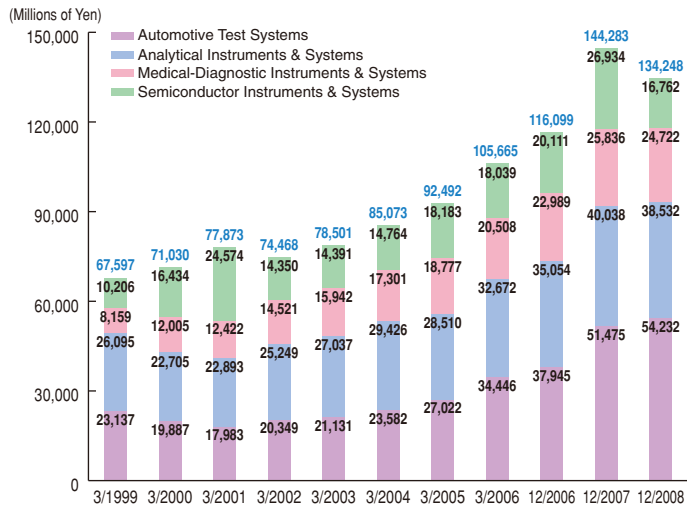
Consolidated dividend payout ratio (%) = 100 x dividends paid / net income (consolidated)

Non-consolidated dividend payout ratio (%) = 100 x dividends paid / net income (non-consolidated)

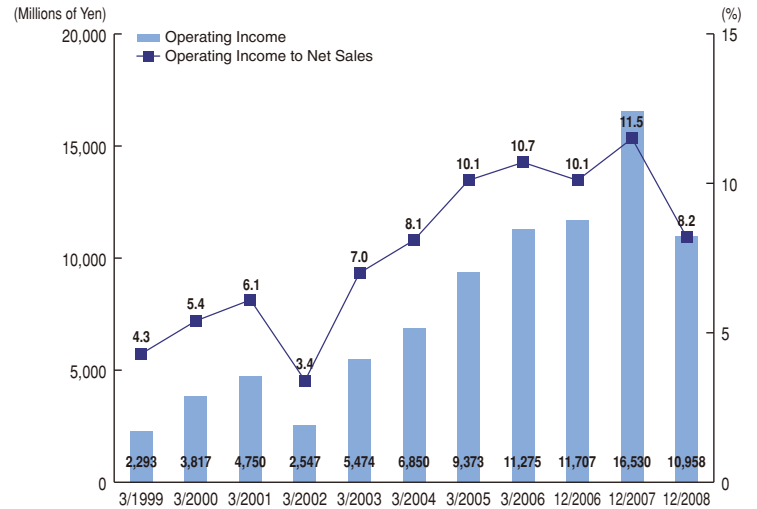
\*Directors' and corporate auditors' bonuses for the year ended December 31, 2006, 2007 and 2008 have been recognized in selling, general and administrative expenses.

# Eleven-Year Summary

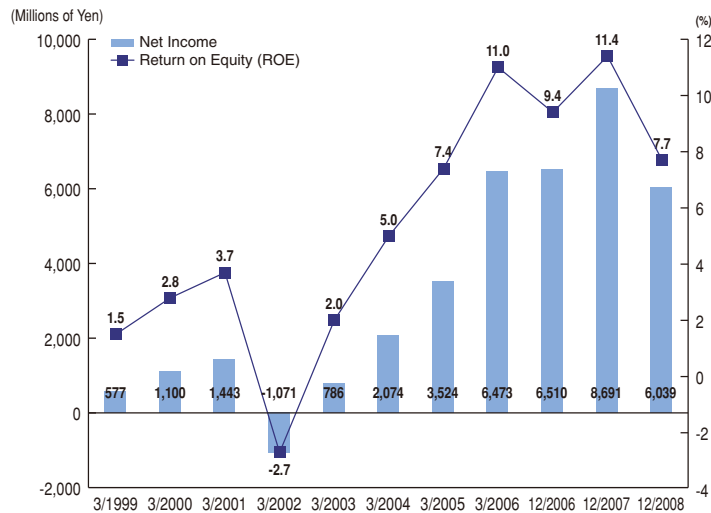
## Net Sales by Segment



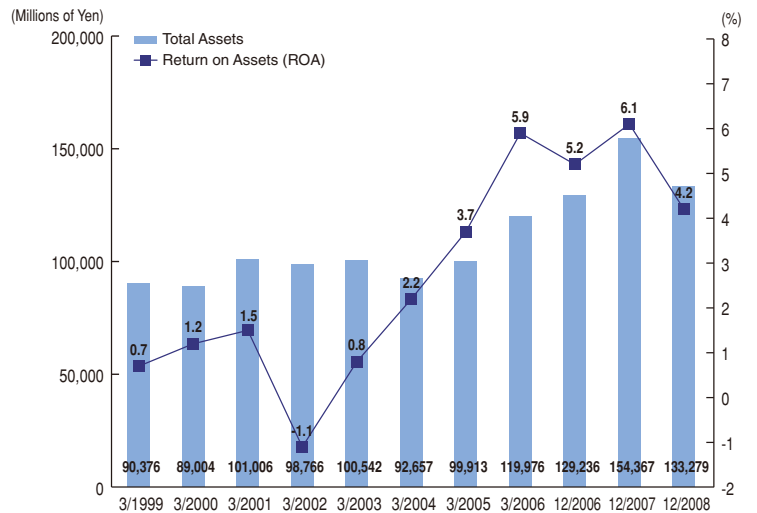
## Operating Income and Operating Income to Net Sales



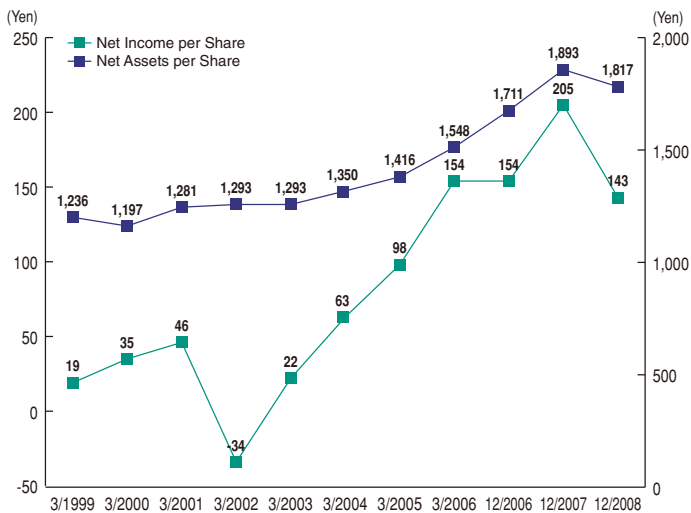
## Net Income and Return on Equity (ROE)



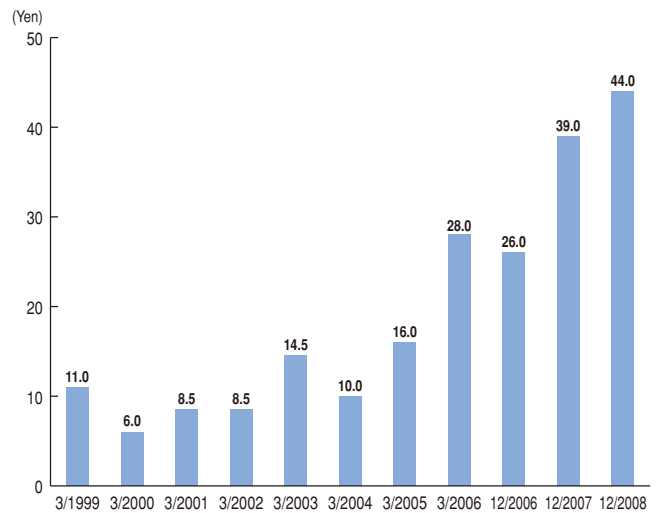
## Total Assets and Return on Assets (ROA)



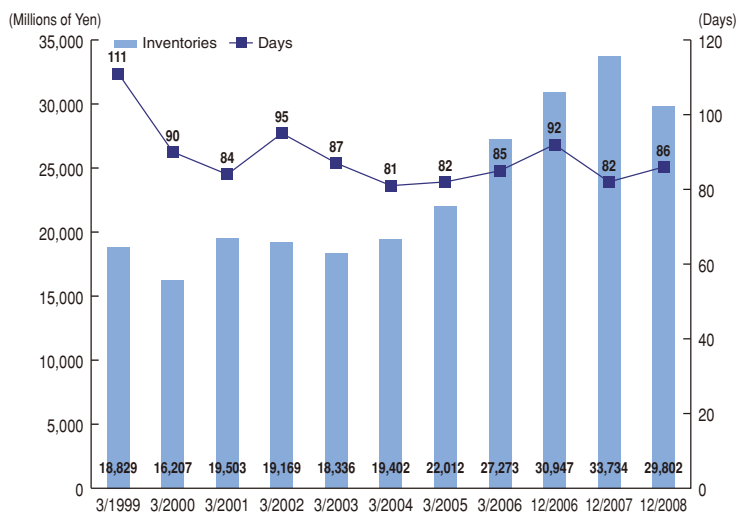
## Net Income per Share and Net Assets per Share



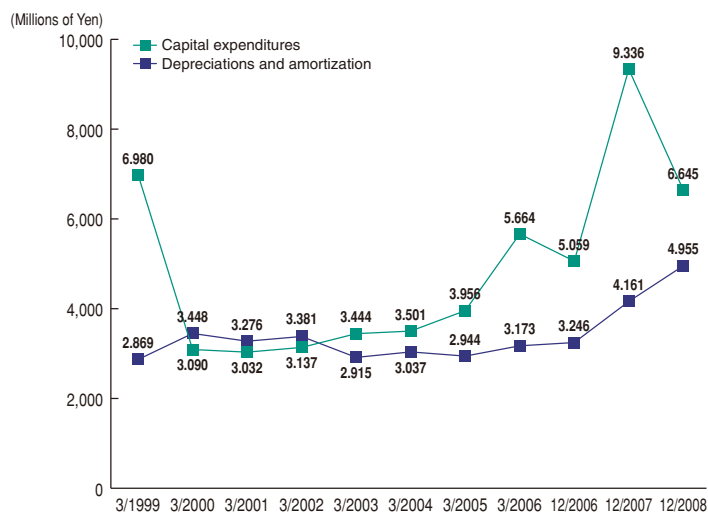
## Cash Dividends per Share



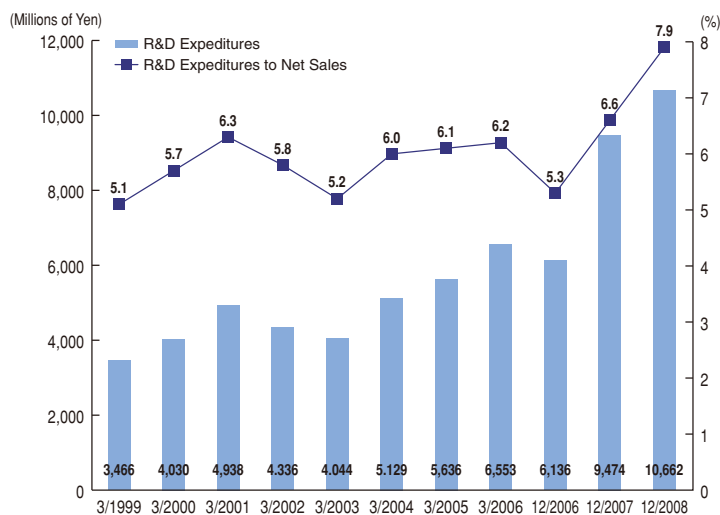
### Inventories and Inventory Turnover (Days)



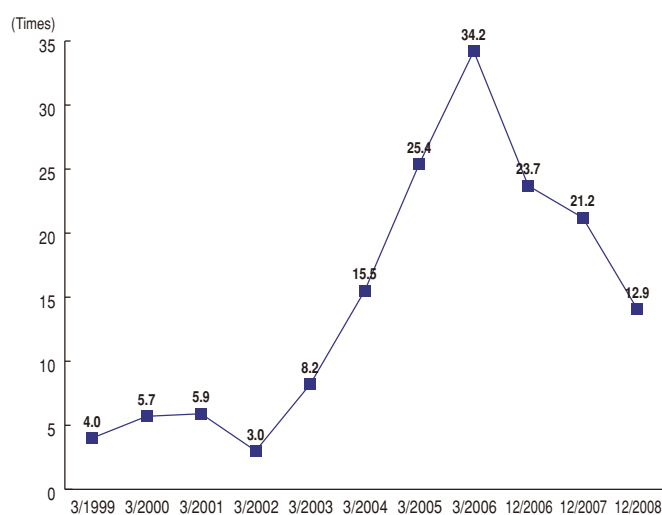
### Capital expenditures and Depreciations and amortization



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



### Interest Coverage Ratio



Computation:

Inventory turnover (days) = average inventory in fiscal period / daily sales

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

(See the notes on Page 36 for the other items.)

# HORIBA, Ltd. and Consolidated Subsidiaries | Consolidated Financial Review

During the fiscal year under review, the U.S. and European economies contracted quite significantly. In the midst of financial uncertainties that were caused by such factors as the bankruptcy of a major U.S. investment bank and a sharp drop in the value of securitized products, housing investment collapsed, consumer spending weakened, and employment conditions deteriorated. In Asia, China was affected by the economic slowdown in the U.S. and Europe, and its high growth rates began to weaken. Japan's economy also worsened in the second half of the year. Due to the slowdown in the overseas economy and the appreciation of the yen, exports turned downward while corporate earnings deteriorated and led to a decrease in capital spending. Furthermore, the yen strengthened in the second half of the year. The average exchange rate for the year was ¥103.48 against the U.S. dollar and ¥152.65 against the euro, an appreciation of about 14% and 6%, respectively.

In the market for analytical systems and measurement systems, overall demand declined due to a general decrease in capital spending worldwide, despite the automotive industries expanded R&D spending on environmental measures and improvements in fuel consumption. In addition to a decline in sales in the analytical and testing instrument market that was caused by the appreciation of the yen, the semiconductor industry recorded a significant drop in capital spending by semiconductor makers in response to the sluggishness in the memory market. Furthermore, pricing continued to weaken because of intensified competition and other factors.

In this environment, under the slogan "HORIBA Group is One Company," HORIBA continued to implement the unified enterprise resource planning ("ERP") system to the group companies to promote global and group-wide management. This ERP system has been utilized in the Company and the major Japanese subsidiaries since January 1, 2008. In addition, the Company continued to pursue well-balanced management, a strength of HORIBA, by establishing a balanced earning structure through the efficient distribution of resources to each segment and region. Under this policy, the Company reorganized its subsidiaries in the U.S., the world's biggest market for measuring instruments, to expand its business and increase the efficiency of its operations. Moreover the reorganization of European group companies was begun.

Despite our efforts, the consolidated sales, operating income and net income of HORIBA decreased from a year ago, due mostly to the demand decline and the strengthened yen.

## Net Sales

In the fiscal year under review, consolidated net sales decreased by ¥10,035 million, or 7.0%, year on year to ¥134,248 million.

## Business Segments

### Automotive Test Systems

Sales in the Automotive Test Systems segment increased by 5.4% from the previous year to ¥54,232 million. The increase in net sales was mainly attributable to the favorable sales of emission measurement systems, our mainstay products, in Japan and Europe, thanks to automobile manufacturers' efforts to accelerate the development of energy-saving engines and vehicles to counter a surge in crude oil prices in the first half of the year and CO<sub>2</sub> regulations around the world. By geographic region<sup>\*2</sup>, sales increased by 6.1% in Japan and other Asian countries and 12.0% in Europe from the previous year. However sales in the Americas declined by 8.8%.

### Analytical Instruments & Systems

Net sales of ¥38,532 million were recorded in the Analytical Instruments & Systems segment, down 3.8% year on year. The decrease was mainly due to sluggish overall demand and severe price competition. While HORIBA's strong technological capabilities allowed sales to grow in advanced science fields and demand for environmental measurement instruments was steady, capital investment in the private sector decelerated amid the global economic recession. By geographic region<sup>\*2</sup>, sales in Japan and other Asian countries decreased by 3.0% from the previous year, while in the Americas and Europe sales decreased by 129.4% and 28.6%, respectively.

### Medical-Diagnostic Instruments & Systems

Sales in the Medical-Diagnostic Instruments & Systems segment amounted to ¥24,722 million, down 4.3% year on year. Sales of testing reagents grew with the number of hematology analyzers in use. However, pricing competitiveness and profitability were adversely affected by the significant appreciation of the euro in the first half of the year, as HORIBA ABX S.A.S. (France), a consolidated subsidiary, manufactures most of its analyzers locally. By geographic region<sup>\*2</sup>, sales were down from the previous year by 6.0% in Japan and other Asian countries, -% in the Americas and 13.3% Europe.

### Semiconductor Instruments & Systems

Sales in the Semiconductor Instruments & Systems segment amounted to ¥16,762 million, down 37.8% year to year. Sales of



major products, namely, mass flow controllers used in semiconductor manufacturing equipment and chemical concentration monitors used in semiconductor cleaning equipment, declined because of falling prices for DRAM and other semiconductors in a sluggish semiconductor market. In contrast, net sales of mass flow controllers used in solar cell manufacturing equipment increased, mainly in the European market. By geographic region\*2, sales declined from the previous year by 39.9% in Japan and other Asian countries and 5.9% in Europe, while sales in the Americas increased by 42.3%.

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

The average foreign exchange rate applied in book closings was ¥103.48 to the U.S. dollar, compared with ¥117.85 for the previous year, and ¥152.65 to the euro, compared with ¥161.31 for the previous year. Using the exchange rates for the previous year, consolidated sales for the year under review would have been ¥141,168 million. Thus, ¥6,920 million in decreased sales can be attributed to the appreciation of the yen.

#### **Cost of Sales, SG&A Expenses, and Operating Income**

Consolidated cost of sales decreased by ¥2,691 million to ¥74,674 million. The cost of sales ratio increased by 2.0 percentage points from a year ago to 55.6%, mainly due to the appreciation of the yen. After excluding ¥3,373 million from fluctuations in foreign exchange rates, however, the cost actually increased by ¥682 million.

Selling, general and administrative (SG&A) expenses decreased by ¥1,772 million to ¥48,616 million, and the ratio to net sales worsened by 1.3 percentage points to 36.2%. Excluding the ¥2,252 million impact from fluctuations in foreign exchange rates, however, the actual decrease in SG&A expenses was ¥480 million rather than the nominal increase of ¥1,772 million.

As a result, consolidated operating income decreased by ¥5,572 million, or 33.7%, year on year to ¥10,958 million. The operating income ratio was 8.2%, down 3.3 percentage points from 11.5% in the previous year.

#### **Business Segments**

##### **Automotive Test Systems**

Segment operating income in the Automotive Test Systems segment rose by 7.0% to ¥7,231 million thanks to the growth in sales of emission measurement systems and despite the fact that the automotive development test systems (DTS) business,

which was acquired from Germany's Carl Schenck AG in September 2005, reported a loss.

##### **Analytical Instruments & Systems**

Segment operating income in the Analytical Instruments & Systems segment decreased by 31.6% to ¥1,827 million due to a lower level of sales and severe price competition.

##### **Medical-Diagnostic Instruments & Systems**

Operating income in the Medical-Diagnostic Instruments & Systems segment decreased by 45.0% to ¥678 million because profitability was adversely affected by the significant appreciation of the euro in the first half of the year, as HORIBA ABX S.A.S. (France), a consolidated subsidiary, manufactures most of its analyzers locally.

##### **Semiconductor Instruments & Systems**

In the Semiconductor Instruments & Systems segment, operating income decreased by 79.2% to ¥1,222 million due to a significant drop in sales.

#### **Net Income**

Other income (expenses) improved by ¥1,447 million year on year to a loss of ¥977 million, despite the loss on impairment of fixed assets of ¥462 million and the loss on restructuring of an affiliated company of ¥206 million. The main factors for the improvement included other income from the reversal of provision for possible losses from litigation of ¥1,127 million and the disappearance of the other expenses recorded in the previous period, such as the provision for possible losses from litigation of ¥1,041 million and the loss due to changes in accounting policies of ¥703 million. Nevertheless, because of deterioration in operating income, pretax income decreased by ¥4,125 million, or 29.2%, to ¥9,981 million, and net income decreased by ¥2,652 million, or 30.5%, to ¥6,039 million.

#### **Financial Position**

As of December 31, 2008, total consolidated assets were ¥133,279 million, down ¥21,088 million from December 31, 2007, and total current assets decreased by ¥18,749 million to ¥94,581 million. The main factors contributing to the reduction of total current assets were decreases in trade notes and accounts receivable and inventories. Trade notes and accounts receivable decreased by ¥8,480 million, mainly due to a decline in sales and the strong yen, which reduced the yen-based value of the accounts receivable of overseas subsidiaries. Inventories

decreased by ¥3,932 million as well, mainly due to a reduction in inventories and the strong yen, which reduced the yen-based value of the inventories of the overseas subsidiaries. Total fixed assets decreased by ¥2,339 million to ¥38,698 million, and net property, plant and equipment decreased by ¥956 million to ¥23,115 million, mainly due to depreciation, the impairment of idle land and the strong yen, which reduced the yen-based value of the net property, plant and equipment of the overseas subsidiaries, while the Company invested in the Biwako Factory and the Kutsuki training center and HORIBA ABX S.A.S. (France) acquired assets for leasing. In addition, intangible fixed assets decreased by ¥1,254 million to ¥7,248 million, due mainly to depreciation and the impairment of goodwill.

Total consolidated liabilities were ¥56,437 million, down ¥17,549 million from a year ago. The main factors behind the decrease included a decrease in trade notes and accounts payable and a decrease in interest bearing liabilities. Trade notes and accounts payable decreased by ¥5,742 million to ¥11,103 million, mainly due to a decrease in purchases as a result of lower sales and a reduction in inventories and because of the impact of the strong yen, which reduced the yen-based value of the accounts payable of the overseas subsidiaries. Interest bearing liabilities also decreased by ¥4,193 million to ¥20,984 million, due primarily to the redemption of the No. 2 non-collateral corporate bonds.

Total consolidated net assets amounted to ¥76,842 million, down ¥3,539 million from December 31, 2007, due mainly to a decrease of ¥5,871 million in foreign currency translation adjustments and ¥1,158 million in net unrealized holding gains on securities, despite an increase of ¥4,174 million in retained earnings.

## Cash Flows

### Cash Flow from Operating Activities

Net cash provided by operating activities amounted to ¥7,522 million, compared to ¥13,582 million provided in the previous year. The main factors were income before income taxes of ¥9,981 million and depreciation of ¥4,955 million, which more than offset income taxes paid of ¥6,497 million and a decrease of ¥2,502 million in trade notes and accounts payable.

### Cash Flow from Investing Activities

Net cash provided by investing activities totaled ¥491 million, compared to ¥16,445 million in the previous year. Payments amounted to ¥4,797 million for the purchase of property, plant and equipment, ¥1,426 million for the purchase of intangibles and

¥1,032 million for the purchase of investment securities, while proceeds from matured time deposits were ¥7,507 million.

### Cash Flow from Financing Activities

Net cash used in financing activities amounted to ¥3,943 million, compared to ¥7,677 million provided in the previous year. This was mainly attributable to a payment of ¥5,000 million for the redemption of corporate bonds and an outflow of ¥1,859 million for the payment of cash dividends against an increase of ¥3,488 million in short-term borrowings.

As a result, there was a net increase of ¥2,095 million in cash and cash equivalents to ¥22,660 million as of December 31, 2008.

## Dividend Policy

HORIBA's basic policy regarding dividends is to maintain its standard payout ratio in which the total dividend payment is equal to 30% of the nonconsolidated net income of the Company. In some cases, a portion of extraordinary gains and/or losses may be excluded from the calculation of the payout ratio. The Company receives a certain proportion of the net income of each group company as a dividend. Thus, although dividend payments to shareholders are computed based on the nonconsolidated net income of the Company, they are in effect made on consolidated earnings. In addition, the Company intends to appropriate internal reserves for retained earnings as working capital for business expansion, capital expenditures and investments in research and development, with the aim of improving corporate value in the medium to long term.

## Major Risks

### 1. Business Risks

#### (1) Risks Associated with International Business Activities

HORIBA conducts business activities in many countries around the world, including the U.S. and countries in Europe and Asia. Major risks associated with the entry into these overseas markets and conducting business there include sudden shifts in economic conditions or in product supply and demand, sudden changes in retail prices due to competition, changes in laws, regulations and tax systems and social disruptions such as terrorism or war. These risks could affect HORIBA's financial position and business results.

To protect against fluctuations in foreign currency exchange rates, HORIBA promotes local production and supply. HORIBA also employs foreign exchange forward contracts within the limits of its balance of foreign currency denominated receivables and

payables to import and export transactions to minimize foreign exchange risks. However, fluctuations in foreign exchange rates could still have an impact when financial statements prepared in local currencies are translated into Japanese yen for the consolidated financial statements, and a major change in foreign exchange rates beyond our estimates could affect our financial condition and business performance.

#### **(2) Changes in Performance or Financial Position Associated with Acquisitions or Alliances**

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

#### **(3) Repairs of Facilities Following Natural Disasters and Associated Delays in Delivery, etc.**

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

#### **(4) Risks Associated with Contracts and Transactions**

HORIBA enters into various contracts with customers, suppliers and other stakeholders and conducts its business activities based on these contracts. Nevertheless, there is a possibility of claims arising for damages due to different views of performance or a different understanding of business terms between the parties. It is possible that such claims could have a significant impact on HORIBA's financial condition and business performance.

#### **(5) Other Business Risks**

In addition to the above mentioned risks, there are risks associated with the breakdown or malfunction of information systems and regulations in the environmental area. These risks could affect HORIBA's financial position and business results.

## **2. Risks Associated with Development and Production**

### **(1) Compensation for Product Liability**

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

### **(2) Delays in Development of New Products**

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

### **(3) 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. HORIBA exercises all possible caution regarding the management and protection of these intellectual property rights. However, in the case of infringement by a third party, it is possible that HORIBA will be unable to attain its expected earnings. There is also a possibility of disputes over intellectual property rights with other companies. Such disputes could significantly affect HORIBA's financial condition and business performance.

### **(4) Risks Associated with Fluctuations in Raw Material Prices**

HORIBA takes into account the risk of fluctuations in purchasing prices and makes arrangements, such as advance purchasing, to manage this risk when it is deemed necessary. However, it may require some time for an increase in purchasing prices to be passed on and reflected in selling prices. Such circumstances could significantly affect HORIBA's financial condition and business performance.

## **3. Financial Risks**

### **(1) Shifts in the Market Price of Securities and Other Assets**

HORIBA holds shares in its major alliance partners and other companies as part of its technology and business strategies for the future. Currently, HORIBA's acquisitions and sales of investment securities are carefully inspected by the Board of

Directors, market prices of the shares are reported to top management on a timely basis and the purpose for holding the investment securities is properly reviewed. If declines in the market price or profitability of land, building or other assets occurred in the future, there could be a negative impact on the financial condition and business performance of HORIBA by application of impairment accounting.

## **(2) Reversal of Deferred Tax Assets Resulting From Changes in Systems or Accounting Policies**

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

## **4. Risks by Business Segment**

HORIBA consists of four business segments: Automotive Test Systems, Analytical Instruments & Systems, Medical-Diagnostic Instruments & Systems, Semiconductor Instruments & Systems. HORIBA can achieve balanced growth by overcoming each segment's weakness with complementary strengths among all the business segments. Nevertheless, each business segment carries risks associated with fluctuations in its respective operations.

### **(1) Automotive Test Systems**

Emission measurement systems, the main products of the Automotive Test Systems segment, are used by automobile manufacturers, automotive component manufacturers and government agencies, and the setting of legal limits on exhaust emissions affects demand. It is possible, therefore, that the financial condition and business performance of HORIBA will be significantly affected by future regulations. Furthermore, capital expenditures related to shifts in the automation of automotive test systems could have a significant impact on HORIBA's financial condition and business performance.

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

Scientific analysis instruments in the Analytical Instruments & Systems segment are used for R&D and product quality testing, and there are risks that demand may be affected by the R&D budgets of government agencies and the R&D investments and production of private enterprises. In addition, demand for environmental measuring instruments, such as analyzers for air pollution and water quality, may be affected by changes in

environmental regulations and have a significant impact on HORIBA's financial condition and business performance.

### **(3) Medical-Diagnostic Instruments & Systems**

The main products in the Medical-Diagnostic Instruments & Systems segment are hematology analyzers, which target the market for small- and medium-sized equipment used by small- and medium-sized hospitals and medical practitioners. Price competition for these products that is beyond our expectations could have a significant impact on HORIBA's financial condition and business performance.

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

The main products in this segment are fluid control products for semiconductor manufacturing processes and products that support R&D and quality testing by semiconductor manufacturers. To minimize fluctuations in the semiconductor market, HORIBA makes efforts to shorten lead time and quickly respond to customers' needs. Nevertheless, sharp fluctuations in the semiconductor market and the investments of semiconductor manufacturers could affect the financial condition and business performance of HORIBA.

# Consolidated Balance Sheets

HORIBA, Ltd. and Consolidated Subsidiaries  
For the years ended December 31, 2007 and December 31, 2008

Thousands of  
U.S. dollars  
(Note 1)

ASSETS	Millions of yen		12/2008
	12/2007	12/2008	
<b>Current Assets:</b>			
Cash and cash equivalents.....	¥20,565	¥22,660	\$248,929
Trade notes and accounts receivable (Note 5)			
Affiliated companies.....	–	63	692
Other.....	45,873	37,330	410,085
Allowance for doubtful receivables.....	(564)	(607)	(6,668)
Marketable securities (Note 3).....	1	–	–
Inventories (Note 4).....	33,734	29,802	327,386
Deferred tax assets (Note 13).....	2,781	2,397	26,332
Other current assets.....	10,940	2,936	32,253
Total current assets.....	113,330	94,581	1,039,009
<b>Property, Plant and Equipment (Note 2(e) and 6):</b>			
Land.....	7,525	7,141	78,447
Buildings and structures.....	18,593	17,792	195,452
Machinery, equipment and vehicles.....	13,290	11,471	126,014
Construction in progress.....	645	1,722	18,917
Other property, plant and equipment.....	12,660	11,893	130,649
Total.....	52,713	50,019	549,479
Accumulated depreciation.....	(28,642)	(26,904)	(295,551)
Net property, plant and equipment.....	24,071	23,115	253,928
<b>Investments and Other Noncurrent Assets:</b>			
Investment securities (Note 3).....	4,660	3,522	38,691
Investments in nonconsolidated subsidiaries and affiliates.....	99	105	1,153
Deferred tax assets (Note 13).....	1,346	2,019	22,180
Allowance for doubtful accounts.....	(320)	(92)	(1,011)
Other investments and other assets.....	2,679	2,781	30,550
Total.....	8,464	8,335	91,563
<b>Intangibles:</b>			
Goodwill.....	1,078	337	3,702
Other intangibles.....	7,424	6,911	75,920
Total.....	8,502	7,248	79,622
<b>Total Assets.....</b>	<b>¥154,367</b>	<b>¥133,279</b>	<b>\$1,464,122</b>
<b>LIABILITIES AND NET ASSETS</b>			
<b>Current Liabilities:</b>			
Short-term loans payable (Note 6).....	¥6,724	¥8,199	\$90,069
Current portion of long-term debt (Note 6).....	5,816	653	7,173
Trade notes and accounts payable:			
Affiliated companies.....	53	40	439
Other.....	16,792	11,063	121,532
Accounts payable – other.....	12,526	10,363	113,842
Accrued income taxes.....	3,796	1,513	16,621
Deferred tax liabilities (Note 13).....	43	10	110
Accrued bonuses to employees.....	704	745	8,184
Accrued bonuses to directors and corporate auditors.....	120	37	406
Reserve for product warranty.....	1,149	918	10,085
Provision for possible losses from litigation.....	1,204	–	–
Other current liabilities.....	9,111	7,658	84,126
Total current liabilities.....	58,038	41,199	452,587
Long-Term Debt (Note 6).....	12,637	12,132	133,275
Deferred Tax Liabilities (Note 13).....	206	12	132
Employees' Retirement Benefits (Note 7).....	1,814	1,673	18,379
Directors' and Corporate Auditors' Retirement Benefits.....	710	896	9,843
Reserve for Loss on Guarantees.....	52	52	571
Other Noncurrent Liabilities.....	529	473	5,196
Total liabilities.....	73,986	56,437	619,983
<b>Contingent Liabilities (Note 11)</b>			
<b>Net Assets (Notes 8):</b>			
Common stock.....	11,953	12,007	131,901
Authorized – 100,000,000 shares			
Issued and outstanding – 42,468,502 shares (excluding treasury stock) at 12/2007			
Issued and outstanding – 42,284,232 shares (excluding treasury stock) at 12/2008			
Capital surplus.....	18,659	18,713	205,570
Retained earnings.....	45,365	49,539	544,205
Treasury stock.....	(10)	(811)	(8,909)
(5,250 shares at 12/2007 and 244,520 shares at 12/2008)			
Net unrealized holding gains on securities.....	1,622	464	5,097
Foreign currency translation adjustments.....	2,788	(3,083)	(33,868)
Minority interests in consolidated subsidiaries.....	4	13	143
Net assets.....	80,381	76,842	844,139
<b>Total Liabilities and Net Assets.....</b>	<b>¥154,367</b>	<b>¥133,279</b>	<b>\$1,464,122</b>

See the notes to the consolidated financial statements.



# Consolidated Statements of Changes in Net Assets

HORIBA, Ltd. and Consolidated Subsidiaries  
For the years ended December 31, 2007 and December 31, 2008

Thousands of  
U.S. dollars

	Millions of yen		(Note 1)
	12/2007	12/2008	12/2008
<b>Common Stock</b>			
Balance at beginning of period.....	¥11,739	¥11,953	\$131,308
Issuance of new shares (exercise of stock acquisition rights).....	214	54	593
159,000 shares in 12/2007			
55,000 shares in 12/2008			
Balance at end of period.....	¥11,953	¥12,007	\$131,901
<b>Capital Surplus</b>			
Balance at beginning of period.....	¥18,445	¥18,659	\$204,977
Issuance of new shares (exercise of stock acquisition rights).....	214	54	593
Balance at end of period.....	¥18,659	¥18,713	\$205,570
<b>Retained Earnings</b>			
Balance at beginning of period.....	¥37,864	¥45,365	\$498,352
Net income.....	8,691	6,039	66,341
Cash dividends.....	(1,185)	(1,865)	(20,488)
Decrease on disposal of treasury stock.....	(5)	-	-
Balance at end of period.....	¥45,365	¥49,539	\$544,205
<b>Treasury Stock</b>			
Balance at beginning of period.....	(¥18)	(¥10)	(\$110)
Purchase of treasury stock.....	(2)	(801)	(8,799)
314 shares in 12/2007			
239,270 shares in 12/2008			
Sale of treasury stock.....	10	-	-
6,000 shares in 12/2007			
- shares in 12/2008			
Balance at end of period.....	(¥10)	(¥811)	(\$8,909)
<b>Net Unrealized Holding Gains on Securities</b>			
Balance at beginning of period.....	¥2,090	¥1,622	\$17,818
Increase (decrease) of net unrealized holding gains on securities.....	(468)	(1,158)	(12,721)
Balance at end of period.....	¥1,622	¥464	\$5,097
<b>Foreign Currency Translation Adjustments</b>			
Balance at beginning of period.....	¥2,251	¥2,788	\$30,627
Increase (decrease) in foreign currency translation adjustments.....	537	(5,871)	(64,495)
Balance at end of period.....	¥2,788	(¥3,083)	(\$33,868)
<b>Minority Interests in Consolidated Subsidiaries</b>			
Balance at beginning of period.....	4	¥4	\$44
Increase (decrease) in minority interests in consolidated subsidiaries.....	-	9	99
Balance at end of period.....	¥4	¥13	\$143
<b>Net Assets.....</b>	<b>¥80,381</b>	<b>¥76,842</b>	<b>\$844,139</b>

See the notes to the consolidated financial statements.

# Consolidated Statements of Cash Flows

HORIBA, Ltd. and Consolidated Subsidiaries  
For the years ended December 31, 2007 and December 31, 2008

Thousands of  
U.S. dollars  
(Note 1)

	Millions of yen		U.S. dollars
	12/2007	12/2008	(Note 1) 12/2008
<b>Cash Flows From Operating Activities:</b>			
Income before income taxes.....	¥14,106	¥9,981	\$109,645
Adjustments to reconcile income before income taxes to net cash provided by operating activities:			
Depreciation and amortization.....	4,161	4,955	54,433
Loss on impairment of fixed assets.....	-	482	5,075
Loss on valuation of investment securities.....	-	182	1,999
Loss on disposal of property, plant and equipment.....	54	98	1,077
Gain on sale of property, plant and equipment.....	(26)	(36)	(395)
Increase (decrease) in allowance for doubtful receivables.....	(163)	(31)	(341)
Increase (decrease) in provision for possible losses from litigation.....	1,204	(1,204)	(13,226)
Increase (decrease) in directors' and corporate auditors' retirement benefits .....	50	210	2,307
Increase (decrease) in employees' retirement benefits.....	150	159	1,747
Increase in reserve for loss on guarantees.....	52	-	-
Interest and dividend income.....	(332)	(445)	(4,889)
Interest expense.....	796	886	9,733
Bond issuance costs.....	55	-	-
Foreign exchange losses (gains).....	65	(16)	(176)
Loss on sale of property, plant and equipment.....	20	10	110
Loss due to changes in accounting policies.....	703	-	-
Decrease (increase) in trade notes and accounts receivable.....	(2,432)	2,860	31,418
Decrease (increase) in inventories.....	(2,830)	(271)	(2,977)
Increase (decrease) in trade notes and accounts payable.....	610	(2,502)	(27,485)
Other, net.....	2,857	(893)	(9,810)
Subtotal.....	19,100	14,405	158,245
Interest and dividends received.....	312	455	4,998
Interest paid.....	(673)	(841)	(9,239)
Income taxes paid.....	(5,157)	(6,497)	(71,372)
Net cash provided by (used in) operating activities.....	13,582	7,522	82,632
<b>Cash Flows From Investing Activities:</b>			
Decrease (increase) in time deposits with maturities longer than three months.....	(7,508)	7,507	82,467
Increase in time deposits restricted for use.....	(700)	-	-
Payments for purchase of investment securities.....	(12)	(1,032)	(11,337)
Proceeds from sale or redemption of investment securities.....	1	25	275
Payments for purchase of property, plant and equipment.....	(5,701)	(4,797)	(52,697)
Proceeds from sale of property, plant and equipment.....	820	230	2,527
Increase in intangibles.....	(3,400)	(1,426)	(15,665)
Other, net.....	55	(16)	(176)
Net cash provided by (used in) investing activities.....	(16,445)	491	5,394
<b>Cash Flows From Financing Activities:</b>			
Proceeds from issuance of bonds.....	9,945	-	-
Payment for redemption of corporate bonds.....	-	(5,000)	(54,927)
Net increase (decrease) in short-term borrowings.....	(1,759)	3,488	38,317
Increase in long-term debt.....	1,015	903	9,920
Repayment of long-term debt.....	(753)	(779)	(8,558)
Proceeds from exercise of stock acquisition rights.....	428	108	1,186
Payments for purchase of treasury stock.....	(1)	(801)	(8,799)
Proceeds from sales of treasury stock.....	6	-	-
Cash dividends paid.....	(1,193)	(1,859)	(20,422)
Other, net.....	(11)	(3)	(33)
Net cash provided by (used in) financing activities.....	7,677	(3,943)	(43,316)
<b>Effect of Exchange Rate Changes on Cash and Cash Equivalents.....</b>	<b>78</b>	<b>(1,975)</b>	<b>(21,696)</b>
<b>Net Increase (Decrease) in Cash and Cash Equivalents.....</b>	<b>4,892</b>	<b>2,095</b>	<b>23,014</b>
<b>Cash and Cash Equivalents at Beginning of Year.....</b>	<b>15,673</b>	<b>20,565</b>	<b>225,915</b>
<b>Cash and Cash Equivalents at End of Year.....</b>	<b>¥20,565</b>	<b>¥22,660</b>	<b>\$248,929</b>

See the notes to the consolidated financial statements.



## 1. Basis of presenting consolidated financial statements

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

The accounts of overseas subsidiaries are based on their accounting records maintained in conformity with generally accepted accounting principles prevailing in the respective countries of domicile. The accompanying consolidated financial statements have been restructured and translated into English (with some expanded descriptions) 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 Japanese Financial Instruments 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. dollar amounts is included solely for the convenience of readers outside Japan, using the prevailing exchange rate at December 31, 2008, which was ¥91.03 to U.S.\$1.00. The 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.

## 2. Summary of significant accounting policies

### (a) Principles of consolidation

The consolidated financial statements include the accounts of the Company and 40 (42 in the year ended December 31, 2007) of its subsidiaries (“HORIBA” as a consolidated group). In the year ended December 31, 2008, one subsidiary was newly established and three subsidiaries were merged into other subsidiaries.

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 intercompany transactions and accounts have been eliminated in consolidation. In the elimination of investments in subsidiaries, the assets and liabilities of the subsidiaries, including the portions attributable to minority shareholders, are evaluated using the fair value at the time the Company acquired control of the respective subsidiary. Acquisition costs in excess of the net assets of acquired subsidiaries and affiliates which cannot be specifically assigned to individual accounts are amortized on a

straight-line basis over five years. Some of the overseas consolidated subsidiaries amortize acquisition costs in excess of the net assets of acquired subsidiaries and affiliates which cannot be specifically assigned to individual accounts on a straight-line basis over four to twenty years, in accordance with generally accepted accounting principles of the country of their incorporation.

At December 31, 2007 and 2008, the year-end of the consolidated subsidiaries matches that of 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 was immaterial.

The Company has seven affiliated companies. For one of the seven affiliates, the equity method was applied. Investments in six affiliates (generally 20%–50% ownership) over which the Company has the ability to exercise significant influence over operating and financial policies and one nonconsolidated subsidiary were accounted for on a cost basis, not by the equity method, as the effects on income and retained earnings were 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 change in value and original maturities of three months or less from date of purchase.

### (c) Securities

Available-for-sale securities with available fair market values are stated at fair market value. Unrealized gains and losses on securities are reported, net of applicable income taxes, as a separate component of net assets. Realized gains and losses on the 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.

Effective January 1, 2008, the Company and certain of its domestic subsidiaries reclassified loss on disposal of inventories and loss on write-down of inventories from other expenses as cost of sales in connection with changes in management and organizational structure to cope with the increased number of the titles relating to publications and the necessities of cost management.

As a result of this change, operating income was ¥135 million (\$1,483 thousand) less than it would have been without the adoption of the new method. However, this change did not have any impact on the results of income before income taxes.

### (e) Property, plant and equipment and depreciation

Property, plant and equipment are stated at cost. Depreciation is

computed by the straight-line method or the declining balance method over the estimated useful life of the asset.

Buildings acquired after April 1, 1998 and the EPR system (server, etc) included in "Other property, plant and equipment" are depreciated by the straight-line method. Other property, plant and equipment are depreciated by the Company and domestic subsidiaries by the declining balance method and by overseas subsidiaries by the straight-line method. Estimated useful lives of assets are principally as follows:

Buildings and structures – 5 to 60 years

Machinery, equipment and vehicles – 2 to 12 years

Effective January 1, 2008, the Company and its domestic subsidiaries have adopted the method of depreciation for tangible fixed assets acquired on or after April 1, 2007 provided by the revised Corporate Tax Law, following the completion of its fixed assets management system. As a result of this change, operating income and income before income taxes were ¥124 million (\$1,362 thousand) less, respectively, than they would have been without the adoption of the new method.

In addition, the Company and its domestic subsidiaries have adopted the revised Corporation Tax Law and changed the method of depreciation for tangible fixed assets acquired on or before March 31, 2007. Accordingly, the difference between the residual value of such an asset under the amended Japanese Tax Law and the value equivalent to 5% of its acquisition cost, as computed by the previous Corporation Tax Law, is depreciated over a period of five years starting from the year following the year in which the value of the asset falls to 5% of its acquisition cost. The difference is amortized by the straight-line method and is included in depreciation expense. As a result of this change, operating income and income before income taxes were ¥55 million (\$604 thousand) less, respectively, than they would have been without the adoption of the new method.

#### **(f) Software**

Amortization of the computer software used by HORIBA (included in "Other intangibles" in the consolidated balance sheets) is computed on the straight-line method over the estimated useful life of 5 to 10 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 of certain individual receivables. The overseas subsidiaries provide for doubtful accounts based on estimates by management.

#### **(h) Accrued bonuses to employees**

Accrued bonuses to employees are provided for the expected payment of employee bonuses for the current fiscal year to those employees serving at the end of the fiscal year. Effective January 1, 2007, the Company and certain domestic subsidiaries revised the specific computation period. This revision had no impact on the consolidated

statements of income for the year ended December 31, 2007.

#### **(i) Accrued bonuses to directors and corporate auditors**

The Company's domestic subsidiaries provide for accrued bonuses to directors and corporate auditors for the expected payment of director and corporate auditor bonuses for the current fiscal year to those directors and corporate auditors serving at the end of the fiscal year.

#### **(j) Reserve for product warranty**

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

#### **(k) Retirement benefits and pension plans**

The Company and some consolidated subsidiaries provide for employees' severance and retirement benefits based on estimated amounts of projected benefit obligation and the fair value of plan assets.

Actuarial gains or losses are recognized in expenses using the straight-line method over a fixed term of years (5 years) within the average of the estimated remaining service years commencing with the following period. In the Company and certain domestic subsidiaries, prior service costs are recognized in expenses using the straight-line method over a fixed term of years (10 years) within the average of the estimated remaining service years commencing in the period they arise. In some consolidated subsidiaries, they are expensed as incurred.

#### **(l) Retirement benefits for the directors and corporate auditor**

Retirement benefits for the directors and corporate auditor are provided for at an amount based upon internal rules at the balance sheet date. The Company abolished the previous rule for retirement benefits for the outside director and the outside auditors and decided on the payment of retirement benefits pursuant to resolutions made at the annual shareholder's meeting held on March 24, 2007. The retirement benefits of the relevant director and auditor in the amount of ¥7 million was determined by length of service and presented in "Other noncurrent liabilities."

At the board of directors meeting of the Company held on February 17, 2009, the Company resolved to abolish the retirement benefits plan for the directors and corporate auditor at the close of the shareholders meeting on March 28, 2009. At the shareholder's meeting held on March 28, 2009, the payment of retirement benefits for was resolved. Actual payments of the retirement benefits to the directors and corporate auditor will be made upon their retirement from their posts. An additional allowance for retirement benefits for the directors and corporate auditor, in a certain percentage of the increment of the retirement allowance corresponding to the term served, was recognized as provision for retirement benefits for the directors and corporate auditor in other expenses for the year ended December 31, 2008.

#### (m) Impairment of fixed assets

HORIBA reviewed its long-lived assets for impairment, and as a result, impairment losses were recognized by HORIBA for the following asset groups as other expenses for the year ended December 31, 2008.

Location	Use	Type	Amount
Kyoto City	Idle	Land	¥196 million (\$2,153 thousand)
Taiwa-cho, Kurokawa-gun, Miyagi Prefecture	Idle	Land, buildings, etc.	¥22 million (\$242 thousand)
Germany	Other	Goodwill	¥156 million (\$1,714 thousand)
Japan	Other	Goodwill	¥88 million (\$967 thousand)
		Total	¥462 million (\$5,075 thousand)

(Background)

Because there are no concrete plans to put to use the idle land owned in Kyoto City and the idle land, buildings, etc. owned in Taiwa-cho, Kurokawa-gun, Miyagi Prefecture, the book value of these assets has been lowered to the level of recoverable value and the resulting impairment has been recognized as other expenses.

The goodwill in Germany is related to the automotive development test systems (DTS) purchased by the Company's subsidiary in Germany in September 2005 from Carl Schenk AG. HORIBA estimated that the carrying amount of the goodwill for this investment may not be recoverable under the estimated term of future cash flows, impairment loss was recognized for the full amount of the book value.

Regarding the goodwill in Japan, HORIBA estimated that the carrying amount of the goodwill for the investment in ASEC Inc., the Company's subsidiary, may not be recoverable under the estimated term of future cash flows and recognized an impairment loss for the full amount of the book value.

(Method used for grouping)

In connection with the use of impairment accounting, assets are grouped under the industry segment basis. Idle assets bearing no connection to an industry segment have been grouped on a property-by-property basis.

(Method of calculating recoverable amounts)

The recoverable amount for idle assets was measured according to estimated net realizable value. Estimated net realizable value was determined on the basis of publicly announced market values for land.

#### (n) Reserve for loss on guarantees

A reserve for loss on guarantees was provided in an estimated amount for an affiliated company after consideration of the Company's financial

position, etc.

#### (o) Provision for possible losses from litigation

A provision for possible losses from litigation was established for payments to settle current lawsuits and in preparation for payments that may arise in the future. A lawsuit was filed by Micronics Japan Co., Ltd. against the Company seeking compensation for damages related to an agreement to develop and commercialize liquid-crystal related testing equipment. The Company lost the case in the Tokyo District Court on May 22, 2007 and appealed the decision to the Tokyo High Court. Taking into account the increased possibility of liability, a provision for loss in the amount of ¥1,204 million, which includes provision for the payment of damages in the amount of ¥933 million and related costs and interest, was made. After adjustment of accrued legal fees for the previous year, the Company booked ¥1,041 million as other expenses for the year ended December 31, 2007.

In the Tokyo High Court on December 25, 2008, the Company won the case. As a result, the Company recorded other income of ¥1,127 million (\$12,381 thousand) for the year ended December 31, 2008, as the reversal of the provision for possible losses from litigation after subtracting attorneys' fees and other related costs from the provision of the ¥1,204 million (\$13,226 thousand) for possible losses from litigation that was established when the Company lost the initial case in the Tokyo District Court on May 22, 2007. As stated in the subsequent events, Micronics Japan Co., Ltd. appealed the decision to the Supreme Court on January 8, 2009.

#### (p) 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 historical rates. Revenue and expense accounts of consolidated foreign subsidiaries are translated into Japanese yen at average annual exchange rates. Differences arising from the application of the process stated above are separately presented in the consolidated financial statements in "Foreign currency translation adjustments" and "Minority interests" in net assets.

#### (q) Finance leases

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

#### (r) 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 the derivative financial instruments are used for hedging purposes. HORIBA uses foreign currency exchange contracts to manage risk related to its

importing and exporting activities. The use of foreign currency exchange contracts is limited to the amounts of HORIBA's foreign currency denominated receivables and payables. HORIBA also uses interest rate swap contracts to avoid the risk of rising interest rates. Contracts are entered into and controlled by the finance department, which reports results to the Director. Transactions involving derivative contracts are limited to highly rated banking institutions, and HORIBA considers that there are no material credit risks associated with them.

Prior to the year ended December 31, 2007, in cases where a foreign exchange forward contract met certain hedging criteria, the hedged item was stated at the forward exchange rate. Hedge effectiveness was evaluated by verifying the currency type, term and identity of the hedged item and the hedging instrument. Effective January 1, 2008, the Company and its domestic subsidiaries changed this accounting method for such hedging activities. This change was made as the policy for foreign currency management was revised. Under the new policy, foreign currency forward contracts used to hedge foreign exchange exposure are measured at fair value, while payables and receivables in foreign currency are translated at the exchange rates in effect at the balance sheet date. The changes in fair values are charged to earnings. This change did not have any impact on the results of operating income and did not have a material impact on income before income taxes.

#### **(s) 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 December 31, 2007, and December 31, 2008, were ¥9,474 million and ¥10,662 million (\$117,126 thousand), respectively.

Effective January 1, 2007, the Company and certain domestic subsidiaries have changed their accounting policies for research and development expenses, unifying the intergroup definition of manufacturing costs in order to calculate the amount of research and development expenses properly and to clarify the relationship between net sales and cost of sales. Under the new accounting policies, certain research and development expenses that were previously accounted for as cost of sales are now included in selling, general and administrative expenses.

For the year ended December 31, 2007, cost of sales was ¥4,808 million less and gross income ¥4,808 million more than what they would have been without the change. However, there was no significant impact on operating income because selling, general and administrative expenses also increased by approximately the same amount. Because of other expenses of ¥703 million resulting from the recomputation of beginning inventory balances, income before income taxes was ¥924 million less.

#### **(t) Bond issuance costs**

Bond issuance costs are charged to income as incurred.

#### **(u) Losses due to violation of the antimonopoly law**

In connection with the Company's violation of the Antimonopoly Law in the bidding to supply of air pollution analyzers to public entities, the Japan Fair Trade Commission issued a restraining order and imposed a fine on the Company on November 12, 2008. The amount of ¥178 million (\$1,955 thousand), which aggregated the fine of ¥37 million (\$406 thousand) and the estimated amount of damages for breach of contract and other costs, were recognized as loss due to violation of the antimonopoly law in other expenses for the year ended December 31, 2008.

#### **(v) Loss on reorganization of U.S. subsidiaries**

For the year ended December 31, 2008, HORIBA recorded a loss on reorganization of U.S. subsidiaries in the amount of ¥132 million (\$1,450 thousand) as other expenses. This loss consists of a reserve for product warranty of ¥62 million (\$681 thousand) and loss on the write-down of inventories of ¥70 million (\$769 thousand).

#### **(w) Income taxes**

HORIBA recognizes the tax effects of loss carryforwards and the 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.

#### **(x) Per share information**

The computations of net income per share are based on the weighted average number of shares of common stock outstanding during each period. The weighted average number of common shares used in the computation for the years ended December 31, 2007 and December 31, 2008 were 42,390 thousand and 42,304 thousand, respectively. Diluted net income per share of common stock assumes full conversion of dilutive convertible bonds at the beginning of the year or the later date of issuance with an applicable adjustment for related interest expense, net of tax and dilutive stock option plans. The weighted average number of shares used in the computation for the years ended December 31, 2007 and December 31, 2008 were 42,520 thousand and 42,319 thousand, respectively.

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

### 3. Securities

The following table summarizes acquisition costs and book values (fair values) of available-for-sale securities with available fair values at December 31, 2007.

	Millions of yen		
	12/2007		
	Acquisition cost	Book value	Difference
Securities with book values exceeding acquisition costs:			
Equity securities.....	¥1,246	¥3,998	¥2,752
	<u>1,246</u>	<u>3,998</u>	<u>2,752</u>
Securities with book values not exceeding acquisition costs:			
Equity securities.....	422	400	(22)
Other.....	13	13	-
	<u>435</u>	<u>413</u>	<u>(22)</u>
Total	<u>¥1,681</u>	<u>¥4,411</u>	<u>¥2,730</u>

The following table summarizes available-for-sale securities sold for the year ended December 31, 2007.

	Millions of yen
	12/2007
Total sales of available-for-sale securities.....	-
Related gains.....	-
Related losses.....	-

The following table summarizes book values of securities with no available fair values as of December 31, 2007.

	Millions of yen
	12/2007
Available-for-sale securities:	
Non-listed equity securities	¥216
Limited partnerships for investment	27
	<u>¥243</u>

Available-for-sale securities with maturities and held-to-maturity debt securities at December 31, 2007 mature as follows:

	Millions of yen		
	12/2007		
	Within 1 year	Over 1 year but within 5 years	Over 5 years but within 10 years
Bonds			
Government bonds.....	¥1	¥3	¥3

# HORIBA, Ltd. and Consolidated Subsidiaries | Notes to Consolidated Financial Statements

The following table summarizes acquisition costs and book values (fair values) of available-for-sale securities with available fair values at December 31, 2008.

	Millions of yen			Thousands of U.S. dollars		
	12/2008			12/2008		
	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference
Securities with book values exceeding acquisition costs:						
Equity securities.....	¥870	¥2,113	¥1,243	\$9,557	\$23,212	\$13,655
	<u>870</u>	<u>2,113</u>	<u>1,243</u>	<u>9,557</u>	<u>23,212</u>	<u>13,655</u>
Securities with book values not exceeding acquisition costs:						
Equity securities.....	1,713	1,069	(644)	18,818	11,743	(7,075)
Other.....	111	111	-	1,220	1,220	-
	<u>1,824</u>	<u>1,180</u>	<u>(644)</u>	<u>20,038</u>	<u>12,963</u>	<u>(7,075)</u>
Total	<u>¥2,694</u>	<u>¥3,293</u>	<u>¥599</u>	<u>\$29,595</u>	<u>\$36,175</u>	<u>\$6,580</u>

The following table summarizes available-for-sale securities sold for the year ended December 31, 2008.

	Millions of yen	Thousands of U.S. dollars
	12/2008	12/2008
Total sales of available-for-sale securities.....	¥22	\$242
Related gains.....	7	77
Related losses.....	-	-

The following table summarizes book values of securities with no available fair values as of December 31, 2008.

	Millions of yen	Thousands of U.S. dollars
	12/2008	12/2008
Available-for-sale securities:		
Non-listed equity securities	¥210	\$2,307
Limited partnerships for investment	16	176
	<u>¥226</u>	<u>\$2,483</u>

Available-for-sale securities with maturities and held-to-maturity debt securities at December 31, 2008 mature as follows:

	Millions of yen			Thousands of U.S. dollars		
	12/2008			12/2008		
	Within 1 year	Over 1 year but within 5 years	Over 5 years but within 10 years	Within 1 year	Over 1 year but within 5 years	Over 5 years but within 10 years
Bonds						
Government bonds.....	-	¥3	-	-	\$33	-

#### 4. Inventories

Inventories at December 31, 2007 and December 31, 2008 consisted of the following:

	Millions of yen		Thousands of
	12/2007	12/2008	U.S. dollars
Finished products.....	¥12,613	¥10,108	\$111,040
Work-in-process.....	12,066	10,461	114,918
Raw materials and supplies.....	9,055	9,233	101,428
Total.....	¥33,734	¥29,802	\$327,386

#### 5. Notes receivable maturing on December 31, 2007 and December 31, 2008, which were bank holidays

December 31, 2007 and December 31, 2008, the end of the period, were bank holidays. Notes receivable maturing on those dates were settled on the following business day. Therefore, notes in the amount of ¥890 million were included in the ending balance at December 31, 2007 and ¥783 million (\$8,602 thousand) were included in the ending balance at December 31, 2008.

#### 6. Short-term loans and long-term debt

Short-term loans are generally represented by bank notes with annual interest rates ranging from 1.06% to 8.25% and 0.80% to 6.44% at December 31, 2007 and December 31, 2008, respectively.

Long-term debt at December 31, 2007 and December 31, 2008 consisted of the following:

	Millions of yen		Thousands of
	12/2007	12/2008	U.S. dollars
<b>Secured:</b>			
Loans from banks due in 2010 at rate of 3.51% per annum.....	¥38	¥19	\$209
<b>Unsecured:</b>			
1.16% bonds due in 2008.....	5,000	-	-
1.98% bonds due in 2014.....	10,000	10,000	109,854
Loans from banks due serially from 2009 to 2013 at rates from 4.73% to 6.44% per annum.....	3,415	2,766	30,385
Total.....	18,453	12,785	140,448
<b>Current portion.....</b>	<b>(5,816)</b>	<b>(653)</b>	<b>(7,173)</b>
<b>Long-term debt, less current portion.....</b>	<b>¥12,637</b>	<b>¥12,132</b>	<b>\$133,275</b>

The aggregate annual maturities of long-term debt outstanding at December 31, 2008 were as follows:

Year ending December 31	Millions of yen	Thousands of
		U.S. dollars
2009.....	¥653	\$7,173
2010.....	472	5,185
2011.....	379	4,164
2012.....	392	4,306
2013.....	889	9,766
Thereafter.....	10,000	109,854
Total.....	¥12,785	\$140,448

At December 31, 2008, buildings and structures amounting to ¥52 million (\$571 thousand) at net book value were pledged as collateral for long-term debt of ¥10 million (\$110 thousand) and the current portion of long-term debt of ¥9 million (\$99 thousand).

At December 31, 2008, time deposits of ¥700 million (\$7,690 thousand) was restricted for use and pledged for possible future payments from litigation.

The Company and its 10 subsidiaries had entered into the agreements for bank overdrafts or loan commitments with 18 banks as of December 31, 2008 as follows:

	Millions of yen	Thousands of
		U.S. dollars
The maximum aggregate principal.....	¥13,991	\$153,697
Amount utilized.....	4,999	54,916
Balance available.....	¥8,992	\$98,781

# HORIBA, Ltd. and Consolidated Subsidiaries | Notes to Consolidated Financial Statements

## 7. Employees' severance and pension benefits

(1) The funded status of the multi-employer pension plan at December 31, 2008 (available information as of March 31, 2008), to which contributions were recorded as net periodic retirement benefit costs, was as follows:

	Thousands of U.S. dollars	
	12/2007	12/2008
Fair value of plan assets	¥62,195	\$683,236
Pension benefits obligation recorded by pension fund	88,943	977,073
Net balance	(¥26,748)	(\$293,837)

(b) The ratio of pension premiums expensed from March 1, 2008 to March 31, 2008 by the Company and its subsidiaries to the total premium amount was 12.45%.

Notes: 1. Net balance resulted from the prior service cost of ¥11,544 million (\$126,815 thousand) and the shortage of a reserve for corporate pension of ¥15,204 millions (\$167,022 thousand).  
 2. Prior service cost is amortized over 20 years.  
 3. HORIBA's contribution percentage for the multi-employer pension plan described above (1) (b) should not be construed as HORIBA's actual obligation percentage.

(2) Liabilities for employees' retirement benefits at December 31, 2007 and December 31, 2008 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	12/2007	12/2008	12/2008
Projected benefit obligation.....	(¥4,282)	(¥4,847)	(\$53,246)
Pension assets.....	1,554	2,054	22,564
Unfunded projected benefit obligation.....	(2,728)	(2,793)	(30,682)
Unrecognized actuarial differences.....	219	539	5,921
Unrecognized differences on change of employees' retirement plan.....	695	581	6,382
Employees' retirement benefits.....	(¥1,814)	(¥1,673)	(\$18,379)

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

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

A proforma portion for the Company and certain subsidiaries calculated by the ratio of accumulated pension premiums paid was ¥12,049 million as of December 31, 2007.

Employees' retirement benefits expense for the years ended December 31, 2007 and December 31, 2008 comprised the following:

	Millions of yen		Thousands of U.S. dollars
	12/2007	12/2008	12/2008
Service cost.....	¥1,595	¥1,515	\$16,643
Interest expense on projected benefit obligation.....	54	61	670
Expected return on plan assets.....	(24)	(29)	(319)
Amortization of actuarial differences.....	51	69	758
Amortization of prior service costs.....	115	114	1,253
Retirement benefits expense.....	¥1,791	¥1,730	\$19,005

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

Note 2. Premiums on the contributory funded retirement plan of ¥847 million and ¥536 million (\$5,888 thousand) expensed for the year ended December 31, 2007 and December 31, 2008, respectively, were also included in service cost.

Assumptions used were as follows:

	12/2007	12/2008
	Discount rate.....	2.00%
Expected rate of return on plan assets.....	2.00%	2.00%
Allocation method for retirement benefits	Straight-line method based on years of service	
expected to be paid at retirement dates.....	5 years	
Amortization period for actuarial gains / losses.....	5 years	
Amortization period for unrecognized prior service cost on change of employees' retirement plan.....	10 years (the Company and some subsidiary companies), Time of occurrence (some subsidiary companies)	

Additional information

Effective from the year ended December 31, 2008, the Company adopted "Partial Amendments to Accounting Standard for Retirement Benefits (Part 2)" (Accounting Standards Board of Japan Statement No. 14 issued on May 15, 2007).



## 8. Net assets

The Japanese Corporate Law ("the Law") became effective on May 1, 2006, replacing the Japanese Commercial Code ("the Code"). The Law is generally applicable to events and transactions occurring after April 30, 2006 and for fiscal years ending after that date. Under Japanese laws and regulations, the entire amount paid for new shares is required to be designated as common stock. However, a company may, by a resolution of the Board of Directors, designate an amount not exceeding one-half of the price of the new shares as additional paid-in capital, which is included in capital surplus.

Under the Law, in cases where a dividend distribution of surplus is made, the smaller of an amount equal to 10% of the dividend or the excess, if any, of 25% of common stock over the total of additional paid-in capital and legal earnings reserve must be set aside as additional paid-in capital or legal earnings reserve. Legal earnings reserve is included in retained earnings in the accompanying consolidated balance sheets. Under the Code, companies were required to set aside an amount equal to at least 10% of the aggregate amount of cash dividends and other cash appropriations as legal earnings reserve until the total legal earnings reserve and additional paid-in capital equaled 25% of common stock.

Under the Code, legal earnings reserve and additional paid-in capital could be used to eliminate or reduce a deficit by a resolution of the shareholders' meeting or could be capitalized by a resolution of the Board of Directors. Under the Law, both of these appropriations generally require a resolution of the shareholders' meeting.

Additional paid-in capital and legal earnings reserve may not be distributed as dividends. Under the Code, however, on condition that the total amount of legal earnings reserve and additional paid-in capital remained equal to or greater than 25% of common stock, they were available for distribution by resolution of the shareholders' meeting. Under the Law, all additional paid-in capital and all legal earnings reserve may be transferred to other capital surplus and retained earnings, respectively, which are potentially available for dividends.

The maximum amount that the Company can distribute as dividends is calculated based on the nonconsolidated financial statements of the Company in accordance with Japanese laws and regulations.

At the Board of Directors' meeting held on February 17, 2009, the Board of Directors approved cash dividends amounting to ¥1,226 million (\$13,468 thousand). Such appropriations have not been accrued in the consolidated financial statements as of December 31, 2008. Such appropriations are recognized in the period in which they are approved by the Board of Directors.

# HORIBA, Ltd. and Consolidated Subsidiaries | Notes to Consolidated Financial Statements

## 9. Stock options

Information regarding stock options existing in the year ended December 31, 2007 was as follows:

### (a) Content of stock options

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

Note 1. Stock options are convertible into an equal number of shares.

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

Note 3. The service period is not stipulated.

### (b) Number, movement and price of stock options

Stock options are convertible into an equal number of shares.

#### (1) Number of shares

	Stock options granted in 2003	Stock options granted in 2004	Stock options granted in 2005	Stock options granted in 2006
<b>Before vesting options (number of shares)</b>				
Balance at December 31, 2006	-	-	-	300,000
Granted	-	-	-	-
Forfeited	-	-	-	-
Vested	-	-	-	300,000
Balance at December 31, 2007	-	-	-	-
<b>After vesting options (number of shares)</b>				
Balance at December 31, 2006	6,000	45,000	198,000	-
Vested	-	-	-	300,000
Exercised	(6,000)	(19,000)	(90,000)	(50,000)
Forfeited	-	-	-	-
Balance at December 31, 2007	-	26,000	108,000	250,000

#### (2) Price per share

	Stock options granted in 2003	Stock options granted in 2004	Stock options granted in 2005	Stock options granted in 2006
Option price (yen)	961	1,572	2,265	3,890
Weighted-average stock price (yen)	4,234	4,206	4,372	4,549
Fair value at grant date (Note) (yen)	-	-	-	-

Note. This value has been omitted because the stock options had been granted before the Japanese Corporate Law became effective on May 1, 2006.

Information regarding stock options existing in the year ended December 31, 2008 was as follows:

(a) Content of stock options

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

Note 1. Stock options are convertible into an equal number of shares.

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

Note 3. The service period is not stipulated.

(b) Number, movement and price of stock options

Stock options are convertible into an equal number of shares.

(1) Number of shares

	Stock options granted in 2004	Stock options granted in 2005	Stock options granted in 2006
Before vesting options (number of shares)			
Balance at December 31, 2007	-	-	-
Granted	-	-	-
Forfeited	-	-	-
Vested	-	-	-
Balance at December 31, 2008	-	-	-
After vesting options (number of shares)			
Balance at December 31, 2007	26,000	108,000	250,000
Vested	-	-	-
Exercised	(26,000)	(28,000)	(1,000)
Forfeited	-	-	-
Balance at December 31, 2008	-	80,000	249,000

(2) Price per share

	Stock options granted in 2004	Stock options granted in 2005	Stock options granted in 2006
Option price (yen)	1,572	2,265	3,890
Weighted-average stock price (yen)	2,914	3,723	3,670
Fair value at grant date (Note) (yen)	-	-	-

Note. This value has been omitted because the stock options had been granted before the Japanese Corporate Law became effective on May 1, 2006.

# HORIBA, Ltd. and Consolidated Subsidiaries | Notes to Consolidated Financial Statements

## 10. Leases

At December 31, 2007 and December 31, 2008, assets leased under non-capitalized finance leases were as follows:

Acquisition cost, accumulated depreciation and balance of assets leased.

	Millions of yen		Thousands of U.S. dollars
	12/2007	12/2008	12/2008
Machinery, equipment and vehicles.....	¥267	¥257	\$2,823
Other property, plant and equipment.....	691	749	8,228
Other intangibles.....	125	95	1,044
Less accumulated depreciation and amortization.....	(483)	(560)	(6,152)
Total.....	¥600	¥541	\$5,943

The above depreciation and amortization are calculated by the straight-line method over the term of the lease. If the above leases were capitalized, interest of ¥20 million and ¥20 million (\$220 thousand) and depreciation and amortization of ¥176 million and ¥196 million (\$2,153 thousand) would have been recorded for the years ended December 31, 2007 and December 31, 2008, respectively. Lease payments under non-capitalized finance leases were ¥195 million and ¥216 million (\$2,373 thousand) for the years ended December 31, 2007 and December 31, 2008, respectively. Obligations under finance leases at December 31, 2007 and December 31, 2008 were as follows:

	Millions of yen		Thousands of U.S. dollars
	12/2007	12/2008	12/2008
Payments remaining:			
Payments due within 1 year.....	¥183	¥231	\$2,538
Payments due after 1 year.....	437	379	4,163
Total.....	¥620	¥610	\$6,701

Payments remaining under operating leases at December 31, 2007 and December 31, 2008 were as follows:

	Millions of yen		Thousands of U.S. dollars
	12/2007	12/2008	12/2008
Payments remaining:			
Payments due within 1 year.....	¥923	¥800	\$8,788
Payments due after 1 year.....	2,123	1,749	19,214
Total.....	¥3,046	¥2,549	\$28,002

## 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 ¥255 million and ¥299 million (\$3,285 thousand) at December 31, 2007 and December 31, 2008, respectively.

## 12. Derivative transactions

Outstanding derivative transactions at December 31, 2007 and December 31, 2008 were as follows:

Currency related:

	Millions of yen				Millions of yen			
	12/2007				12/2008			
	Amount	Over 1 year	Market value	Gain (loss)	Amount	Over 1 year	Market value	Gain (loss)
<b>Forwards</b>								
<b>Selling</b>								
US dollar	¥1,598	-	¥1,617	(¥19)	<b>¥628</b>	-	<b>¥608</b>	<b>¥20</b>
Euro	1,155	-	1,180	(25)	<b>516</b>	-	<b>540</b>	<b>(24)</b>
Pound	94	-	93	1	<b>103</b>	-	<b>95</b>	<b>8</b>
<b>Buying</b>								
US Dollar	-	-	-	-	<b>19</b>	-	<b>19</b>	-
Euro	-	-	-	-	<b>110</b>	-	<b>110</b>	-
Pound	-	-	-	-	<b>63</b>	-	<b>62</b>	<b>(1)</b>
<b>Total</b>	-	-	-	<b>(¥43)</b>	-	-	-	<b>¥3</b>

Note 1. Market value is indicated by banking institutions.

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

Note 1. Market value is indicated by banking institutions.

	Thousands of U.S. dollars			
	12/2008			
	Amount	Over 1 year	Market value	Gain (loss)
<b>Forwards</b>				
<b>Selling</b>				
US dollar	<b>\$6,899</b>	-	<b>\$6,679</b>	<b>\$220</b>
Euro	<b>5,668</b>	-	<b>5,932</b>	<b>(264)</b>
Pound	<b>1,132</b>	-	<b>1,044</b>	<b>88</b>
<b>Buying</b>				
US Dollar	<b>209</b>	-	<b>209</b>	-
Euro	<b>1,208</b>	-	<b>1,208</b>	-
Pound	<b>692</b>	-	<b>681</b>	<b>(11)</b>
<b>Total</b>	-	-	-	<b>\$33</b>

Interest rate related:

	Millions of yen				Millions of yen			
	12/2007				12/2008			
	Amount	Over 1 year	Market value	Gain (loss)	Amount	Over 1 year	Market value	Gain (loss)
<b>Interest rate swap contracts</b>								
Receiving floating rates and paying fixed rates	¥1,130	¥993	(¥46)	(¥46)	<b>¥792</b>	<b>¥683</b>	<b>(¥78)</b>	<b>(¥78)</b>
<b>Total</b>	-	-	-	<b>(¥46)</b>	-	-	-	<b>(¥78)</b>

Note 1. Market value is indicated by banking institutions.

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

Note 1. Market value is indicated by banking institutions.

	Thousands of U.S. dollars			
	12/2008			
	Amount	Over 1 year	Market value	Gain (loss)
<b>Interest rate swap contracts</b>				
Receiving floating rates and paying fixed rates	<b>\$8,700</b>	<b>\$7,503</b>	<b>(\$857)</b>	<b>(\$857)</b>
<b>Total</b>	-	-	-	<b>(\$857)</b>

# HORIBA, Ltd. and Consolidated Subsidiaries | Notes to Consolidated Financial Statements

## 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 40.60% for the years ended December 31, 2007 and December 31, 2008. 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 December 31, 2007 and December 31, 2008.

	12/2007	12/2008
Statutory tax rate.....	40.60%	<b>40.60%</b>
Expenses not qualifying for permanent deduction, e.g. entertainment expenses.....	1.19	<b>1.67</b>
Nontaxable dividend income.....	(0.20)	<b>(0.48)</b>
Per capita inhabitants tax.....	0.29	<b>0.41</b>
Increase/decrease in valuation allowance for deferred tax assets....	(2.24)	<b>5.08</b>
Amortization of goodwill.....	1.30	<b>1.86</b>
Consolidated elimination of dividend income from consolidated subsidiaries.....	2.21	<b>3.47</b>
Differences in tax rate between foreign subsidiaries and the Company.....	(1.84)	<b>(2.60)</b>
Tax credits.....	(5.86)	<b>(9.48)</b>
Other.....	2.97	<b>(1.17)</b>
Effective tax rate.....	38.42%	<b>39.36%</b>

Significant components of HORIBA's deferred tax assets and liabilities at December 31, 2007 and December 31, 2008 were as follows:

	Millions of yen		Thousands of U.S. dollars
	12/2007	12/2008	12/2008
<b>Deferred tax assets</b>			
Accrued enterprise tax.....	¥338	¥180	\$1,977
Loss on write-down of inventory.....	438	¥459	5,042
Allowance for doubtful receivables.....	69	¥89	978
Accrued bonuses.....	403	¥319	3,504
Loss carryforwards.....	1,650	¥2,154	23,683
Unrealized gains.....	1,571	¥1,155	12,688
Employees' retirement benefits.....	385	¥378	4,152
Depreciation.....	648	¥910	9,997
Loss on valuation of investment securities.....	115	¥156	1,714
Retirement benefits to directors and corporate auditors.....	288	¥376	4,131
Provision for possible losses from litigation.....	489	-	-
Loss on impairment of fixed assets.....	22	¥192	2,109
Other.....	1,424	¥1,942	21,334
Total deferred tax assets.....	7,840	8,310	91,289
Valuation allowance.....	(1,842)	(2,669)	(29,320)
Net deferred tax assets.....	5,998	5,641	61,969
<b>Deferred tax liabilities</b>			
Reserve for deferred gains on property, plant and equipment.....	(80)	(87)	(956)
Unrealized losses.....	(390)	(390)	(4,284)
Net unrealized holding gains on securities.....	(1,123)	(325)	(3,570)
Other.....	(527)	(445)	(4,889)
Total deferred tax liabilities.....	(2,120)	(1,247)	(13,699)
Net deferred tax assets.....	¥3,878	¥4,394	\$48,270

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

	Millions of yen		Thousands of U.S. dollars
	12/2007	12/2008	12/2008
Current assets.....	¥2,781	¥2,397	\$26,332
Investments and other noncurrent assets.....	1,346	2,019	22,180
Current liabilities.....	(43)	(10)	(110)
Deferred tax liabilities (noncurrent).....	(206)	(12)	(132)
Net deferred tax assets.....	¥3,878	¥4,394	\$48,270

#### 14. Segment Information

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

- (1) Automotive Test Systems  
Emission Measurement Systems, In-Use Automotive Emissions Analyzers, On-Board Emission Measurement Systems, Driveline Test Systems, Engine Test Systems, Brake Test Systems, Drive Recorders
- (2) Analytical Instruments & Systems  
Scientific Analysis Instruments (Particle-Size Distribution Analyzers, X-Ray Fluorescence Analyzers, Raman Spectrophotometers Diffraction, Gratings), Environmental Measuring Instruments (pH Meters, Stack Gas Analyzers, Water Quality Analysis and Examination Systems, Air Pollution Analyzers)
- (3) Medical-Diagnostic Instruments & Systems  
Equipment for Blood Sample Analysis (Hematology Analyzers, Equipment for Measuring Immunological Responses, Clinical Chemistry Analyzers, Blood Glucose 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

Information about operations by business and geographic segments and sales to foreign customers of HORIBA for the years ended December 31, 2007 and December 31, 2008, was as follows:

(a) Operations by business segment

	Millions of yen					
	12/2007					
	Automotive	Analytical	Medical-Diagnostic	Semiconductor	Unallocated	Consolidated
Sales to outside customers.....	¥51,475	¥40,038	¥25,836	¥26,934	-	¥144,283
Operating expenses.....	44,717	37,366	24,604	21,066	-	127,753
Operating income.....	¥6,758	¥2,672	¥1,232	¥5,868	-	¥16,530
Assets.....	¥41,912	¥32,053	¥20,358	¥23,876	¥36,168	¥154,367
Depreciation and amortization.....	¥1,215	¥909	¥1,306	¥731	-	¥4,161
Capital expenditures.....	¥3,376	¥2,762	¥2,261	¥937	-	¥9,336

	Millions of yen					
	12/2008					
	Automotive	Analytical	Medical-Diagnostic	Semiconductor	Unallocated	Consolidated
Sales to outside customers.....	¥54,232	¥38,532	¥24,722	¥16,762	-	¥134,248
Operating expenses.....	47,001	36,705	24,044	15,540	-	123,290
Operating income.....	¥7,231	¥1,827	¥678	¥1,222	-	¥10,958
Assets.....	¥38,436	¥30,365	¥17,409	¥17,485	¥29,584	¥133,279
Depreciation and amortization.....	¥1,806	¥1,234	¥1,409	¥706	-	¥4,955
Impairment loss.....	¥224	¥100	¥12	¥126	-	¥462
Capital expenditures.....	¥1,952	¥1,601	¥2,729	¥363	-	¥6,645

	Thousands of U.S. dollars					
	12/2008					
	Automotive	Analytical	Medical-Diagnostic	Semiconductor	Unallocated	Consolidated
Sales to outside customers.....	\$595,760	\$423,289	\$271,581	\$184,137	-	\$1,474,767
Operating expenses.....	516,324	403,219	264,133	170,713	-	1,354,389
Operating income.....	\$79,436	\$20,070	\$7,448	\$13,424	-	\$120,378
Assets.....	\$422,234	\$333,571	\$191,245	\$192,080	\$324,992	\$1,464,122
Depreciation and amortization.....	\$17,643	\$13,556	\$15,478	\$7,756	-	\$54,433
Impairment loss.....	\$2,461	\$1,098	\$132	\$1,384	-	\$5,075
Capital expenditures.....	\$21,443	\$17,588	\$29,979	\$3,988	-	\$72,998

Note 1. Unallocated assets of ¥36,168 million and ¥29,584 million (\$324,992 thousand) at December 31, 2007 and December 31, 2008, respectively, mainly include cash and cash equivalents and investment securities.

Note 2. As stated in Note 1 Basis of presenting consolidated financial statements ((e) Property, plant and equipment and depreciation), the Company and its consolidated subsidiaries in Japan adopted the method of depreciation for tangible fixed assets acquired on or after April 1, 2007, in accordance with the method prescribed by the revised Corporate Tax Law. As a result of this change, in comparison to the previous accounting method, operating expenses increased ¥46 million (\$505 thousand) for Automotive Test Systems, ¥43 million (\$472 thousand) for Analytical Instruments & Systems, ¥6 million (\$66 thousand) for Medical-Diagnostic Instruments & Systems, and ¥29 million (\$319 thousand) for Semiconductor Instruments & Systems, while operating income recorded a decrease of the same amount.

In addition, the Company and its consolidated subsidiaries in Japan adopted the revised Corporate Tax Law and changed its method of depreciation for tangible fixed assets acquired on or before March 31, 2007. Accordingly, the difference between the residual value of such an asset under the amended Japanese Tax Law and an amount equivalent to 5% of its acquired value, as computed by the previous Corporate Tax Law, is depreciated over a period of five years using the average method and is included in depreciation expenses starting from the year following the year in which the value of the asset falls to 5% of its acquisition cost. As a result, in comparison to the previous accounting method, operating expenses increased ¥23 million (\$252 thousand) for Automotive Test Systems, ¥21 million (\$231 thousand) for Analytical Instruments & Systems, ¥3 million (\$33 thousand) for Medical-Diagnostic Instruments & Systems, and ¥8 million (\$88 thousand) for Semiconductor Instruments & Systems, while operating income recorded a decrease of the same amount.

As stated in Note 1 Basis of presenting consolidated financial statements ((d) Inventories), the Company and some of its consolidated subsidiaries in Japan reclassified loss on disposal and write-down of inventories from other expenses to cost of sales. As a result, in comparison to the previous accounting method, operating expenses increased ¥20 million (\$20 thousand) for Automotive Test Systems, ¥69 million (\$758 thousand) for Analytical Instruments & Systems, ¥20 million (\$20 thousand) for Medical-Diagnostic Instruments & Systems, and ¥26 million (\$285 thousand) for Semiconductor Instruments & Systems, while operating income recorded a decrease of the same amount.

# HORIBA, Ltd. and Consolidated Subsidiaries | Notes to Consolidated Financial Statements

## (b) Operations by geographic segment

Millions of yen						
12/2007						
	Japan	Americas	Europe	Asia	Elimination and/or unallocated	Consolidated
Sales to outside customers.....	¥61,708	¥18,557	¥58,972	¥5,046	-	¥144,283
Inter-area.....	16,334	859	4,192	2,146	(¥23,531)	-
Total sales.....	78,042	19,416	63,164	7,192	(23,531)	144,283
Operating expenses.....	65,118	18,356	61,323	6,320	(23,364)	127,753
Operating income.....	¥12,924	¥1,060	¥1,841	¥872	(¥167)	¥16,530
Assets.....	¥63,938	¥9,753	¥41,717	¥2,791	¥36,168	¥154,367

Millions of yen						
12/2008						
	Japan	Americas	Europe	Asia	Elimination and/or unallocated	Consolidated
Sales to outside customers.....	¥54,354	¥21,357	¥53,738	¥4,799	-	¥134,248
Inter-area.....	13,701	1,522	4,765	2,199	(¥22,187)	-
Total sales.....	68,055	22,879	58,503	6,998	(22,187)	134,248
Operating expenses.....	60,395	22,506	56,709	6,262	(22,582)	123,290
Operating income.....	¥7,660	¥373	¥1,794	¥736	¥395	¥10,958
Assets.....	¥61,464	¥10,488	¥29,481	¥2,262	¥29,584	¥133,279

Thousands of U.S. dollars						
12/2008						
	Japan	Americas	Europe	Asia	Elimination and/or unallocated	Consolidated
Sales to outside customers.....	\$597,100	\$234,615	\$590,333	\$52,719	-	\$1,474,767
Inter-area.....	150,511	16,720	52,345	24,157	(\$243,733)	-
Total sales.....	747,611	251,335	642,678	76,876	(243,733)	1,474,767
Operating expenses.....	663,463	247,237	622,970	68,791	(248,072)	1,354,389
Operating income.....	\$84,148	\$4,098	\$19,708	\$8,085	\$4,339	\$120,378
Assets.....	\$675,206	\$115,215	\$323,860	\$24,849	\$324,992	\$1,464,122

Note 1. Unallocated assets of ¥36,168 million and ¥29,584 million (\$324,992 thousand) at December 31, 2007 and December 31, 2008, respectively, mainly included cash and cash equivalents and investment securities.

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

Note 3. As stated in Note 1 Basis of presenting consolidated financial statements ((e) Property, plant and equipment and depreciation), the Company and its consolidated subsidiaries in Japan adopted the method of depreciation for tangible fixed assets acquired on or after April 1, 2007, in accordance with the method prescribed by the revised Corporate Tax Law. As a result of this change, in comparison to the previous accounting method, operating expenses increased ¥124 million (\$1,362 thousand) in the Japan segment while operating income recorded a decrease of the same amount.

In addition, the Company and its consolidated subsidiaries in Japan adopted the revised Corporate Tax Law and changed its method of depreciation for tangible fixed assets acquired on or before March 31, 2007. Accordingly, the difference between the residual value of such an asset under the amended Japanese Tax Law and an amount equivalent to 5% of its acquired value, as computed by the previous Corporate Tax Law, is depreciated over a period of five years using the average method and is included in depreciation expenses, starting from the year following the year in which the value of the asset falls to 5% of its acquisition cost. As a result, in comparison to the previous accounting method, operating expenses increased ¥55 million (\$604 thousand) in the Japan segment, while operating income recorded a decrease of the same amount.

As stated in Note 1 Basis of presenting consolidated financial statements ((d) Inventories), the Company and some of its consolidated subsidiaries in Japan reclassified loss on disposal and write-down of inventories from other expenses to cost of sales. As a result, in comparison to the previous accounting method, operating expenses increased ¥135 million (\$1,483 thousand) in the Japan segment, while operating income recorded a decrease of the same amount.

## (c) Sales to foreign customers

Millions of yen				
12/2007				
	Americas	Europe	Asia	Total
Sales to outside customers.....	¥29,780	¥41,947	¥20,586	¥92,313

Millions of yen				
12/2008				
	Americas	Europe	Asia	Total
Sales to outside customers.....	¥25,410	¥43,138	¥19,149	¥87,697

Thousands of U.S. dollars				
12/2008				
	Americas	Europe	Asia	Total
Sales to outside customers.....	\$279,139	\$473,888	\$210,359	\$963,386

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



## 15. Related party transactions

Related party transactions for the year ended December 31, 2007 comprise the following:

Category		Director's close family member		Director		Director		Auditor	
Name		Masao Horiba		Atsushi Horiba		Kozo Ishida		Keisuke Ishida	
Address		-		-		-		-	
Amount of capital stock (millions of yen)		-		-		-		-	
Business or occupation		Advisor		Chairman, President and CEO		Executive Vice President		The Company's auditor Chairman, President of SHASHIN KAGAKU Co., Ltd.	
Percentage of voting rights held		3.5% (direct)		1.4% (direct)		0.1% (direct)		0.0% (direct)	
Relationship	Concurrent directors	-		-		-		-	
	Business relations	-		-		-		-	
Transaction	Transaction amount	Consulting fee (Note 2 (a))	¥24 million	Rental fee on real estate (Note 2 (b))	¥1 million	Rental fee on real estate (Note 2 (b))	¥1 million	Payment of fee for printing, etc (Note 2 (c))	¥95 million
Account	Balance at December 31, 2008	-	-	-	-	-	-	Accounts payable - other	¥19 million
		-	-	-	-	-	-	Trade notes and accounts payable	¥1 million

Notes 1. The above transaction amounts do not include consumption taxes, while the balance at December 31, 2007 includes consumption taxes.

Notes 2. Transaction conditions and policy on determining transaction conditions

- The consulting fee for Masao Horiba is compensation for management consulting services regarding the Company, activities of society-academic collaboration for innovation, and participation in economic organizations. The payment was determined on a negotiated basis.
- Fees arising from real estate transactions were determined based on actual transactions that had taken place in the neighborhood where the real estate was located.
- The transaction stated above was made by Keisuke Ishida as representative of SHASHIN KAGAKU Co., Ltd. The payment of fees was based on common terms and conditions.

Related party transactions for the year ended December 31, 2008 comprise the following:

Category		Director's close family member		Director		Director		Auditor	
Name		Masao Horiba		Atsushi Horiba		Kozo Ishida		Keisuke Ishida	
Address		-		-		-		-	
Amount of capital stock (millions of yen)		-		-		-		-	
Business or occupation		Advisor		Chairman, President and CEO		Executive Vice President		The Company's auditor Chairman, President of SHASHIN KAGAKU Co., Ltd.	
Percentage of voting rights held		3.1% (direct)		1.9% (direct)		0.1% (direct)		0.0% (direct)	
Relationship	Concurrent directors	-		-		-		-	
	Business relations	-		-		-		-	
Transaction	Transaction amount	Consulting fee (Note 2 (a))	¥24 million (\$264 thousand)	Rental fee on real estate (Note 2 (b))	¥2 million (\$22 thousand)	Rental fee on real estate (Note 2 (b))	¥1 million (\$11 thousand)	Payment of fee for printing, etc (Note 2 (c))	¥76 million (\$835 thousand)
Account	Balance at December 31, 2008	-	-	-	-	-	-	Accounts payable - other	¥14 million (\$154 thousand)
		-	-	-	-	-	-	Trade notes and accounts payable	¥2 million (\$22 thousand)

Notes 1. The above transaction amounts do not include consumption taxes, while the balance at December 31, 2007 includes consumption taxes.

Notes 2. Transaction conditions and policy on determining transaction conditions

- The consulting fee for Masao Horiba is compensation for management consulting services regarding the Company, activities of society-academic collaboration for innovation, and participation in economic organizations. The payment was determined on a negotiated basis.
- Fees arising from real estate transactions were determined based on actual transactions that had taken place in the neighborhood where the real estate was located.
- The transaction stated above was made by Keisuke Ishida as representative of SHASHIN KAGAKU Co., Ltd. The payment of fees was based on common terms and conditions.

## 16. Subsequent events

### (a) Cash dividends

On February 17, 2009, the Company's Board of Directors resolved to pay cash dividends of ¥29 (\$0.32) per share, aggregating ¥1,226 million (\$13,468 thousand) to shareholders of record at December 31, 2008.

### (b) Progress of the litigation

Micronics Japan Co., Ltd. filed a lawsuit against the Company seeking compensation for damages related to an agreement to develop and commercialize liquid-crystal related testing equipment. The Company won the case overall in the Tokyo High Court on December 25, 2008.

As a result, the Company recorded an other income of ¥1,127 million (\$12,381 thousand) as the reversal of provision for possible losses from litigation after subtracting attorneys' fees and other related costs from the ¥1,204 million (\$13,226 thousand) provision for possible losses from litigation that was set aside when the Company lost the case in the Tokyo District Court on May 22, 2007. The provision for loss in the amount of ¥1,204 million included provision for the payment of damages in the amount of ¥933 million, related costs and interest.

Micronics Japan Co., Ltd. appealed the decision to the Supreme Court on January 8, 2009.

# Independent Auditors' Report

## 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 December 31, 2007 and 2008, and the related consolidated statements of income, changes in net assets 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 December 31, 2007 and 2008, 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:

As discussed in Note 2 (s) to the consolidated financial statements, effective January 1, 2007, the Company and certain domestic subsidiaries have changed accounting policies for research and development expenses.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended December 31, 2008 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

*KPMG AZSA & Co.*

Kyoto, Japan  
March 30, 2009

# Corporate Philosophy

## **HORIBA's company motto "Joy and Fun"**

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

### **Business Operations**

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

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

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

### **Customer Responsiveness**

We maintain a philosophy of pursuing technology to the ultimate degree in both the fundamental and applied technology fields, supplying products that continuously satisfy customers' requirements. We are committed to offering top-quality, highly reliable products and services with a consistent level of excellence throughout the world.

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

### **Responsibility to Shareholders and Investors**

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

### **Employees**

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

# Corporate Data

## Board of Directors

As of April 1, 2009

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

## Corporate Information

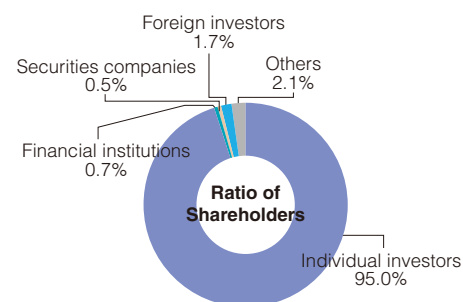
As of December 31, 2008

Head Office	2, Miyanohigashi-cho, Kisshoin, Minami-ku, Kyoto 601-8510, Japan
Founded	October 17, 1945
Incorporated	January 26, 1953
Paid-in Capital	12,006 million yen
Number of Employees	5,146(Consolidated)
Fiscal Closing Date	December 31, annually
Annual Meeting of Shareholders	Held in March
Transfer Agent and Registrar	The Chuo Mitsui Trust and Banking Co., Ltd.
Independent Auditors	KPMG AZSA & Co.
Stock Listings	Tokyo Stock Exchange, First Section Osaka Securities Exchange, First Section Securities Code: 6856

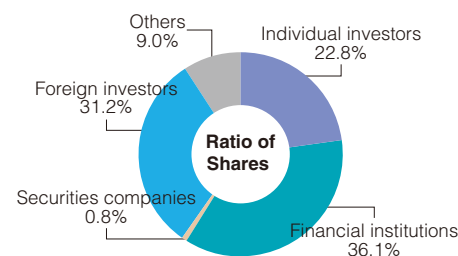
## Major Shareholders

As of December 31, 2008

Name of Shareholders	Shares (Thousands)	Percentage (%)
Taiyo Fund LP	3,843	9.03
Japan Trustee Service Bank, Ltd.	3,773	8.87
The Master Trust Bank of Japan, Ltd.	2,327	5.47
Japan Trustee Service Bank, Ltd. 4G	2,017	4.74
Masao Horiba	1,300	3.05
Sony Life Insurance Co., Ltd.	971	2.28
Mizuho Corporate Bank, Ltd.	836	1.96
The Bank of Kyoto, Ltd.	828	1.94
Atsushi Horiba	807	1.89
HORIBA Raku-Raku Kai	737	1.73



Number of Shareholders: 8,856



Number of Shares  
42,528,752

## Stock Price and Volume Trend



# HORIBA

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