ANNUAL REPORT Fiscal 2007

HORIBA

Explore the future

おもしろおかしく

JOY and FUN

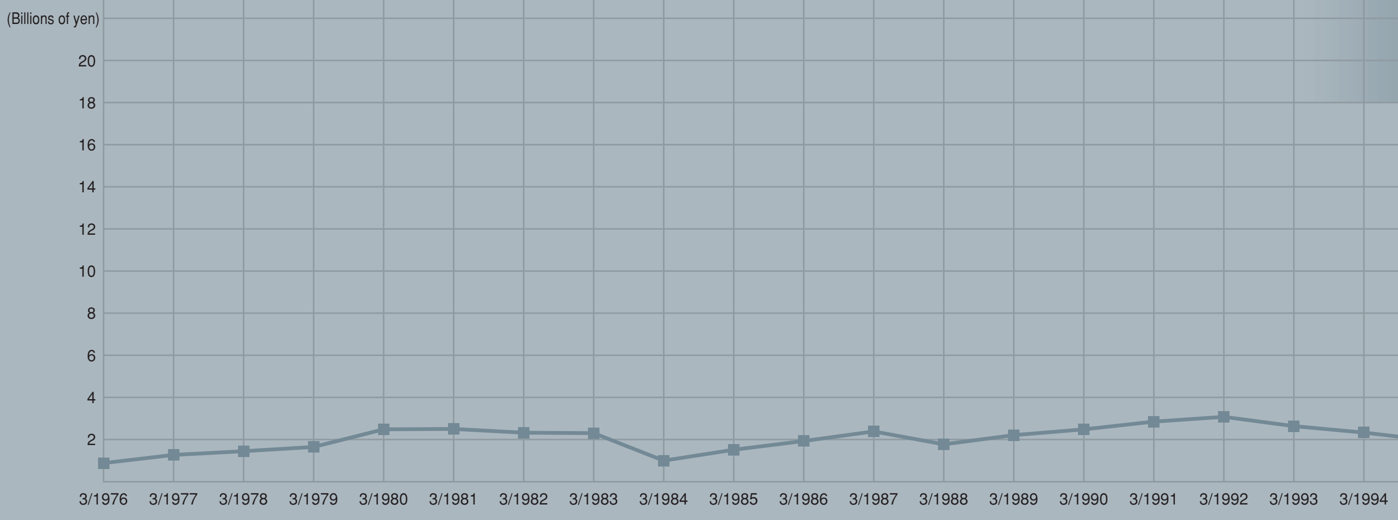
HORIBA's Past 30 Years: Sustainable

What has not changed:

- The HORIBA motto "Joy and Fun"
- Corporate culture expressed by "Open and Fair" and "a Venture Spirit"

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.



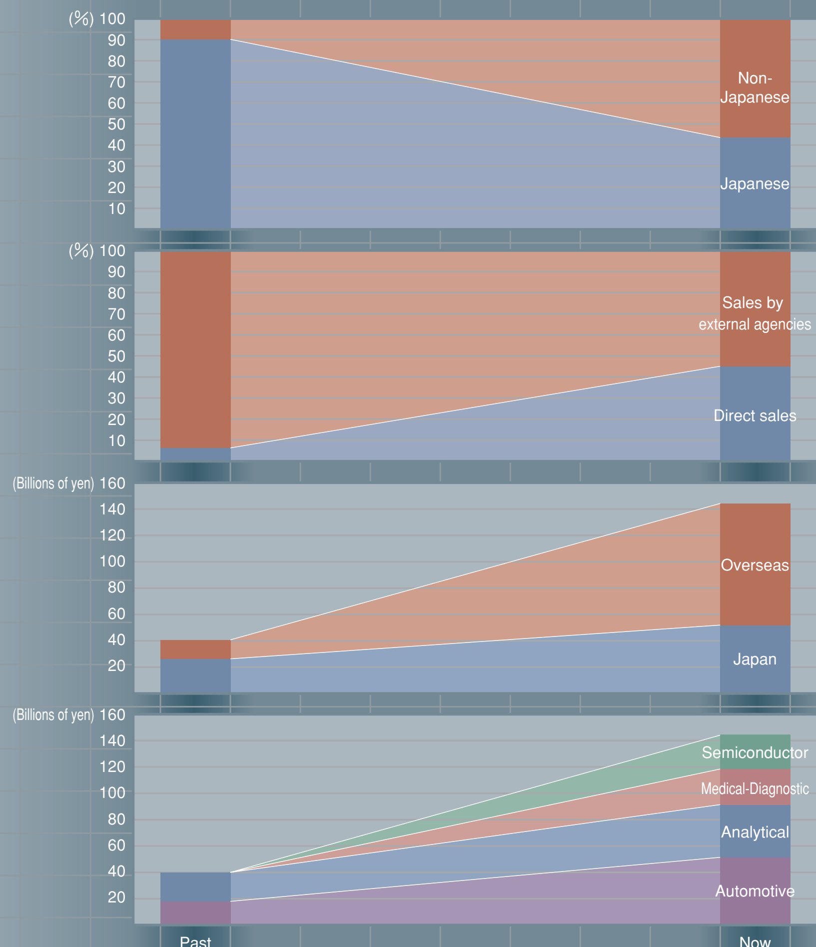
Consolidated operating income (Fiscal 1976 to Fiscal 2007)

Growth Achieved

● Continual development of human resources ● Continual investment in research and development

What has changed:

● Globalization (business, human resources) ● Distance to customers (promotion of direct sales)
● Balanced management (business areas, geographical developments) ● Corporate scale (sales, income, and number of employees)



Multinational human resources (progress in globalization)

Note: Comparison of nationalities of Group employees between Fiscal 1995 and Fiscal 2007

Closer to customers (promotion of direct sales)

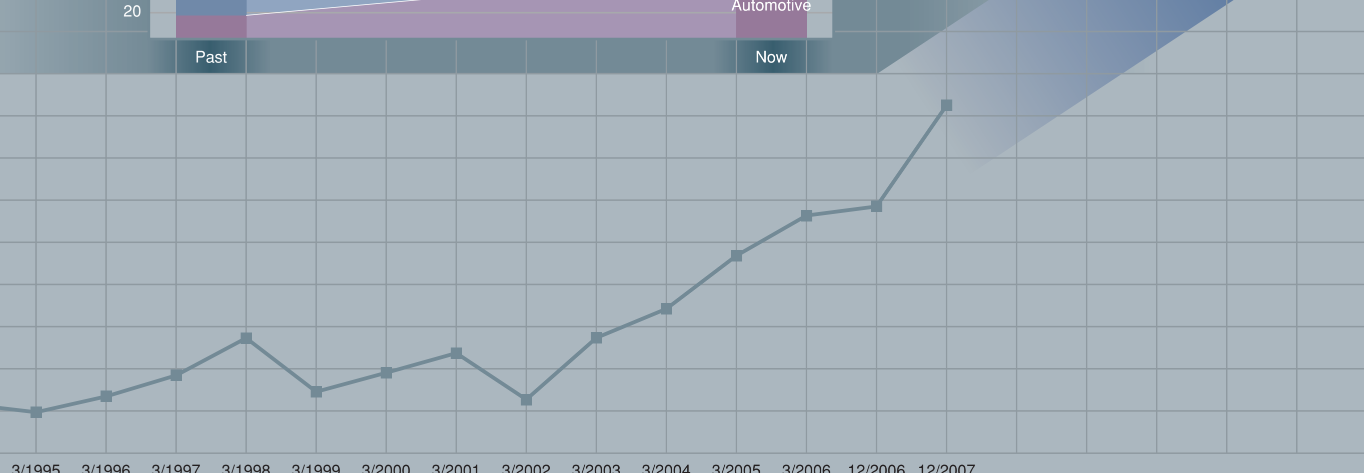
Note: Comparison between the First-Half Fiscal 1998 and the First-Half Fiscal 2007. Direct sales are sales of products and services generated by direct dialogue between the Company's sales people and customers

Less dependency on Japan (progress in balanced management and globalization)

Note: Comparison of sales by region between Fiscal 1995 and Fiscal 2007

Less dependency on the Automotive business (progress in balanced management)

Note: Comparison of sales by business segment between Fiscal 1995 and Fiscal 2007



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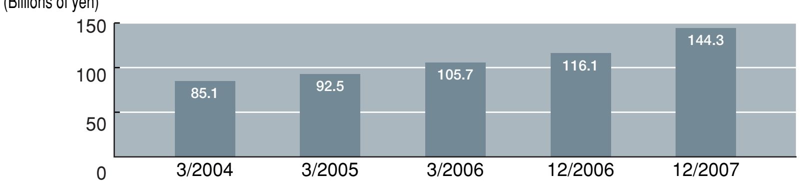
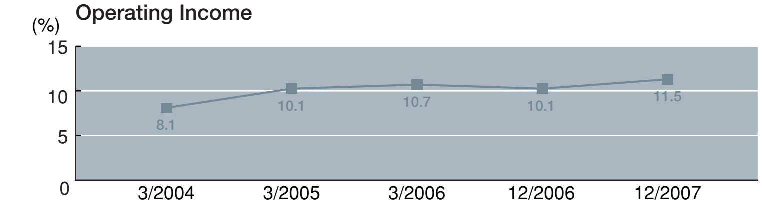
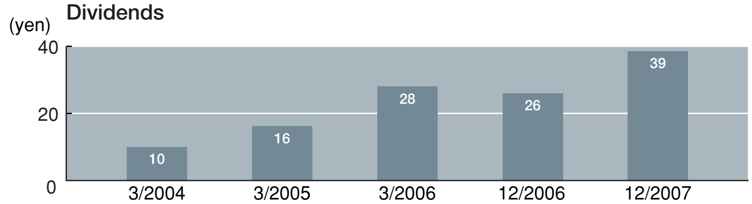
Net Sales



Operating Income



Dividends



【Regarding Fiscal 2007 Earnings Results】

In the fiscal year ended December 31, 2007, investment in R&D related to new cars and new engines aimed at improved fuel consumption expanded in the automotive industry, while private-sector capital investment in the semiconductor and other industries increased mainly in the first half of the year. Consequently, the Automotive Test Systems segment and the Semiconductor Instruments & Systems segment recorded strong revenue and profit growth. In addition, as the yen depreciated compared to the previous year, profitability also improved and both consolidated net sales and profits reached record-high levels. As a result, we raised the annual dividend to ¥39 per share from ¥26 yen per share in the previous year. In terms of cash flow, net cash flow from operating activities totaled ¥13.6 billion, reflecting our strong business performance. However, we took further steps to develop our operating base by allocating ¥9.1 billion in capital expenditure to measures such as the introduction of a new core information system, which is indispensable to HORIBA's future growth.

Change of Fiscal Year-End

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

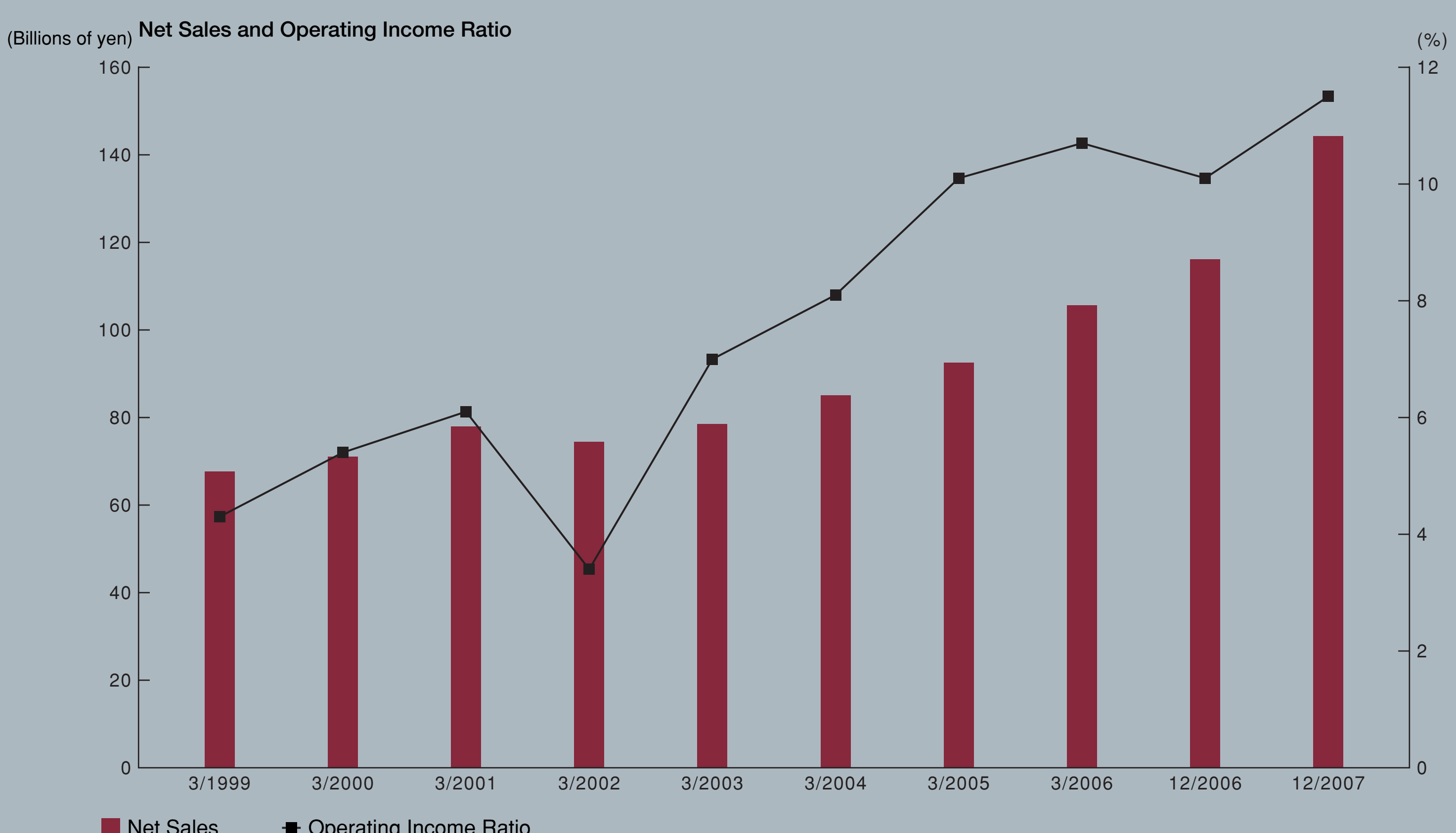
Disclaimer Regarding Future Plans and Forecasts

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

Aiming for Sustainable Growth

HORIBA is a global group of companies that provides analytical and measurement equipment in fields that are indispensable to people's lives, including the environment, health, safety, and energy. We are expanding our business operations by making use of our advanced technological capabilities and global network. HORIBA products hold No. 1 or No. 2 share positions of global markets - for example, our automotive emission measurement systems command an 80% share of the global market - accounting for approximately 60% of total sales.

During the past ten years, HORIBA's "visible" earnings have improved substantially, with operating income growing at an annual rate of 12%. Moreover, in 2007, we achieved our operating income target for our Mid-Long Term Management Plan, which ends in the fiscal year ending December 31, 2010, a full three years ahead of schedule. Nevertheless, we will continue to invest for the long term in order to foster "invisible values (assets that do not appear in the financial statements)" such as human resources, technologies, and our brand as we aim for sustainable growth.



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 3 for details.)

1 Atsushi Horiba
Chairman, President & CEO
2 Michel Mariton
Segment Leader of Analytical Instruments & Systems (Scientific)
3 Takashi Nagano
Segment Leader of Automotive Test Systems
4 Juichi Saito
Segment Leader of Semiconductor Instruments & Systems
5 Bertrand de Castelnau
Segment Leader of Medical-Diagnostic Instruments & Systems

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 & Fun," and "multiplies" and shares their strengths in order to increase corporate value.

To Our Stakeholders

Earnings in the Fiscal Year Ended December 31, 2007 Reach Record High

In the fiscal year ended December 31, 2007, HORIBA's businesses showed a strong performance, reflecting vigorous capital investment in the automotive and semiconductor industries and an increase in market share stemming from the stronger competitiveness of HORIBA's products. We posted consolidated net sales of ¥144.3 billion (US$ 1,264 million), operating income of ¥16.5 billion (US$ 145 million), and net income of ¥8.7 billion (US$ 76 million), which are all-time highs. As a result, over the past ten years, net sales and operating income have risen on annual bases 9% and 12% respectively, representing substantial growth. In the next fiscal year ending December 31, 2008, we expect both a decline in capital investment by the semiconductor industry and a strong yen which will make the business environment more challenging. However, I believe that our mid-long term growth potential remains intact.

Note: The U.S. dollar amounts are provided solely for convenience at the rate of ¥114.15 to U.S. $1.00, the rate prevailling on December 31, 2007

Steady Progress of the Mid-Long Term Management Plan

HORIBA's current Mid-Long Term Management Plan, which was announced in March 2006, has been making steady progress. We achieved our operating income target for the fiscal year ending December 31, 2010, the final year of the plan, three years ahead of schedule in the fiscal year ended December 31, 2007. However, it is not merely a question of achieving financial targets. It was also important to note that we achieved an earnings balance among our four business segments and three operating regions, where the earnings structure had previously been dominated by the automotive test systems business and the Japanese market. While improvement in the business environment, including the invigoration brought by capital investment in the automotive and semiconductor industries has contributed to the progress of our Mid-Long Term Management Plan, I believe this progress also reflects the outcome of planned endeavors we enacted during the past ten years or so. For example, we have engaged in M&A and alliances, primarily overseas, established factories and sales bases in emerging countries, promoted direct sales by our marketing activities, and pursued "One Company" management. From one perspective, the measures that we are currently implementing are expected to bear fruit in ten years.

Priority Measures of Mid-Long Term Management Plan (2006-2010)

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

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

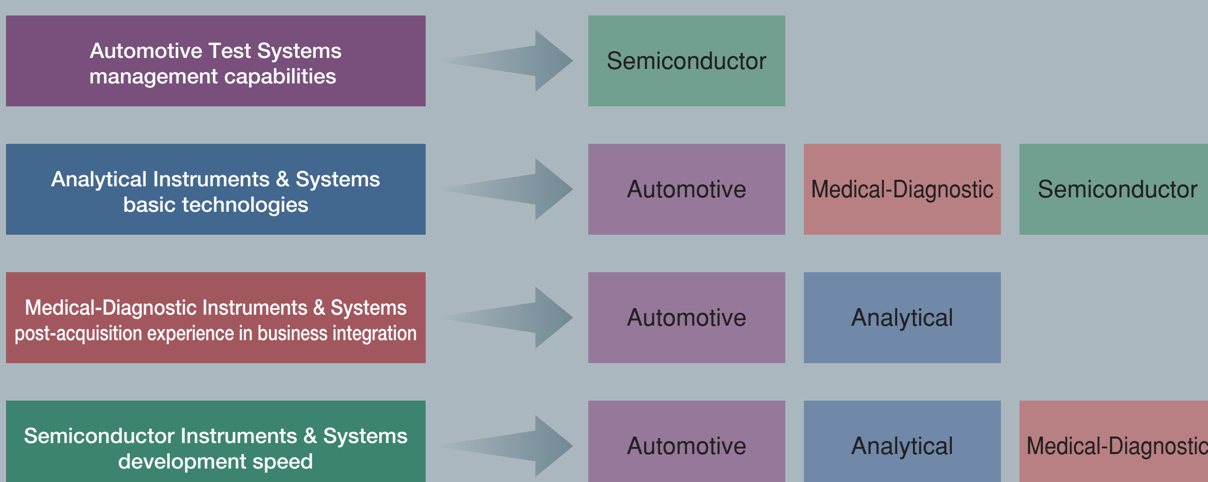
Numerical Targets for Fiscal 2010	
Net sales	**¥150.0 billion** (¥144.3 billion)
Operating income ratio	**10.0% or more** (11.5%)
ROE (Return on equity)	**11.0% or more** (11.4%)

Figures in parentheses show actual results in Fiscal 2007.

Human Resource Development and "Multiplication"

One of the activities that HORIBA has consistently pursued for the past ten years is the development of effective, global human resources operations. It will not be possible for only one superior person to manage HORIBA. However, I believe that we can create a superior dream team by bringing together human resources with outstanding skills in individual areas. We will expand this kind of management worldwide from our executives to the extremities of our organization. As preparation for this objective, we foster personnel that effectively communicate on a global level using skills learned through overseas assignments and on-the-job training. In addition, we proactively appoint personnel that have achieved success in the automotive test systems business, one of our core businesses, to responsible positions in other business segments and regions. We describe this as the "multiplication of human resources." In addition to creating new challenges for personnel in the automotive test systems business, our aim is to disseminate the genes of their success to other businesses segments and regions.

Concept of "Multiplication": Value Creation through the Use of Respective Strengths in Other Businesses



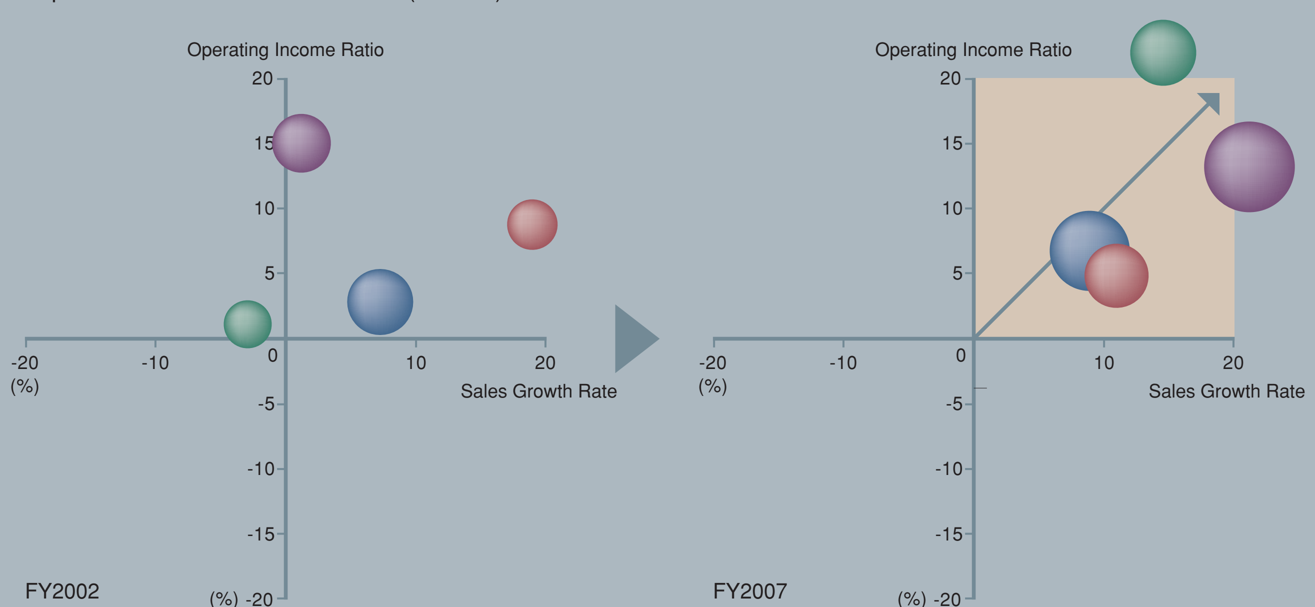
Multifactorial value creation based on the applied development of strengths in each business segment in other businesses (see page 13 for details.)

Management Challenges in the U.S. Market and the Medical - Diagnostic Instruments & Systems Business

I regard expanding our business in the U.S. market and in the Medical-Diagnostic Instruments & Systems segment as our currently most important management challenges. For HORIBA, these markets represent the largest region and business. At the sametime, however, they are where competition is the most intense. The U.S. is a huge market that accounts for around 40% of the global market for analytical and measurement equipment. For example, the market for in-vitro diagnostics analysis equipment, in which we are expanding sales in the medical-diagnostic instruments & systems business, is a market on a scale of more than a ¥2 trillion. If we beat the competition in these two areas, I believe HORIBA will deserve to be called a truly global company.

Since establishing a joint venture company in the U.S. in 1970, HORIBA has expanded its U.S. operations. As a result of M&As carried out in recent years, the number of U.S. bases has increased, but has conversely resulted in the decentralization of HORIBA's power in the U.S. To counter this, we integrated and reorganized these bases under a single U.S. holding company at the beginning of 2008. This has re-concentrated the power of the HORIBA Group and reinforced its sales and marketing capabilities while also developing a framework to promote more efficient business management. Historically our product development functions were previously focused on Japan, so we were slow to develop products that suited the characteristics of the U.S. market in many businesses. After reflecting on this issue, we opened the HORIBA Technology Center (see page 15 for details) as a new strategic development base in Silicon Valley, California, in July 2007.

As for the medical-diagnostic instruments & systems business, we see this as the business with the greatest growth potential over the medium to long term, and we have therefore invested a substantial amount in this business so far. Nevertheless, although the scale of this business is expanding, the growth rate and current profitability have not attained satisfactory levels. Accordingly, we will promote the expansion of products that are differentiated from those of our competitors by harnessing our product development capabilities, which make use of HORIBA's strengths in terms of possessing our wide range of analytical and measurement technologies not found at our competitors, and the unique product planning capabilities of HORIBA ABX SAS (France).



Growth and Profitability by Business Segment

Automotive Analytical Medical-Diagnostic Semiconductor

Note: Growth is measured by a 5-year sales growth rate, on an annualized basis, and profitability is based on an operating income ratio.

Becoming a True Global Company by Increasing our "Invisible Values"

In response to the outstanding progress of the current Mid-Long Term Management Plan, we are formulating a new Mid-Long Term Management Plan with goals set for 2013. If we extend the Company's current growth, we cannot realize a future vision that calls for sales to grow to ¥200 billion (US$ 1.8 billion) and ¥300 billion (US$ 2.6 billion). We need to be proactive with investments and initiatives that cultivate the "Invisible Values" of the Company which are composed of such things as business strategies, as well as the human resources, technologies, and brands that support those strategies. Fifty-five years have passed since HORIBA was founded, and during that time the Company has been consistently managed through a focus on a unique corporate culture symbolized by the Company motto "Joy and Fun." This has generated "Invisible Values" that are valid worldwide and that ultimately lead to "products" that are visible and create corporate value. Accordingly, the source of a company's competitiveness is the extent to which it possesses superior "Invisible Values." HORIBA will therefore continue to pursue the enhancement of its "Invisible Values."

HORIBA's head office is located in Japan, but it is not simply an international Japanese firm that conducts business around the world. Rather, we aim to be one of the few global companies in Japan that properly understands cultures, customs, and values, which differ in each country and region, and that conducts business rooted in the local area in harmony with local employees. By steadily practicing this corporate philosophy, I firmly believe that we will ensure sustained growth and receive an appropriate market valuation from investors around the world as a global company.

The future of the global economy is unclear, rather than doing nothing and standing still during these unsteady times, we intend to seize opportunities and act prudently and boldly.

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

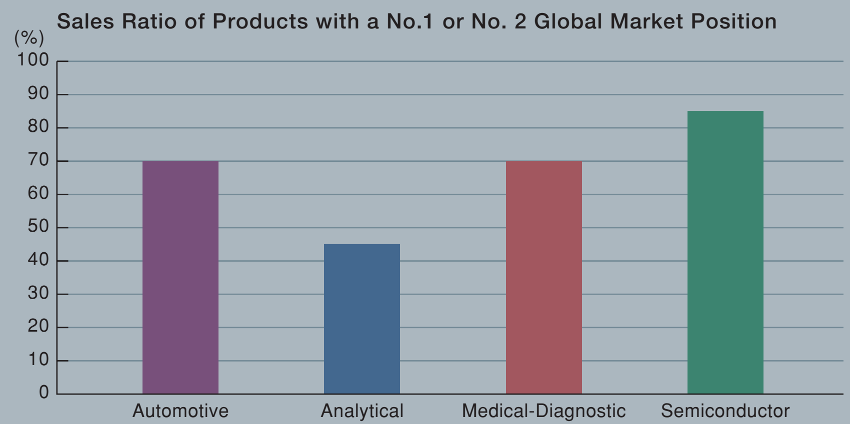
April 2008

Atsushi Horiba
Chairman, President & CEO

How to Create Higher Values

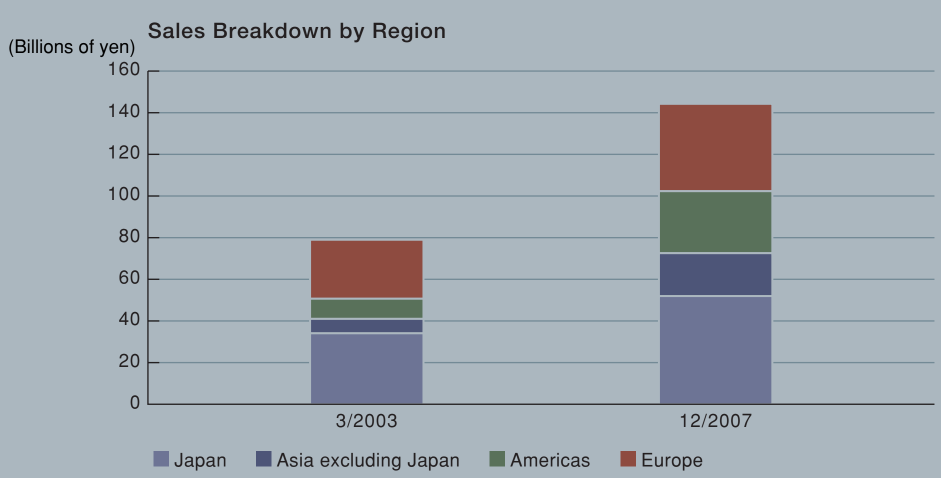
Increasing Worldwide Market Share

HORIBA emphasizes the pursuit of leading market shares for its product, rather than simple growth in sales volume. Having a leading market share means being the first to receive various kinds of useful, high quality information, which allows HORIBA to develop products and solutions that satisfy customer needs. It also leads to enhanced competitiveness and growth in our market share. This is exactly what occurred for the automotive emission measurement systems business, in which we have captured an 80% global market and have achieved the creation of higher values. This experience has been useful in creating value in other business segments. Today, approximately 60% of HORIBA's consolidated sales are generated by products that have attained the No. 1 or No. 2 share positions of global markets. Going forward, we will endeavor to raise this percentage even higher.



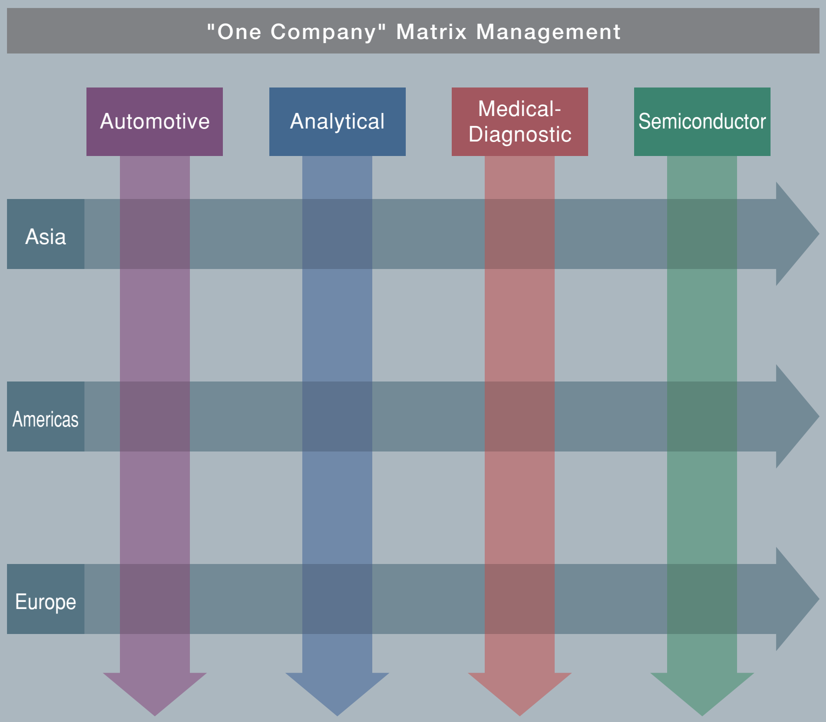
Growth Potential in Asia and the U.S.

In terms of operational regions, in addition to the U.S., China, India, and other emerging markets, our Asian markets are expected to lead HORIBA's growth. Net sales in Asia, excluding Japan, have risen 24% annually during the past five years, and the prospects of maintaining equally high growth in the future. In particular, HORIBA has been able to use its long-accumulated know-how in the Japanese market to supply demand related to environmental regulations. Meanwhile, the U.S. is the largest market for analytical and measurement equipment and accounts for around 40% of the global market. HORIBA's sales in the U.S. market represent only 20% of the company's global sales, suggesting substantial growth potential. To raise our presence in the U.S., we will continue to strongly invest personnel, capital, and other management resources into the U.S. market.



Realize "One Company" and Think about "Multiplication"

HORIBA is earnestly attempting to achieve additional value creation based on the concept of "multiplication." One way to achieve this is to apply the strengths of each business to other business segments. For example, the Automotive Test Systems segment has experienced tough global competition and, as such, is playing the role of an in-house "business school" with global business development to know-how. Personnel who have accumulated experience during this process are actively helping to realize "One Company Matrix Management" with businesses and regions as axes. The leader in Semiconductor Instruments & Systems and the leader in the Americas have all come from the Automotive Test Systems segment (see page 14 for details.) Other examples of cross-segment "value multiplication" include leading technologies in the Analytical Instruments & Systems segment, know-how concerning post-M&A business integration in the Medical-Diagnostic Instruments & Systems segment, and flexible production know-how in the Semiconductor Instruments & Systems segment. Within HORIBA, this method has been firmly established as a means to create value. We will continue to pursue and create higher value as we are inspired by the concept of "multiplication."



HORIBA and its group companies are regarded as "One Company," where common resources are shared in the pursuit of management efficiency and globalization. The Group is shifting from a structure based on corporate entities to "One Company" matrix management based on four business segments forming vertical axes and three regions (Europe, the Americas, and Asia) forming horizontal axes.

Tapping into the U.S. Market

Exploiting the U.S. Market

The U.S. market is substantial, representing approximately 40% of the analytical and measurement equipment. The U.S. worldwide market is also home for several of our major competitors. HORIBA's U.S. sales ratio remains low at about 20%. Our target is to make the ratio close to the market component ratio.

One of the lessons we have learned from success in the U.S. automotive emission measurement systems business is that HORIBA can perform to its full potential when we provide solutions by working together with customers, rather than through mass sales of commodity products through catalogues and other channels. There are many large markets such as the oil industry and the medical field that HORIBA could enter. However, instead of adopting the conventional, simple way of bringing products tailored for Japan to the U.S. market, we need to take a new approach and develop local products suited the needs of U.S. customers. HORIBA's new Technology Center, in the Silicon Valley, will concentrate on improving the speed and quality of product development in the semiconductor business during the near term. Over the medium term, the Center will also be used as a base for development and marketing in other business segments, with the aim of gaining a larger share of the U.S. market.

Masayuki Adachi

Masayuki Adachi was born in 1962. He joined HORIBA, Ltd. in 1985, and has been engaged in research and development of emission measurement systems, including through a transfer to the National Fuel Cell Research Center at the University of California, Irvine. As a leader of the Automotive Test Systems segment in 2004-2006, he was involved in the acquisition of the automotive development test systems (DTS) business of Carl Schenck AG. He was appointed as President of HORIBA International Corporation (US) in 2007, and has a Doctor of Engineering.

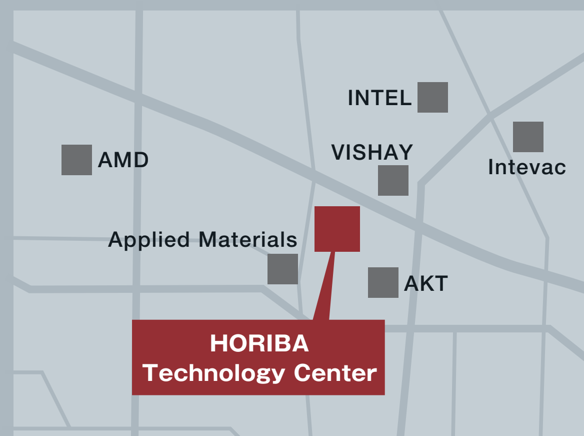
Juichi Saito

Juichi Saito was born in 1958. He joined HORIBA, Ltd. in 1982. After serving as General Manager in the Automotive Emission Measurement Planning & Development department, he was appointed President of HORIBA Instruments Incorporated (US) in 2000. Since joining HORIBA, he has worked in the U.S. for 14 years in total and has devoted his efforts to expanding HORIBA's business in the U.S. market. He was appointed as a Director of HORIBA and Executive Vice President of HORIBA STEC, Co., Ltd. in 2005. He is concurrently serving as a leader in the Semiconductor Instruments & Systems segment.

HORIBA Technology Center

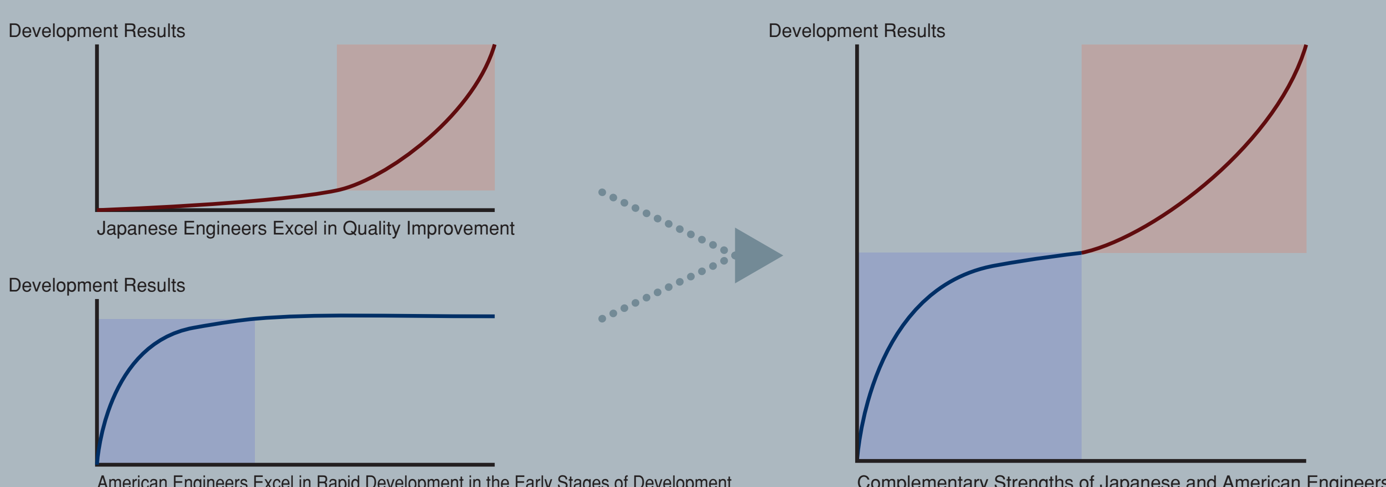
In July 2007, HORIBA established its first overseas base, the HORIBA Technology Center, dedicated to research and development in Silicon Valley, California in the U.S., the heart of the semiconductor industry. This HORIBA Technology Center is located in close to proximity to our major customers in the semiconductor industry, a crucial advantage, as it leads to a higher profile for HORIBA and enables us to quickly respond to the voices of customers during their product development.

Japanese and American Engineers Working Together



Map of Silicon Valley, California, U.S.

HORIBA's biggest challenge is to speed up product development. American engineers tend to perform effectively in rapid development in early stages of development, while Japanese engineers excel in quality improvement. Using the complementary strengths of engineers from both countries, we developed the MEXA-7000 (automotive emission measurement system), which captured an 80% global market share, thereby demonstrating the effectiveness of this complementary development style. In the future, the optimal performance of the HORIBA Technology Center will extend into segments other than the Semiconductor Instruments & Systems segment. Our aim is to create value through "multiplication."



Development Diagram

HORIBA at a Glance

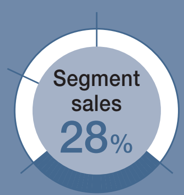
Summary by Business Segment

Automotive Test Systems

Strong support for automotive development sites

HORIBA's automotive emission measurement systems have set a global standard and command an 80% share of the global market. Recent business acquisition has expanded our product line-up into complete turn-key systems for automotive development. These test systems are used at the forefront of automotive research and development and quality control. Our systems are indispensable for developing new types of engines, such as hybrid and diesel, and alternative fuels. Recently automotive product development speed has accelerated due to the surge in fuel prices.

Analytical Instruments & Systems



Achieve a good balance between unique analytical measurement technologies and business operations

HORIBA manufactures and sells over 500 types of instruments that serve a wide range of markets from cutting-edge scientific technology to environmental measurement for atmospheric, and water pollution and to other aspects of the environment. These products command leading market shares mostly in niche markets, thanks to our high-level analytical technology know-how and enhanced customer support system. The segment develops basic analytical and measurement technologies and plays a leading role by transferring its new technologies to other business segments.

Medical-Diagnostic Instruments & Systems

Proactive product development in a large market with stable growth

In the in-vitro diagnostics market, a global market with ¥2 trillion in annual sales, HORIBA's focus is on selling automated blood testing instruments and their associated reagents. The segment's business model is based on generating the majority of earnings from reagent sales. In addition to original small-sized hematology analyzers, new large-sized hematology analyzers and clinical chemistry analyzers have been launched with the expectation of expanding sales of reagents.

Semiconductor Instruments & Systems

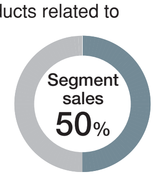
Contributing to improved yields in semiconductor manufacturing processes

The semiconductor industry is cyclical but continues to grow. HORIBA's principal products are mass flow controllers - devices that control gas and liquid flows in the semiconductor manufacturing process, and monitoring equipment for those processes. HORIBA responds to technical advances in miniaturization and yield enhancement, with new high-tech solutions for our customers.

Business Summary by Region

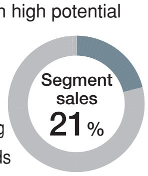
Asia

- Japan (72% 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



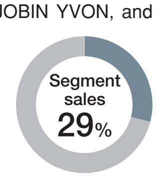
Americas

- 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



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

Major customers: automobile manufacturers, motorcycle manufacturers, automotive component manufacturers, multi-purpose motor manufacturers, government agencies, oil companies, automotive maintenance and repair centers

Product applications: development of new car models and engines, finished vehicle certification and QC, in-use vehicle inspections

Main risk factor

The global automotive industry's shifting investments for research and development

Principal products: scientific analysis instruments (particle-size distribution analyzers, X-ray fluorescence analyzers, Raman spectrophotometers, diffraction gratings), environmental measuring instruments (pH meters, stack gas analyzers, water quality analysis and examination systems, air pollution analyzers)

Major customers: manufacturers, national research institutions, universities, government agencies, electric power companies

Product applications: R&D, product quality testing, measurement of wastewater and gas emissions, environmental pollution monitoring, criminal forensics

Main risk factor

Pricing competition and downward pressure on sales and prices, and fluctuating demand resulting from changes in environmental regulations

Principal products: equipment for blood sample analysis (hematology analyzers, equipment for measuring immunological responses, clinical chemistry analyzers, blood sugar measurement systems)

Major customers: medical testing centers, small- and medium-sized hospitals, medical practitioners

Product applications: health and diagnostic testing, disease diagnosis

Main risk factor

Impact on earnings from changes in medical insurance systems in larger countries

Principal products: mass flow controllers, chemical concentration monitors, thin-film analyzers for semiconductors and LCD inspection, reticle/mask particle detection systems, residual gas analyzers, vacuum meters

Major customers: semiconductor production equipment manufacturers, semiconductor device makers, semiconductor cleaning equipment manufacturers

Product applications: control of gas flows and monitoring of cleaning fluid concentrations in semiconductor manufacturing processes, semiconductor and LCD quality control inspections

Main risk factor

Significant demand fluctuation caused by the "silicon cycle" in the semiconductor industry

Impact of Business Environment

Impact from higher material prices

The prices of oil, metals, and other materials have a relatively small impact on HORIBA's production costs, consequently higher material prices have not been a factor that significantly affect our costs. Meanwhile, surging material prices encourages more investment in research and development aimed at improving automobile fuel-efficiency and other energy-saving technologies. Thus, higher material cost may have a positive impact on HORIBA sales by generating more demand for our products.

Impact of foreign exchange rates fluctuations

HORIBA's geographical sales have become more evenly balanced with the favorable effect of a relatively small impact on earnings from fluctuations in foreign exchange rates. Nevertheless, our low production ratio in the U.S. translates into earnings deterioration when the U.S. dollar is weak against the yen or the euro. The currency sensitivity, in the fiscal year under review on the operating income is seen as, a one-yen fluctuation translates into a change of ¥78 million against the U.S. dollar and ¥36 million against the euro (a stronger yen reduces profit while a weaker yen boosts it).

Automotive Test Systems

HORIBA's Automotive Test Systems segment has consistently met the quality and performance requirements of the Japanese automotive industry, the world's most demanding customers. This has enabled us to attain a competitive advantage in the automotive emissions test systems with a commanding 80% worldwide market share. Our goal for the future is to create more values by implementing the following measures.

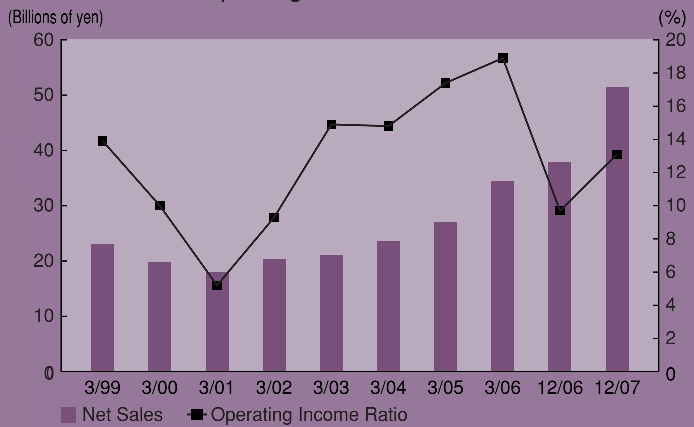
The September 2005 acquisition of the automotive development test systems (DTS) business of Carl Schenck AG in Germany has allowed us to expand our product line-up. In addition to our conventional emission measurement systems, we have added performance testing equipment used in developing automotive engines, drivelines, vehicles, wind tunnel balances, brakes, and other products to our line-up. This has exploded our target market from ¥40 billion to ¥200 billion and HORIBA's growth potential has been magnified very rapidly.

At present, the DTS market share is approximately 10% and has been unprofitable due to insufficient sales volume. This has impacted the operating income ratio for the Automotive Test Systems segment which dropped from 18.9% prior to the acquisition to 9.7% in the fiscal year ended December 2006. HORIBA then strove to improve profitability by leveraging its long-fostered relationship of trust with customers in emission measurement systems and its strong sales and service network. Our efforts have already produced some good results: annual sales of the DTS business have grown by 1.5 times since the acquisition, leading to strong prospects for an early turnaround in profitability.

The acquisition of the DTS business has also improved the business model of the segment. Traditionally, we focused on sales of emissions hardware and systems, but now we are engaged in a broader, total solutions business that entails supporting the full scope of automotive development. Selling less than total solutions not only limited our business scope, but also made us vulnerable to pricing competition. We developed our competitive power in emission measurement systems from our track record for top quality products combined with our experience solving problems for customers. Now we are integrating our newly added DTS products into more diverse and enhanced solutions for automotive development. In addition, we are studying at the possibility of expanding the automotive performance testing contract business for research and development and maintenance service business for inclusive automotive testing laboratory, which we've already provided in specific areas.

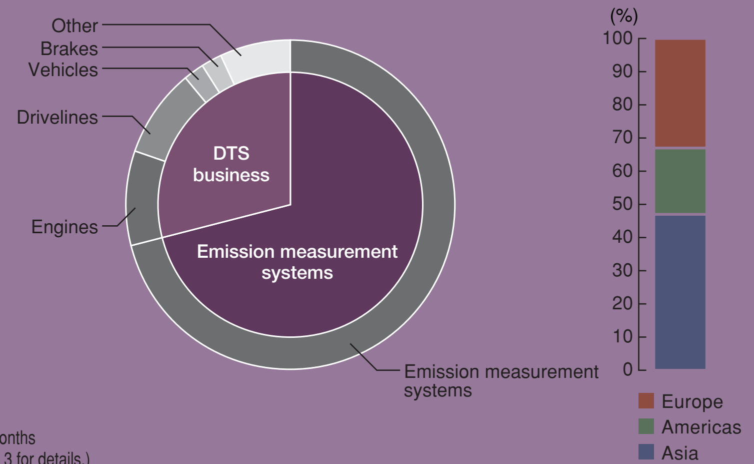
In recent years, the development of fuel efficient vehicles with hybrid power trains and diesel engines has accelerated as the world response to global warming and higher oil prices. HORIBA is committed to supporting the efforts in this development, becoming the most reliable supplier of automotive test systems and contributing to improving of the global environment.

Net Sales and Operating Income Ratio

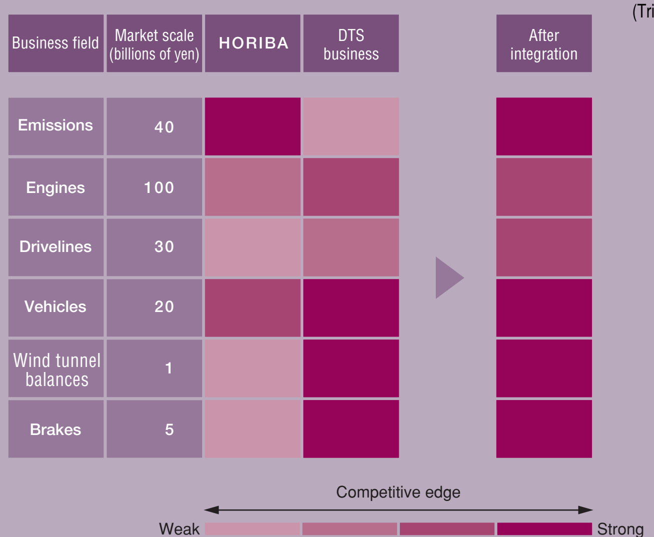


Note: For the fiscal year ended December 31, 2006, the accounting term for the Company was 9 months and 11 days as a result of a change in its fiscal year-end from March 20 to December 31 (see page 3 for details.)

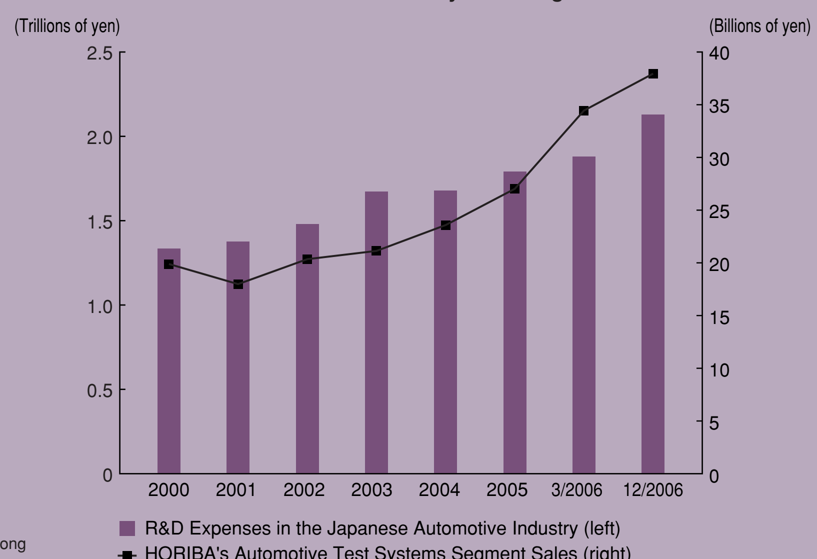
Sales Breakdown



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

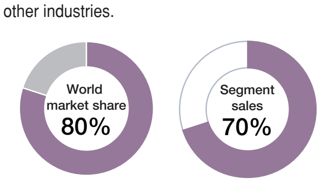


Source:
2006 Survey of Research and Development, R&D Expenditures by Industry (Ministry of Internal Affairs and Communications)

Major Products and Market Share

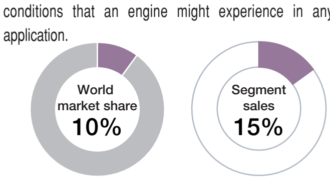
Emission Measurement Systems

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



Engine Test Systems

These systems are used for a wide variety of tests on engines and can integrate a 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.



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

Analytical Instruments & Systems

These days' worldwide companies are required to comply with a wide variety of regulations addressing emission of pollutant materials and traceability of products. Compliance with these regulations introduces the need for accurate analysis and measurement instrumentation for product compliance or monitoring process emissions. The Analytical Instruments & Systems segment is expanding its operations in this market, where continued growth is projected. The segment's profitability had remained at low level for several years due to the burden of high development costs for basic research in analytical technologies, but it is now improving in tandem with sales growth.

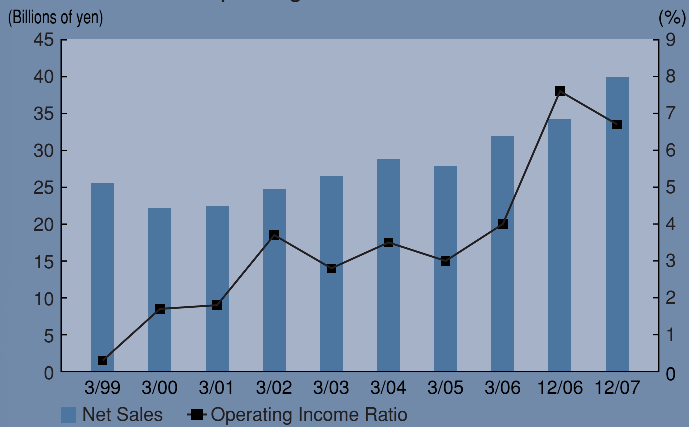
The Analytical Instruments & Systems segment is comprised of the scientific instruments business and the process and environmental business.

The scientific instrument business generates approximately two-thirds of segment sales. It has consistently pursued cutting-edge analytical and measurement technologies. Technology developed within the segment can frequently be applied in other business segments, magnifying the value of the technology. Our challenge is to achieve the right balance between investments in continual investment in new technology and economical production.

In markets where cutting-edge technology in industry and research institutions advances year by year, the performance and quality of analytical and measurement instruments require constant upgrading to support research efforts. As a consequence, growth is most evident in the high priced, high grade instruments market, where a relatively small number of competitors operate. HORIBA Jobin Yvon SAS in France, which has a corporate history of over 100 years, possesses high level analytical and measurement technological capabilities and excels in this high grade market. Its world leading spectrograph technology is also applied in other HORIBA products. We expect both this HORIBA Jobin Yvon's technology in high end market and existing application expertise in wide variety industries will leverage each other for further expansion of sales and profit.

In the process and environmental business, the core products are emission measurement systems for utilities and refineries, of which HORIBA has about a 20% world market share. To achieve further sales growth, we will expand our water analysis and industrial processes business fields. For some years, the market had been stagnant and severe price competition had depressed our profitability. However, demand for renewed capacity has picked up in developed countries while some competitors have been driven from this market. Taking advantage of these market dynamics, we increased both sales and profit margins in the fiscal year under review. Going forward, demand is expected to grow in China and other emerging markets where anti-pollution measures are now being formulated. By leveraging HORIBA's more than 40 years business experience and product development know-how in Japan, where environmental regulations are stringent, we will furnish price competitive products with superior performance. We will also strengthen our sales bases and promote more local production as we seek new business growth.

Net Sales and Operating Income Ratio



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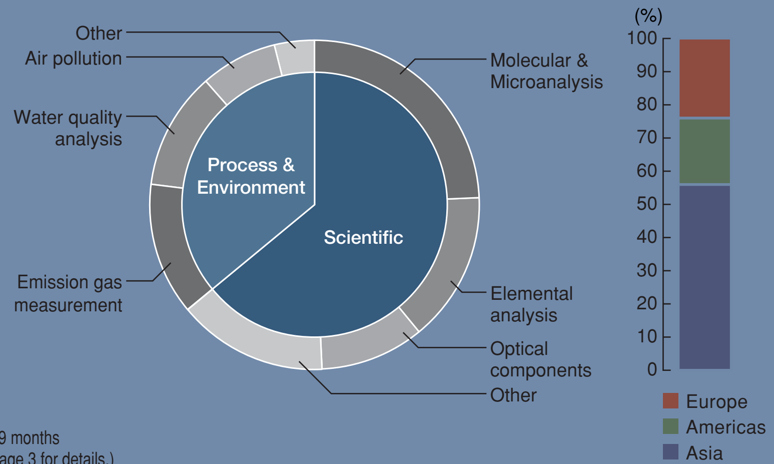
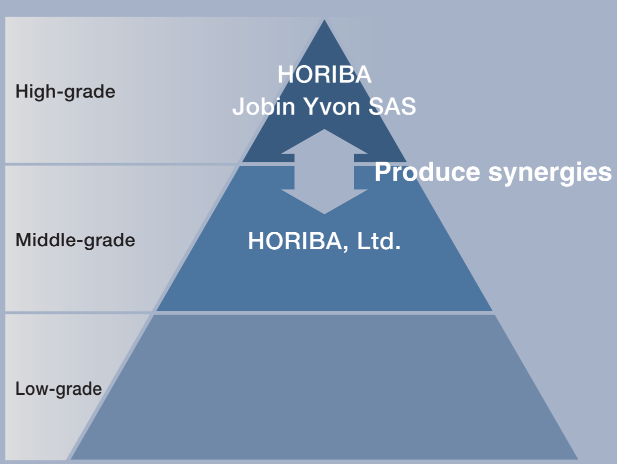
Sales Breakdown

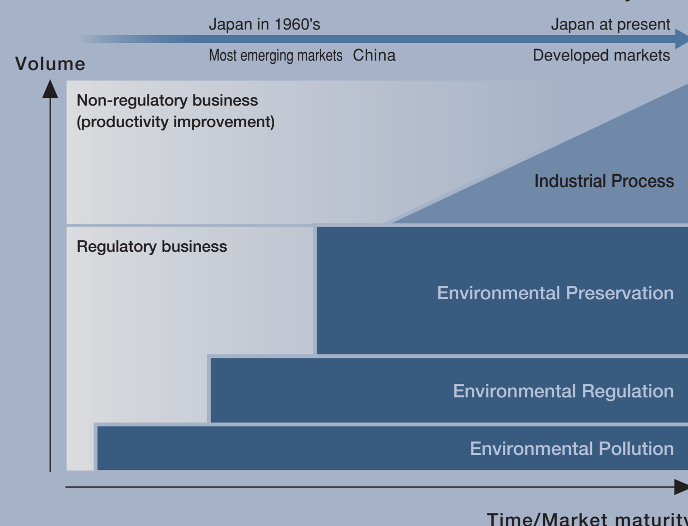


Business Model of Scientific Instruments & Systems



Grow business in the high growth middle to high grade instrument market by integrating the strengths of HORIBA and HORIBA Jobin Yvon.

Business Model of Process & Environmental Instruments & Systems

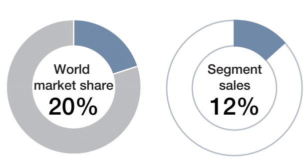


Gain business opportunities in high growth emerging markets by leveraging long-term business experience in Japan, where environmental regulations are stringent.

Major Products and Market Share

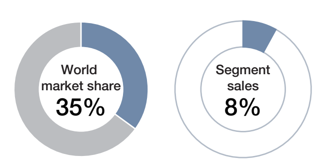
Stack Gas Analyzers

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



Spectrographs/Diffraction Gratings

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



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

Medical-Diagnostic Instruments & Systems

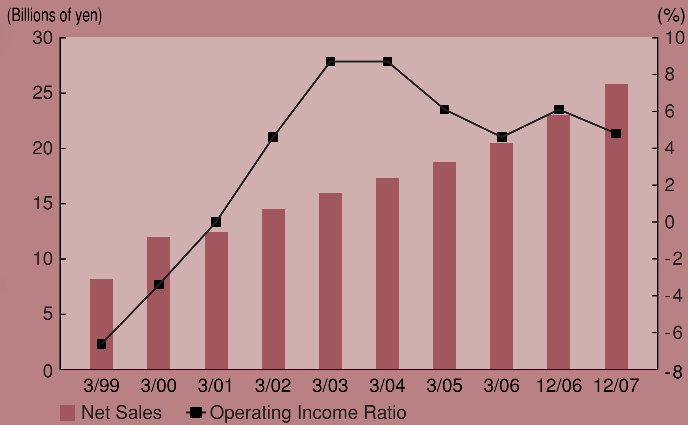
The acquisition of ABX SAS (now HORIBA ABX) in France in 1996 has enabled HORIBA to accelerate its growth where entry barriers are said to be high, and steadily increase its share of the medical-diagnostic instrument market through the strength of its outstanding product planning capabilities.

HORIBA's business model in this segment involves expanding the installed base of hematology analyzers and other medical instruments to generate profits from the sale of supplies, namely the reagents used in diagnostic analysis. This model is similar to that for office copiers, where profits are known to be generated by toner cartridges sales. Growth in the installed equipment is a prerequisite for future business growth. To enhance this model, we have been expanding our product line-up base since 2004. Previously, we specialized in small-sized hematology analyzers, specifically blood cell counter instruments, but have launched products in new areas where more reagent business can be expected. These include medium- and large-sized hematology analyzers and clinical chemistry analyzers. This approach has increased the costs related to research and development, and sales activities and has eroded profitability since the fiscal year ended March 2005. However, we view this approach as a strategic up front investment that is needed to ensure continual business growth and enhanced profits in the future. Meanwhile, the sales ratio of higher margin testing reagents has been on a steady uptrend from 40% in 2001-2002 to 50% in 2007. Our aim is to raise the ratio to about 60% and to achieve a higher operating income ratio.

In product development, HORIBA is emphasizing high flexibility while our competitors have adopted the strategy of retaining customers by providing a complete line-up of all automatic instruments. Our flexible system approach satisfies customers' needs by allowing our products to be combined with those of other companies. This is facilitated by our compact products and superior operating performance. In addition, we will launch strategic products that use less testing reagents which will keep customers operating. Our strategy is so unique that competing manufacturers are unlikely to imitate it because of concerns that this would erode margins from their installed base.

This, in the Medical-Diagnostics Instruments & Systems segment, HORIBA plans to expand business while maintaining a good balance between investment and earnings. With good balance, it aims to become one of the core strengths of HORIBA both in growth and profitability in the medium to long term. We plan to refine and enhance the stock based business model of "instruments plus sales of supplies," so this know-how can be adopted in other business segments and thereby "multiply" values that contribute to the HORIBA.

Net Sales and Operating Income Ratio



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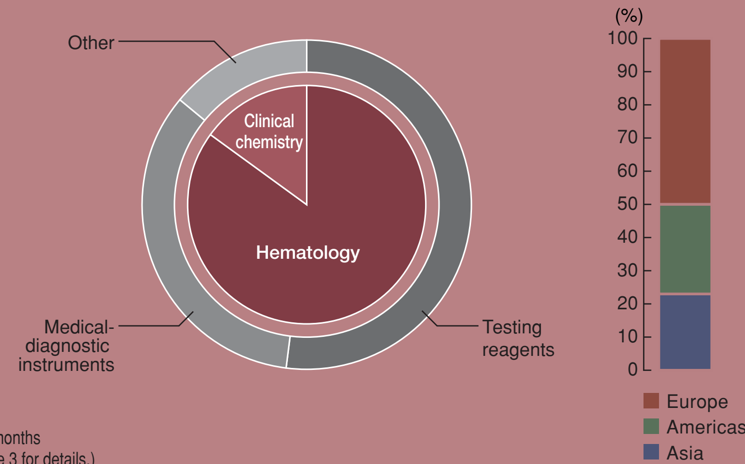
Sales Breakdown

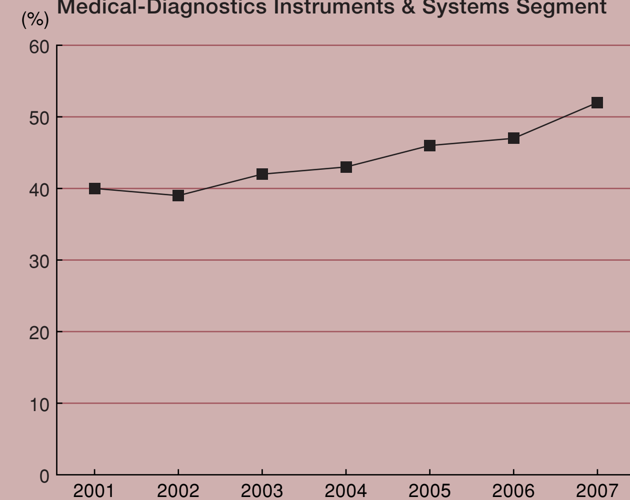


Product Development in the In-Vitro Diagnostics Analysis Market

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

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.

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

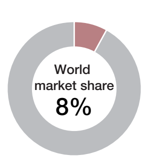


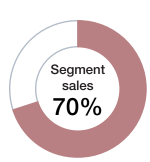
An increase in the installation base of medical diagnostic instruments results in a higher sales ratio for high margin testing reagents.

Major Products and Market Share

Automatic Hematology Analyzers

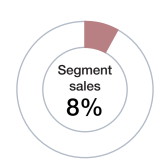
Blood tests are essential for assessing the health of people and animals. These analyzers check red and white blood cell counts as well as hemoglobin concentrations and platelet counts.





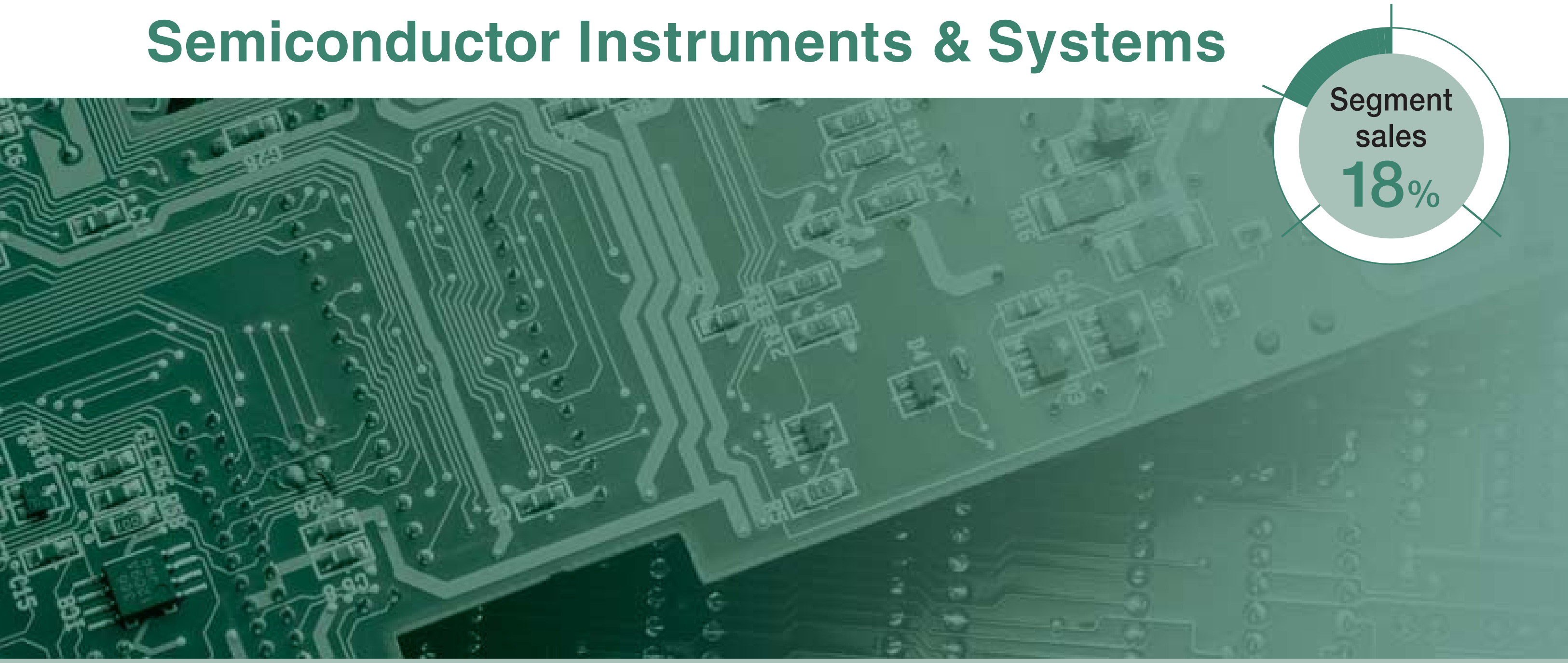
Automatic Blood Cell Counter plus CRP

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

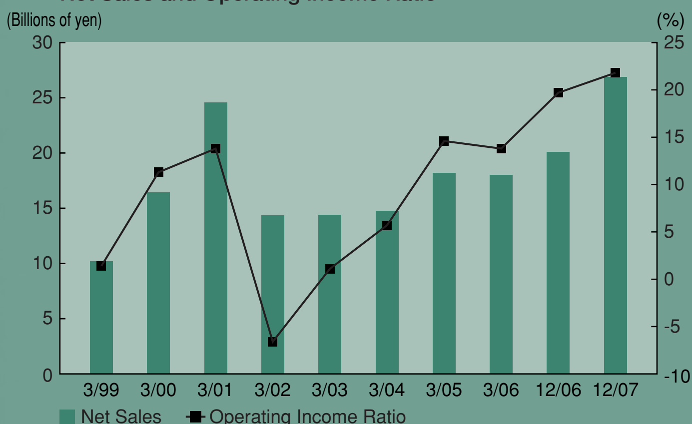


The semiconductor related industry is affected by market conditions and is distinctively cyclical. Nevertheless, it has grown by about 10% per annum on average. HORIBA's Semiconductor Instruments & Systems segment has experienced a 13% annual growth over the past five years, exceeding the market growth rate, thanks to an increase in its market share in Asia. Moreover, our profitability has significantly improved since the fiscal year ended March 2002, when we recorded a loss. As part of the measures undertaken during this period, our mainstay mass flow controllers have been digitalized while the number of models has been cut from several thousand to several dozen. We made tremendous efforts to pare costs by producing a smaller number of models in higher volume and to improve sales efficiency. As a result, we have lowered the breakeven point and become more resilient to market fluctuations. In October 2005, the Aso Factory in Kumamoto Prefecture enlarged its facility and added capacity. These changes now enable the factory to smoothly respond to a rise in sales volume. By correctly timing peak demand in the semiconductor market, the segment has experienced a significant sales expansion.

In recent years, semiconductor manufacturing processes have been advancing at an accelerated pace to achieve further miniaturization in processing and enhance yields. Cutting-edge technologies to keep up with this evolution are needed. This market trend is favorable for HORIBA's mass flow controllers, which have a competitive edge in performance, backed up by high-precision gas flow control technology. This has also provided an opportunity to raise our market share, which is approximately 36% at present. Capitalizing on our strength as a maker of analytical and measurement equipment, we have been developing and selling monitoring systems and quality testing systems used in the semiconductor manufacturing process. We have essentially become one of a few select companies that can provide total solutions for semiconductor manufacturing processes from various angles. In July 2007, the HORIBA Technology Center was founded in Silicon Valley, California in the U.S., the heart of the semiconductor industry. Our goal is to ensure new product development based on closer contact with our customers and to shorten development by Japanese and U.S. engineers, who are using their respective strengths in close collaboration. We regard the Center as a strategic base that will support timely product development.

The segment now has flexibility and speed to adjust to changes as its target, the semiconductor industry, is extremely cyclical. The market adjustment know-how of this segment can be adapted by other business segments, thus contributing to the "multiplication" of values.

Net Sales and Operating Income Ratio



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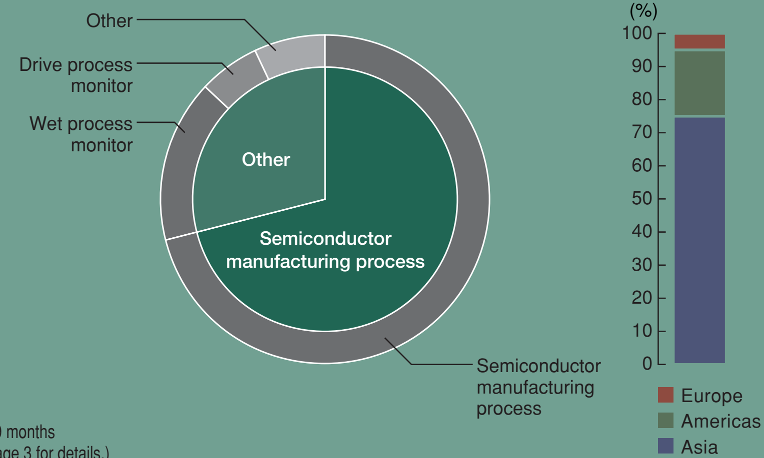
Sales Breakdown

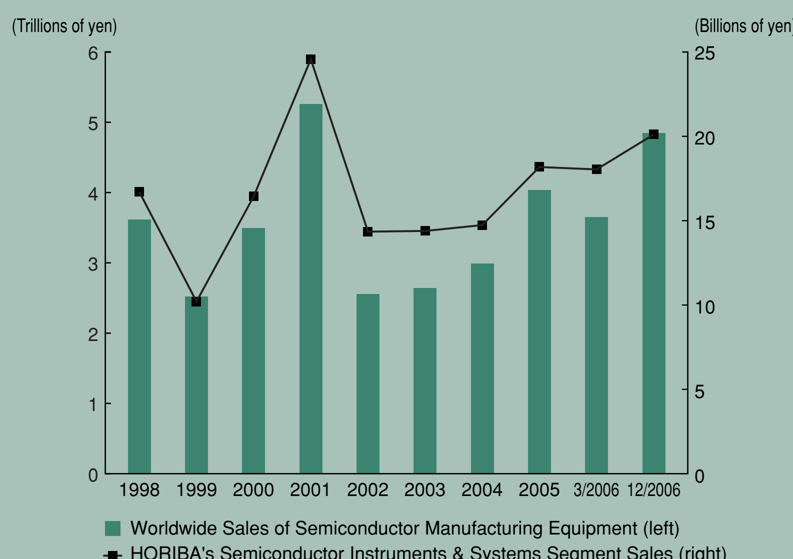


HORIBA's Share of Global Market for Mass Flow Controllers

Note:Estimates by HORIBA, Ltd

Despite some market share decline caused by delayed product development for 300mm semiconductor fabrication in the early 2000's, HORIBA's market share has started to pick up in recent years, thanks to the superior performance and quality of HORIBA's products.

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

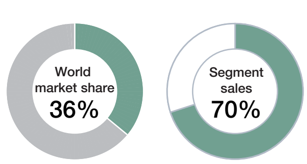


Source:
LCD/OLED Manufacturing Equipment Statistical Data (2006 edition)
Semiconductor Equipment Association of Japan

Major Products and Market Share

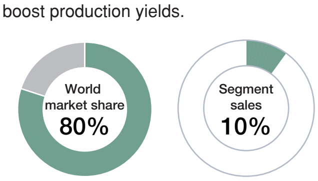
Mass Flow Controllers

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



Chemical Concentration Monitors

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



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

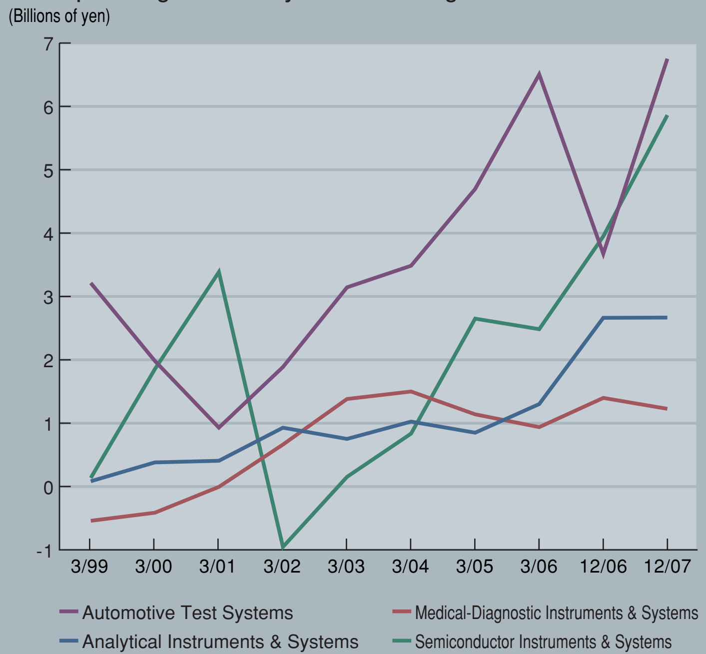
HORIBA's Well-Balanced Management

HORIBA has four business segments and three operating regions, each of which is different in terms of growth, stability, market size. To create maximum value, we need to operate each segment or region in accordance with its characteristics, while our overall earnings structure should not disproportionately depended on paticular segments or regions. In other words, we find it important to have well-balanced management. We believe that execution by well-balanced management enables us to deliver sustainable growth.

Balance Among Business Segments

Up until the mid-1990's, the automotive test systems business and the analytical instruments and systems business generated most of HORIBA's sales, while the Automotive Test Systems segment made the predominant contributions to profits. From the mid-1990's, strategic HORIBA M&A activities improved the sales and profits balance among business segments. Our businesses cannot avoid the business cycles of their respective markets. Yet, as we operate multiple businesses with different market cycles, combined earnings tend to fluctuate much less than in the past.

Operating Income by Business Segment



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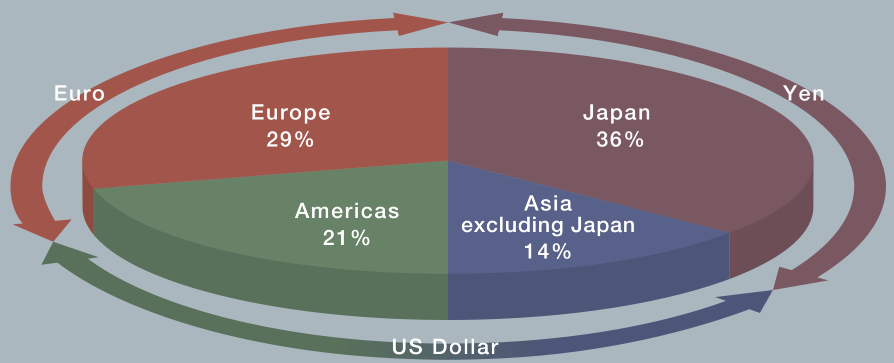
Balance Among Operating Regions

Similar to business segments, the sales balance among operating regions were distorted up to the mid-1990's, when most sales were generated by the Japan domestic market. However, subsequent M&A activities reduced our dependence on Japan to a current 36% of total sales. Going forward, growth in Asia and sales expansion in the U.S. are expected to reduce sales dependency on any particular market. Looking at transaction currencies, a good balance between the yen, the U.S. dollar, and the euro has been achieved and the impact of currency fluctuations has been lessened.



Breakdown of Net Sales and Transaction Currencies by Region (FY2007)

M&A-Led Growth

Value Creation through M&A Activities

HORIBA has accelerated its growth by actively conducting M&A activities since the mid-1990's. We acquired ABX SAS (now HORIBA ABX SAS), a French in-vitro diagnostics instrument maker, in 1996. We then acquired Instruments SAS (now HORIBA JOBIN YVON SAS), a French company specializing in optical analysis instruments in 1997, and the automotive development test systems (DTS) business of Carl Schenck AG in Germany in 2005. However, expanding the scale of business is not our single, or ultimate M&A goal. Our main goal is to acquire top class local personnel who are capable of working in a global organization. We have taken sufficient time and care to assimilate these new employees within HORIBA so they can fully contribute their talents to the HORIBA Group.

As M&A targets, HORIBA is searching for technologies or markets that are complementary to those of HORIBA. The companies and businesses we have acquired were not able to fully utilize their management resources in materializing their potential for growth because they were not able to invest sufficiently in research and development or human resources. After acquisition, HORIBA invested its capital, personnel, branding, manufacturing technologies, and other management resources in their operations to create more value from the acquired assets.

HORIBA acquires companies that we are familiar with through business relationships or in other contexts and only on friendly terms. HORIBA does not consider M&A of companies that have similar operations when we can only expect better economies of scale or improved efficiency through restructuring. Rather, we focus on acquisitions that are most likely to bring synergies in business strategy. Another characteristic for HORIBA is acquisitions to make certain that our employees are directly involved in the M&A process, including negotiations, the assessment of enterprise value, and due diligence. With more employees being involved with these initiatives, HORIBA can reduce the risk of failure and internally accumulate M&A know-how, which can be beneficial in future M&A activities.

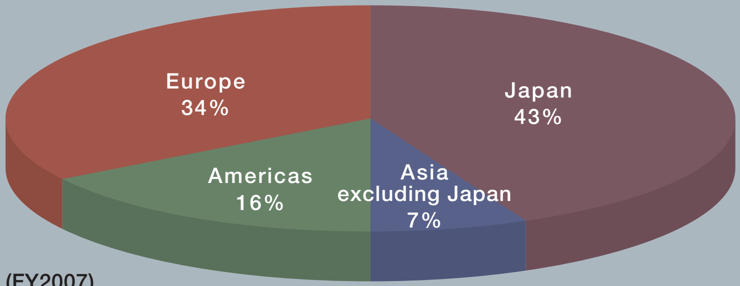
Globalization of Personnel: Non-Japanese Employees Account for about 60% of Total

Constructive acquisition of two overseas companies and one business has raised the HORIBA's ratio of non-Japanese employees to approximately 60% of the total head count. This high ratio was not achieved by pursuing low-cost overseas labor forces. In fact, HORIBA has gained very talented people, many of those with doctorate degrees. This makes us a very unique case as a Japanese company. At present, non-Japanese employees are segment leaders in the Medical-Diagnostic Instruments & Systems segment and in the Analytical Instruments & Systems segment.

Quick Post-Acquisition Integration

To make a successful acquisition, it is essential to share the corporate culture, integrate operational systems, promote active communication through the exchange of personnel on a global basis, etc. 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 to all personnel worldwide.
- Integrating enterprise resource planning systems: HORIBA has progressively started implementing a company-wide core enterprise resource planning system since 2007.
- Promoting active communication: HORIBA's various divisions hold international meetings (in English). Exchange programs are also conducted.

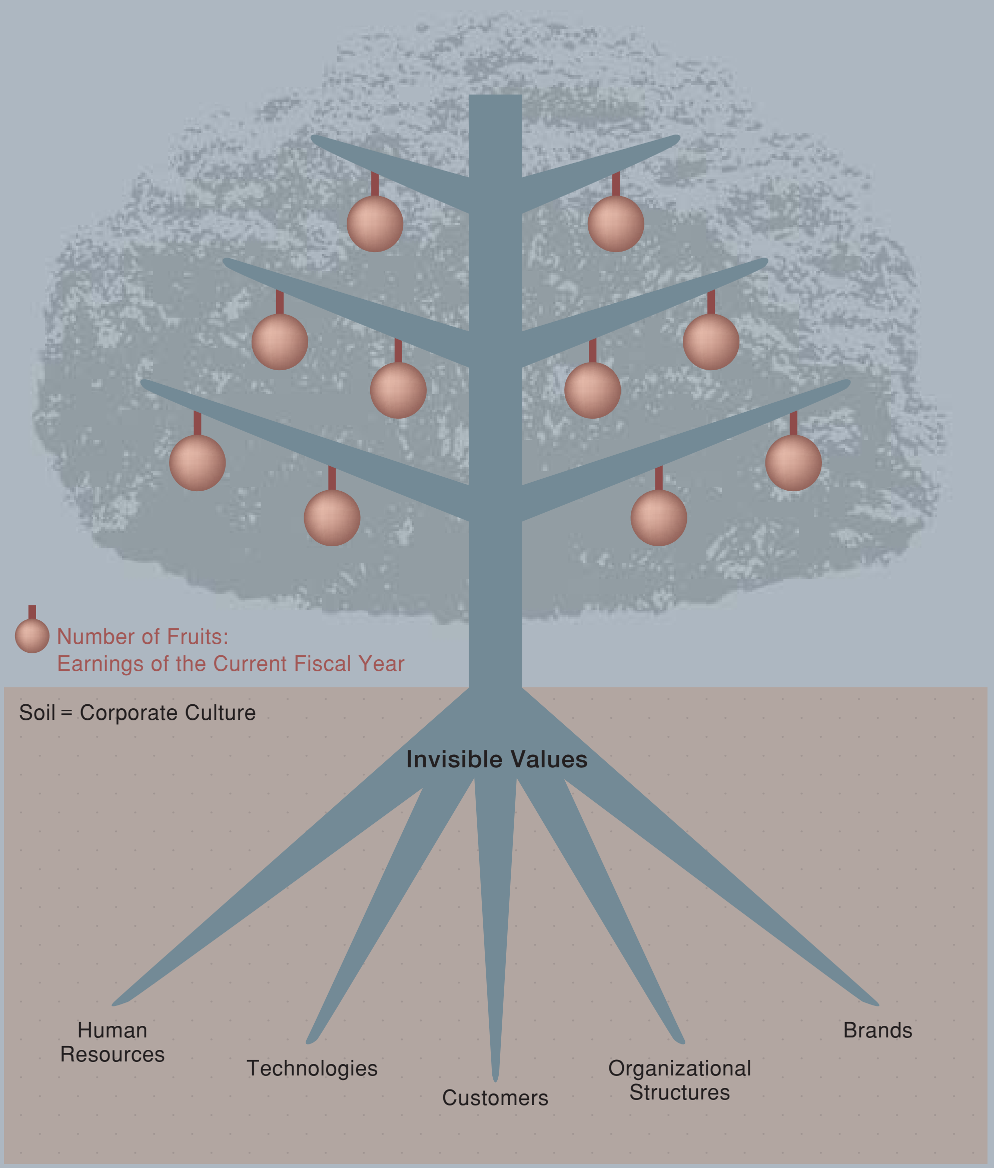


Employee Ratio by Region (FY2007)

Value Creation Based on Invisible Values

Development of Invisible Values = Sustainable Growth

Within HORIBA management, "Invisible Values (assets that do not appear in the financial statements)" are very important. Of course, the status of the fruit (earnings) and the trunk, leaves and branches (the balance sheet), which are visible values, is important. However, we believe that the essence of management is to grow strong thick roots (invisible values such as human resources, technologies, customers, organizational structures, and brands) in rich soil (the corporate culture). We do not believe that management emphasis on the maximization of short-term earnings and neglecting to invest in invisible values will attain sustainable growth or increase 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

The Most Important Invisible Value = Human Resources

As HORIBA is an R&D oriented company whose source of competitive dominance is its technology capabilities, continuing to create original ideas and processes is its lifeline, but new ideas and creations are produced by individuals. Therefore, 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 assimilates it into their individual "Omoi" (see note below.) When employees implement this culture their achievement becomes the foundation for new corporate value. In addition, it is essential that employees communicate externally and express their own country's customs and values, culture, and history. And it is also desirable that they become human resources with the ability to understand an international way of thinking, so they may properly accept foreign cultures. For an organizational framework to support these objectives, we have created global training and exchange programs to foster core human resources that can play an active role. Moreover, we have adopted a unique personnel management and performance evaluation system. We evaluate "people who have undertaken a challenge and failed" higher than "people who have not undertaken a challenge and not failed." Therefore, a person who accepts challenges can obtain a higher evaluation than a person who avoids challenges. We call this personnel management and performance evaluation system a "positively weighted evaluation system," and our employees at HORIBA have responded positively to this system of evaluation.

What HORIBA's management emphasizes is the promotion of business that is focused primarily on the unique corporate culture symbolized in the company motto "Joy and Fun." We believe this enables us to maintain a corporate entity where human resources, a key part of our invisible values, can display their power to the maximum.

Note: In Japanese, "Omoi" means emotional feelings, passion, thoughts, enthusiasm, desires, aspirations, ambitions, commitment, missions, and objectives.

Paper Cup that HORIBA Uses In-House

HORIBA as the Great Place to Work

HORIBA was placed sixth in the second "Best Companies to Work" survey in Japan conducted by the Great Place to Work® Institute (GPTW) in Japan. The definition of a good company to work for according to the Great Place to Work® Institute comprises five elements among employees and between employees and the company: trust, respect, fairness, pride and a sense of community. This particular ranking is distinguished by the fact that employee responses account for two thirds of the points allocated in the assessment process. In particular, HORIBA was highly evaluated for "not sparing investment in human resource development" and "endeavoring to create an environment where employees can work with a sense of 'Joy and Fun.'"

Invisible Values outside the Company : Cooperation with Suppliers

HORIBA's invisible values, which play a key role in creating new value, also extend outside company. HORIBA Raku-Raku Kai, relationship with key partner companies in production and assembly, which was founded by 32 companies engaged in cooperation in manufacturing in 1957, is an important invisible value that has quietly supported HORIBA's growth by responding to special requests, including the issuance of small-lot orders and special processing, from the time when HORIBA, Ltd. was founded. (As of the end of December 2007, the number of member companies was 54.)

HORIBA Raku-Raku Kai is indispensable in creation in HORIBA's manufacturing activities by supporting rapid start-up when new products are introduced, shortening of delivery times, cost reduction, and other key aspects of manufacturing. However, member activities are not limited to cooperation in the area of technology and manufacturing. HORIBA Raku-Raku Kai also plays a major role in bolstering mutual management bases. For example, it helps to increase a sense of community through exchanges that include training and study groups involving young executives at partner companies and corporate management.


Jona-
than
ZW

Creating Value through Invisible Values and Technologies

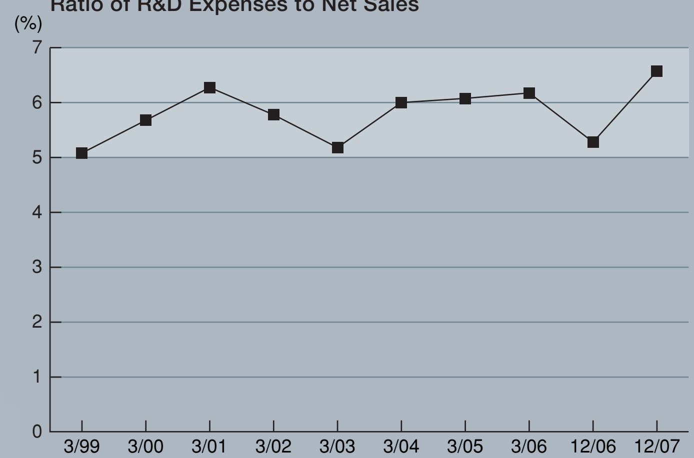
Technical Capabilities are the Driving Force for ¥200 Billion Sales

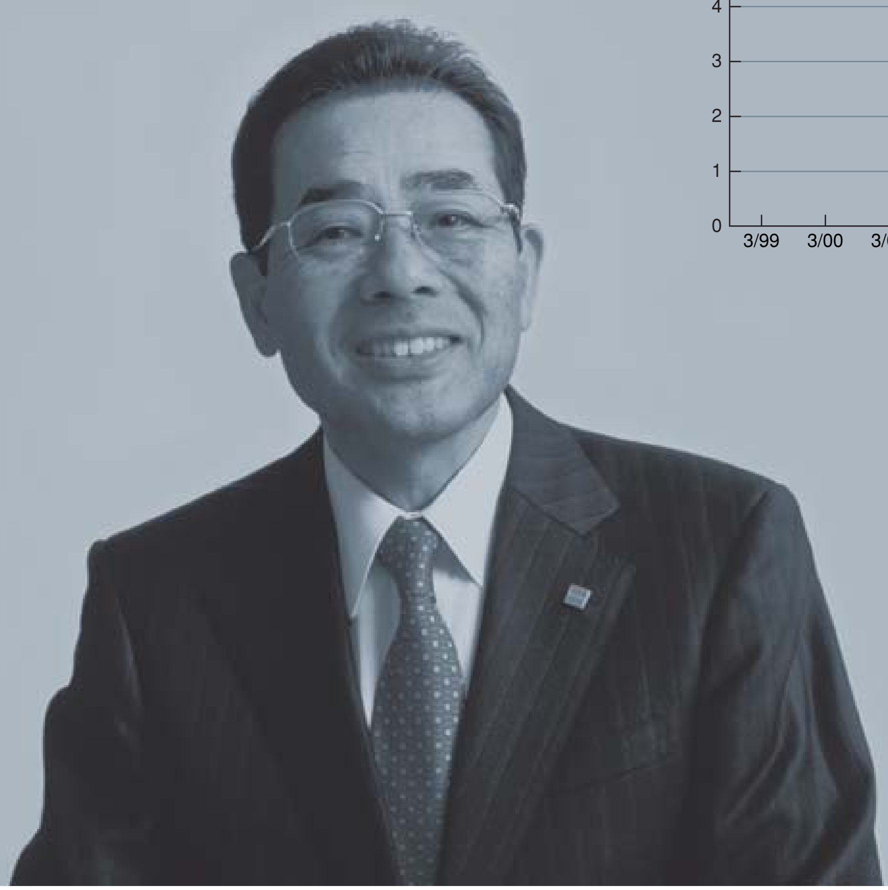
After achieving sales of ¥150 billion, the goal of the Mid-Long Term Management Plan, we believe that technical development will be the most important driving force in aiming for sales of ¥200 billion, which is the next step.

Technical development is the source for creating value for a company. And if this lifeline is cut off, value will end up declining. So far, HORIBA has continued to grow without halting the cycle of value creation by maintaining R&D investment at 5%-7% of sales during times when earnings are favorable and when they are not.

For example, when HORIBA acquired the automotive development test systems (DTS) business of Carl Schenk AG, in September 2005, investment in DTS technology was curtailed for several years while we completed the acquisition. Despite the fact that there were many engineers engaged in technical development with enthusiastic "Omoi" (see note on page 29) for technology, the DTS business was in a situation where value creation was stagnant and technological capabilities were not being fully utilized. As HORIBA resumed investment and revived the products, we managed to enter the value creation cycle again. We will continue to invest proactively in product development, including improving existing products, developing new technologies and new products, engaging in M&A, and expanding operations into new business fields. In addition, by creating high-value-added technologies that combine HORIBA's existing products and new technologies, we will ensure dominance in the market and pass on more advanced technologies to the next generation.

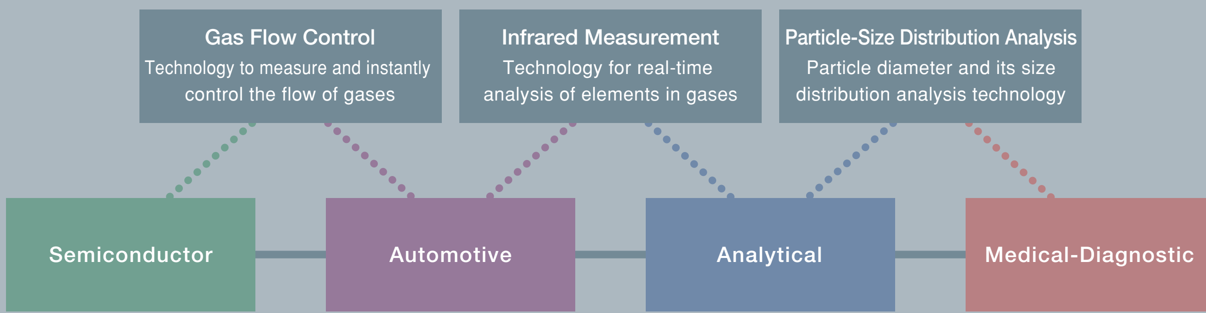
Ratio of R&D Expenses to Net Sales





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.



Application of Basic Technologies

HORIBA allocates its development resources by focusing on specific analytical and measurement technologies and, through the applied development of these technologies, efficiently conducts product development in four business segments with different markets.

Acceleration is the Challenge

As we will focus on speed in reinforcing our technical capabilities, we will not limit ourselves to in-house development, but rather incorporate M&A and external alliances as well. However, improving the speed of in-house development itself is a major challenge. To achieve this, we believe it will be necessary to make our development processes more open and share knowledge globally. How to create a new image that tends to be fixed is the job of development personnel and engineers. Through alliances with overseas partners, tie-ups between companies, and business collaboration and technical interchange, we intend to foster the development of personnel, including engineers that are outward looking, able to consider what different kinds of market technologies will lead to, and are able to play an active role globally. We firmly believe that the HORIBA Technology Center, which we established in Silicon Valley in the U.S., is a symbol of that objective. Furthermore, an important aim in the establishment of Masao Horiba Awards is to discover hidden technologies and engineers in research areas that are not often highlighted, namely analysis and measurement. The award focus is on research and development that is unique and whose results and development potential are likely to have global appeal on a global basis.

Masao Horiba Awards

HORIBA established Masao Horiba Awards in 2003, the 50th anniversary of the Company's foundation. Their charter to support young researchers and engineers in Japan and overseas who are engaged in research and development that is expected to generate innovative and unique analysis and measurement technology and to help enhance the position of measurement technology in science and technology. An applicable theme for the awards is determined every year and centers on basic and fundamental technologies that HORIBA has fostered for analysis and measurement technologies.

Pittcon Heritage Award

At the 2006 annual Pittsburg Conference (a global analytical chemistry society,) which was held in the U.S., Dr. Masao Horiba, the founder of HORIBA, Ltd., received the Pittcon Heritage Award. This award recognizes entrepreneurs and researchers that have made an outstanding contribution to analytical chemistry. On the same occasion, Dr. Masao Horiba became the first Asian person to be inducted into the Pittcon Hall of Fame, which honors business managers who have made a substantial contribution to the analysis industry and makes their names known to later generations.

Past Notable Pittcon Hall of Famers

William Hewlett, David Packard (Co-founders of the Hewlett-Packard Company)
Arnold O. Beckman (Co-founder of Beckman Instruments)
Richard S. Perkin and Charles Elmer (Co-founders of PerkinElmer, Inc.)

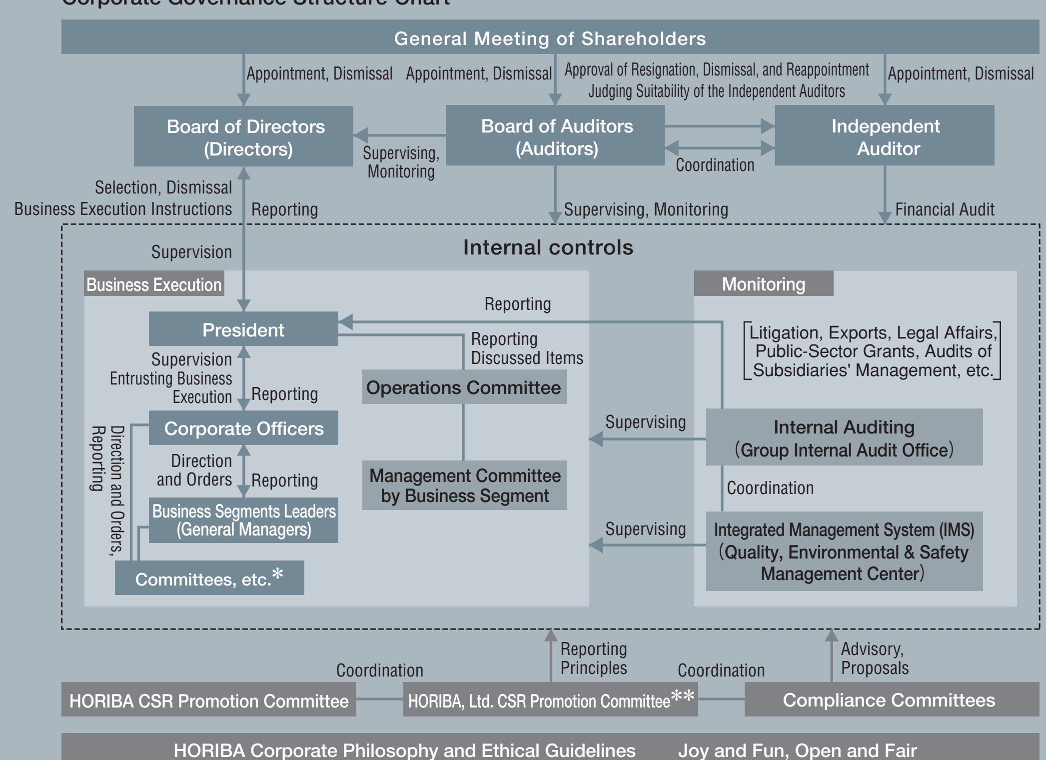
Governance & CSR Policy

Corporate Governance

From the time when little attention was paid to corporate governance, HORIBA, Ltd. has implemented the following policies which focus on the responsibility to the Company's owners (shareholders) based on the corporate motto "Open and Fair."

- **Election of External Directors and Corporate Auditors**
  To avoid management that is inclined toward inward-looking logic within the Company, HORIBA, Ltd. appointed external directors and corporate auditors when the Company was established in 1953 and has maintained that policy to the present day.
- **Implementation of Dividend Policy that Emphasizes Shareholder Returns**
  HORIBA, Ltd. 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 continued to pay dividends for a period of 35 years.
- **Open General Meetings of Shareholders**
  Since becoming listed in 1972, HORIBA, Ltd. has encouraged many owners to attend the General Shareholders Meeting. It has held its meeting on Saturdays, in order to facilitate attendance by the public
- **Separation of Board of Directors and Business Execution**
  To prevent the Board of Directors becoming inflexible and to enable lively discussion, HORIBA, Ltd. introduced a corporate officer system in 1998. The number of directors has decreased from nine in 1997 to five at present.

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.

Internal Controls

In May 2006, the Board of Directors formulated basic principles regarding the creation of an internal control system. At the same time, based on the Financial Instruments and Exchange Law (the Japanese version of the Sarbanes-Oxley Act,) we have been making improvements in our internal control system to ensure the accuracy of our financial reporting and working to provide the necessary documentation. We have also been working to establish an even more reliable financial reporting system and to improve operational efficiency based on enhanced openness and transparency in operations.

Compliance and Risk Management Systems

● Improvement of employees' awareness of legal compliance and establish compliance committees for operations
  - Strengthened framework by formulating compliance management provisions and ethical guidelines
  - Introduced internal whistle-blowing system in an effort to prevent or quickly detect and rectify illegal activities
  - Established point-of-contact to consult with attorneys outside the company and dedicated e-mail address for employees to communicate any compliance related concerns

● Through the introduction of the Integrated Management System (IMS,) we are promoting the enhancement of decision making speed, the improvement of operational efficiency, and the furthering of risk management.

● We are also ensuring integrated and comprehensive management of various certifications we have acquired, namely ISO 9001 (product quality,) ISO 14001 (environment,) OHSAS 18001 (occupational health and safety,) and ISO 13485 (medical.)

CSR 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 lead to social contributions.

Conducting Environmental Awareness Classes

We want to convey the importance and fascination of analysis to many people and enable them to feel that environmental problems are closely related to their lives. Based on this "Omoi" (see note on page 29) of our employees, we launched events involving hands-on scientific experiments for children in 1985. These events have now evolved into environmental awareness classes involving experiments that use HORIBA products and familiar materials. These classes teach elementary and junior and senior high school students about the impact harmful substances have on the environment and the human body, thus providing them an opportunity to think about environmental problems in the context of everyday life. In the fiscal year ended December 31, 2007, six environmental awareness classes which were attend by 261 people in total.

Six-Year Summary

HORIBA, Ltd. and Consolidated Subsidiaries
The years ended March 20, 2003, 2004, 2005, 2006, the year ended December 31, 2006, and the year ended December 31, 2007

	Millions of yen						Thousands of U.S. dollars (Note 1)
	3/2003	3/2004	3/2005	3/2006	12/2006	**12/2007**	**12/2007**
For the Year:							
Net sales	¥ 78,501	¥85,073	¥92,492	¥105,665	¥116,099	**·144,283**	**$1,263,977**
Operating costs and expenses	73,027	78,223	83,119	94,390	104,392	**127,753**	**1,119,168**
Operating income	5,474	6,850	9,373	11,275	11,707	**16,530**	**144,809**
Income before income taxes	3,119	4,780	6,105	10,748	10,588	**14,106**	**123,574**
Income taxes	2,161	2,574	2,290	4,214	4,028	**5,419**	**47,473**
Net income	786	2,074	3,524	6,473	6,510	**8,691**	**76,137**
Capital expenditures	3,444	3,501	3,956	5,664	5,059	**9,336**	**81,787**
Depreciation and amortization	2,915	3,037	2,944	3,173	3,246	**4,161**	**36,452**
Research and development expenses	4,044	5,129	5,636	6,553	6,136	**9,474**	**82,996**
At Year-End:							
Total assets	¥100,542	¥92,657	¥99,913	¥119,976	¥129,236	**·154,367**	**$1,352,317**
Property, plant and equipment, net	19,000	18,841	18,481	20,223	21,700	**24,071**	**210,872**
Net assets	40,144	43,348	52,263	65,446	72,375	**80,381**	**704,170**
	(Notes 2, 3, 4)						U.S. dollars (Note 1)
Per Share Information:							
Net income	¥ 22.21	¥ 62.90	¥ 98.33	¥ 154.27	¥ 154.23	**· 205.01**	**$ 1.80**
Net assets	1,293.30	1,350.31	1,415.75	1,548.08	1,710.75	**1,892.64**	**16.58**
Cash dividends	14.50	10.00	16.00	28.00	26.00	**39.00**	**0.34**
Financial Ratios:							
Return on assets (%)	0.8	2.2	3.7	5.9	5.2	**6.1**	
Return on equity (%)	2.0	5.0	7.4	11.0	9.4	**11.4**	
Inventory turnover (days)	87	81	82	85	92	**82**	
Price-earning ratio (times)	34.4	21.9	19.8	23.9	28.5	**20.0**	
Shareholders' equity ratio (%)	39.9	46.8	52.3	54.6	56.0	**52.1**	
Interest coverage ratio (times)	8.2	15.5	25.4	34.2	23.7	**21.2**	
Consolidated dividend payout ratio (%)	57.2	15.3	16.5	18.1	16.9	**19.0**	
Non-consolidated dividend payout ratio (%)	40.8	30.3	41.8	33.8	30.0	**30.1**	

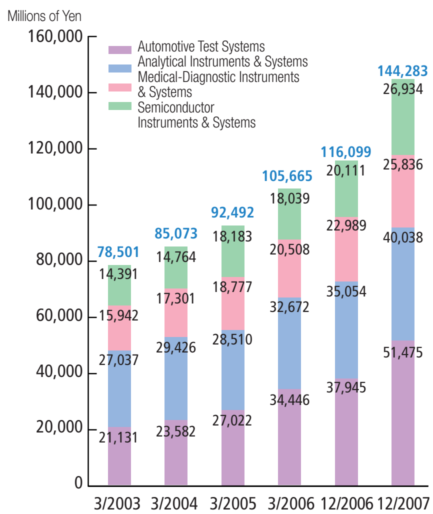
Notes:
1. The U.S. dollar amounts are provided solely for convenience at the rate of ¥114.15 to US$1.00, the rate prevailing on December 31, 2007.
2. Effective for the year ended March 20, 2003, the Company adopted the revised accounting standard for per share information.
3. Effective for the year ended 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.
4. 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 changing in the fiscal year-end to December 31.

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

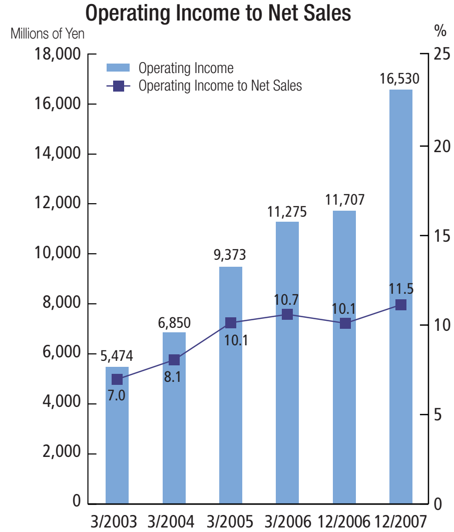
*Directors' and corporate auditors' bonuses for the year ended December 31, 2006 and 2007 have been recognized in selling, general and administrative expenses.

Note: All years referred to in this annual report are fiscal years. For example, 3/2006 refers to the fiscal year ended March 20, 2006, and 12/2007 refers to the fiscal year ended December 31, 2007.

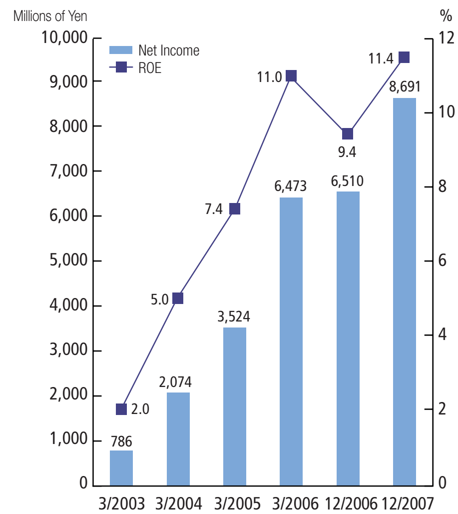
Net Sales by Segment



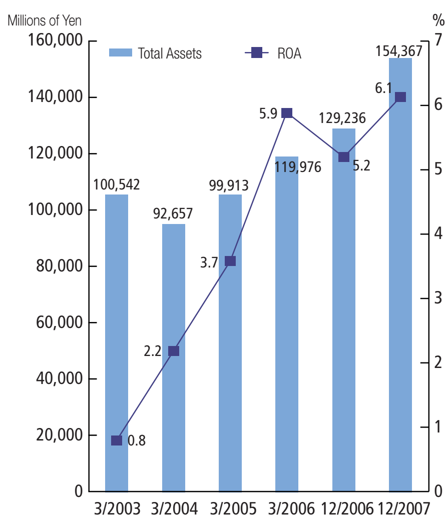
Operating Income and Operating Income to Net Sales



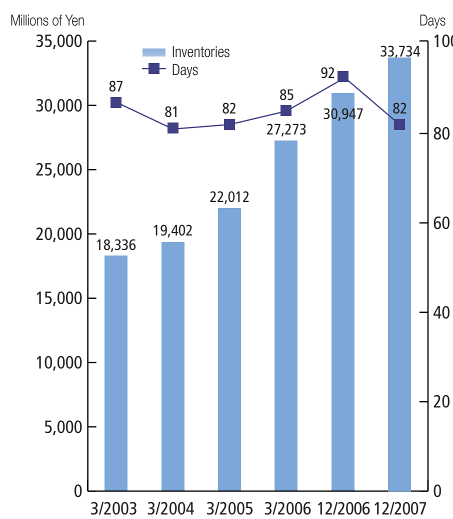
Net Income and Return on Equity (ROE)



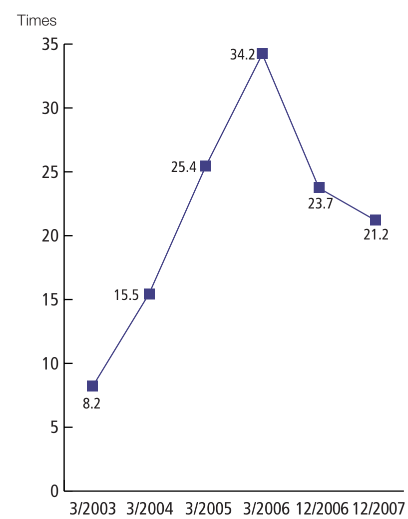
Total Assets and Return on Assets (ROA)



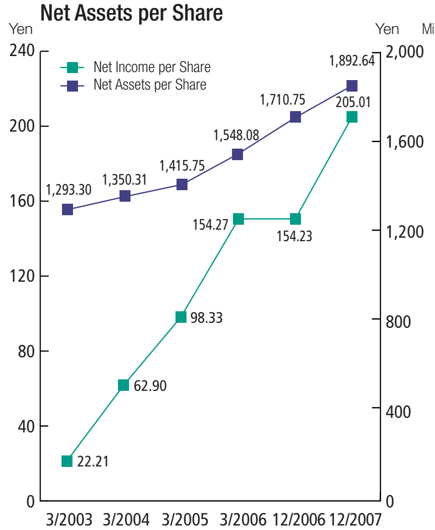
Inventories and Inventory Turnover (Days)



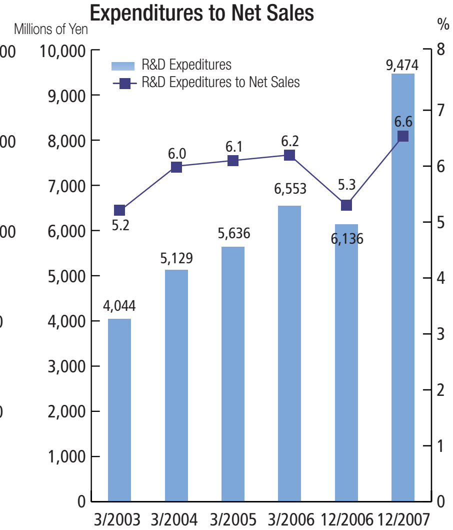
Interest Coverage Ratio



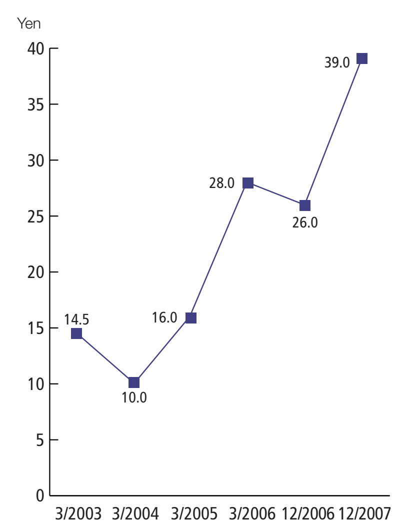
Net Income per Share and Net Assets per Share



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



Cash Dividends per Share



During the fiscal year under review, the global economy was generally solid in the first half of the year, but rising material prices and the worsening subprime loan problem reduced housing construction in the U.S. in the second half. Toward the year-end, consumer spending also weakened, leaving a growing sense of an economic slowdown. In Europe, the pace of economic recovery eased somewhat as well. On the other hand, Asian countries, in particular China and India, continued their dynamic economic expansion. Japan's economy basically sustained a gradual expansion, thanks to a solid performance by the corporate sector in terms of capital spending and exports. In the second half, however, housing spending was acutely depressed and business confidence worsened to a certain degree. During the term, the yen depreciated against the U.S. dollar and the euro, compared to the previous year, but toward the year-end, the yen began to appreciate.

In the markets for analytical systems and measurement systems, there was solid demand, thanks to increased investment in facilities and research and development for environmental programs. However, with concerns over a slowdown in the U.S. economy, demand in semiconductor related markets softened, while pricing remained under pressure due to intensifying competition.

In this environment, HORIBA embarked on the formulation of a new Mid-Long Term Management Plan from the previous year with the goal set for 2010. Under the slogan "HORIBA Group is One Company," we promoted group-wide management aimed at realizing the plan's targets of ¥150 billion in sales, operating income of 10% or more, and ROE of 11% or more. As a result of our efforts, HORIBA increased consolidated sales from a year ago to a record-high. Operating and net income also grew to record-highs.

*1 As a result of a change in the fiscal year-end from March 20 to December 31, 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 for the year ended December 31, 2006 (the previous fiscal year). For the year ended December 31, 2007, the operating results of the Company and all of its consolidated subsidiaries were consolidated for a twelve-month period from January through December .

Net Sales

In the fiscal year under review, consolidated net sales increased by ¥28,184 million, or 24.3%, year on year to a record ¥144,283 million.

Business Segments

Automotive Test Systems

Segment sales increased by 35.7% to ¥51,475 million. Sales of emission measurement systems, our mainstay, continued to show solid growth as a result of developments in energy saving engines by auto manufacturers. In addition, sales of the automotive development test systems (DTS) business acquired from Germany's Carl Schenck AG in September 2005 expanded thanks to the Company's existing sales and service networks. By geographic region*2, sales in Japan and other Asian countries increased by 48.3% from the previous year, while in the Americas and Europe sales increased by 44.8% and 20.2%, respectively.

Analytical Instruments & Systems

Segment sales rose 14.2% to ¥40,038 million. Sales of analytical and measurement equipment for environmental regulation related business in areas such as air pollution and water quality were brisk, and HORIBA Jobin Yvon SAS in France, a company with considerable expertise in nanotechnology measurement, leveraged its advanced technological capabilities to expand sales in related cutting edge scientific fields. By geographic region*2, sales grew by 28.4% in Japan and other Asian countries and by 16.9% in Europe, but sales in the Americas declined by 38.3%.

Medical-Diagnostic Instruments & Systems

Segment sales increased by 12.4% to ¥25,836 million. Sales of large hematology analyzers and medium-sized clinical chemistry analyzers increased in the European and American markets, while sales of testing reagents expanded, reflecting strong growth in the number of analyzers in use. By geographic region[*2], sales increased by 25.2% in Japan and other Asian countries and by 9.8% in Europe.

Semiconductor Instruments & Systems

Segment sales rose 33.9% to ¥26,934 million. In spite of decreasing demand in the semiconductor market and the falling prices of semiconductor products (DRAM, etc.) in the second half of the year, sales of mass flow controllers used in semiconductor manufacturing equipment increased on the back of expanded demand in the semiconductor market in the first half of the year. By geographic region[*2], sales were up 42.0% in Japan and other Asian countries, 11.3% in the Americas, and 27.7% in Europe.

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

The average foreign exchange rate applied in book closings was ¥117.85 to the U.S. dollar, compared with the average of ¥116.37 in the previous year, and ¥161.31 to the euro, compared with ¥146.20 in the previous year. Using the exchange rates of the previous year, consolidated sales would have been ¥136,977 million. Thus, the appreciation of the yen lifted sales by ¥7,306 million.

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

Consolidated cost of sales increased by ¥10,855 million to ¥77,365 million. The cost of sales ratio improved 3.7 percentage points from a year ago to 53.6%. This was caused by thorough cost cutting efforts, including joint purchasing by group companies and other measures and the impact from a change in the accounting method for R&D expenses from partial accounting in manufacturing costs to full accounting in general and administrative expenses. Cost of sales increased by ¥10,855 million, but after excluding ¥4,173 million from fluctuations in foreign exchange rates, the actual increase was ¥6,682 million.

Selling, general and administrative (SG&A) expenses increased by ¥12,506 million to ¥50,388 million, and their ratio to net sales worsened by 2.3 percentage points to 34.9%, due to the above mentioned change in the accounting method for R&D expenses. Excluding a ¥2,396 million impact from fluctuations in foreign exchange rates, the actual increase in SG&A expenses was ¥10,110 million rather than the nominal increase of ¥12,506 million.

As a result, consolidated operating income increased by ¥4,823 million, or 41.2%, year on year to ¥16,530 million. The operating income ratio was 11.5%, up 1.4 percentage points from 10.1% in the previous year.

Business Segments

Automotive Test Systems

Segment operating income increased by 83.7% to ¥6,758 million, thanks to growth in sales of engine measurement systems and an improvement in the profitability of exports stemming from a stronger yen. These factors offset a loss in the DTS business.

Analytical Instruments & Systems

Segment operating income rose by 0.1% to ¥2,672 million due to higher sales and increased effectiveness in mass production.

Medical-Diagnostic Instruments & Systems

Despite sales growth, segment operating income decreased by 12.3% to ¥1,232 million because the strong yen impaired the profitability of France-based HORIBA ABX SAS, which contributes most of the operating income in this segment.

Semiconductor Instruments & Systems

Segment operating income rose by 48.4% to ¥5,868 million due to higher sales and increased effectiveness in mass production.

Net Income

The financial account balance deteriorated by ¥207 million compared with that of the previous year, due to an increase in interest bearing debt caused by the third issuance of unsecured straight corporate bonds and other factors.

In the current fiscal year, HORIBA recorded special losses, including a ¥1,041 million provision for possible losses from litigation and ¥703 million resulting from the recomputation of beginning inventory balances under the new accounting policy for R&D expenses. In addition, the income tax burden increased.

Nevertheless, operating income growth helped to boost pretax income by ¥3,518 million, or 33.2%, to ¥14,106 million and net income by ¥2,181 million, or 33.5%, to ¥8,691 million.

Financial Position

Total consolidated assets as of December 31, 2007 were ¥154,367 million, up ¥25,131 million from December 31, 2006. Total current assets rose by ¥20,570 million to ¥113,330 million. The main factors contributing to the increase were trade notes and accounts receivable, which increased by ¥3,388 million mainly due to higher sales, and inventories, which increased by ¥2,787 million, reflecting higher procurement levels in response to higher shipment volumes. Total fixed assets increased by ¥4,561 million to ¥41,037 million. Net property, plant and equipment increased by ¥2,371 million to ¥24,071 million, mainly due to investment related to the new enterprise resource planning (ERP) system (servers, etc.) and HORIBA ABX SAS (France) acquiring assets for leasing. In addition, intangible fixed assets rose by ¥2,758 million to ¥8,502 million due mainly to investment related to the new ERP system (software, etc.)

Total consolidated liabilities were ¥73,986 million, up ¥17,125 million. The main factors behind the increase included an increase of ¥1,884 million in trade notes and accounts payable to ¥16,845 million, reflecting higher procurement levels in response to higher shipment volumes, and an increase of ¥8,954 million to ¥25,177 million in interest bearing liabilities due primarily to the third issuance of unsecured bonds.

Total consolidated net assets amounted to ¥80,381 million, up ¥8,006 million. This rise mainly reflected an increase of ¥7,501 million in retained earnings and a respective increase of ¥214 million in common stock and capital surplus.

Cash Flows

Cash Flow from Operating Activities

Net cash provided by operating activities amounted to ¥13,582 million. This was due mainly to ¥14,106 million in income before income taxes and ¥4,161 million in depreciation and amortization, against ¥5,157 million for income taxes paid and a ¥2,830 million increase in inventories.

Cash Flow from Investing Activities

Net cash used in investing activities totaled ¥16,445 million. This was due primarily to a ¥7,508 million increase in time deposits, a ¥700 million increase in time deposits restricted for use, ¥5,701 million in payments for the purchase of property, plant and equipment, and ¥3,400 million in payments for the purchase of intangibles.

Cash Flow from Financing Activities

Net cash provided by financing activities amounted to ¥7,677 million. This was attributable to ¥9,945 million in proceeds from the issuance of bonds against a ¥1,193 million outflow for payment of cash dividends.

As a result, there was a net increase of ¥4,892 million in cash and cash equivalents to ¥20,565 million as of December 31, 2007

Dividend Policy

HORIBA's basic policy regarding dividends is to maintain its standard payout ratio in which the total dividend payment amount 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. Especially against fluctuations in foreign currency exchange rates, HORIBA promotes local production and supply and employs foreign exchange forward contracts within the limits of its balance of foreign currency denominated receivables and payables related to import and export transactions to minimize foreign exchange risks. However, fluctuations in foreign exchange rates could have an impact when financial statements prepared in local currencies are translated into Japanese yen for the consolidated financial statements, and a major change in foreign exchange rates beyond our estimates could affect our financial condition and business performance.

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

HORIBA has actively promoted corporate acquisitions and alliances to enhance the efficiency and effectiveness of its business operations. HORIBA conducts complete and diligent investigations when making acquisitions and forming alliances in order to avoid a negative impact on earnings 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 and Germany), the U.S., Asia (China, South Korea) and other countries. 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 the possibility of a significant impact on HORIBA's financial condition and business performance.

(4) Risks Associated with Contracts and Transactions

HORIBA concludes various contracts with customers, suppliers and other stakeholders and performs its business activities based on these contracts. Nevertheless, there is a possibility of claims for compensation for damages due to different views of execution and a different understanding of business terms between the parties. It is possible that such circumstances 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 a 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 a possibility of recalls or litigation arising from unforeseen defects. HORIBA carries insurance for product liability compensation, but there can be no guarantee that this insurance would cover the full amount of any unforeseen damages. Such circumstances could have an effect on HORIBA's financial condition and business performance.

(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 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 management of these intellectual property rights, but in the case of infringement by a third party, it is possible that HORIBA will be unable to attain its expected earnings. There is also a possibility of disputes over intellectual property rights with other companies. Such circumstances may significantly affect HORIBA's financial condition and business performance.

(4) Risks Concerning Fluctuation in Raw Material Prices

HORIBA takes account of fluctuation risks in purchasing prices and makes arrangements such as advance purchasing, when necessary. However, significant fluctuation may erode profitability, as a rise in purchasing prices may not be sufficiently reflected in selling prices for some time, since it takes a certain amount of time to pass on arise in purchasing prices to selling prices. Such circumstances may 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 of holding investment securities is properly reviewed. In addition, HORIBA implemented impairment accounting in the year ended March 31, 2005, before legally required. However, if further declines in market prices or profitability of land, buildings or other assets occur in the future, there may be a negative impact on the financial condition and business performance of HORIBA.

(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, and Semiconductor Instruments & Systems. The Company can achieve balanced growth by overcoming each segment's weakness with complementary strengths among the business segments. Nevertheless, each of the business segments carries risks associated with fluctuations in its respective operations.

(1) Automotive Test Systems

Emission measurement systems, the main products of this segment. are used by automobile manufacturers, automotive component manufacturers and government agencies. Thus, the trend of setting legal limits on exhaust emissions affects demand. In such circumstances, it is possible that the financial condition and business performance of HORIBA will be significantly affected by future regulations. Furthermore, with capital expenditures related to shifts in the automation of automotive test systems, there is a possibility of a significant impact on HORIBA's financial condition and business performance.

(2) Analytical Instruments & Systems

Scientific analysis instruments in this segment are used for R&D or product quality testing, and there are risks that demand may be affected by the R&D budgets of government agencies, investments in R&D and the 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. It is possible that such circumstances could have a significant impact on HORIBA's financial condition and business performance.

(3) Medical-Diagnostic Instruments & Systems

The main products in this 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 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 investments by semiconductor manufacturers could affect the financial condition and business performance of HORIBA.

Consolidated Balance Sheets

HORIBA, Ltd. and Consolidated Subsidiaries
At December 31, 2006 and December 31, 2007

ASSETS	Millions of yen 12/2006	Millions of yen 12/2007	Thousands of U.S. dollars (Note 1) 12/2007
Current Assets:			
Cash and cash equivalents	¥15,673	**¥20,565**	**$180,158**
Trade notes and accounts receivable (Note 5)	42,485	**45,873**	**401,866**
Allowance for doubtful receivables	(922)	**(564)**	**(4,941)**
Marketable securities (Note 3)	2	**1**	**9**
Inventories (Note 4)	30,947	**33,734**	**295,523**
Deferred tax assets (Note 13)	2,442	**2,781**	**24,363**
Other current assets	2,133	**10,940**	**95,838**
Total current assets	92,760	**113,330**	**992,816**
Property, Plant and Equipment (Note 6):			
Land	6,737	**7,525**	**65,922**
Buildings and structures	18,107	**18,593**	**162,882**
Machinery, equipment and vehicles	11,709	**13,290**	**116,426**
Construction in progress	621	**645**	**5,650**
Other property, plant and equipment	11,087	**12,660**	**110,907**
Total	48,261	**52,713**	**461,787**
Accumulated depreciation	(26,561)	**(28,642)**	**(250,915)**
Net property, plant and equipment	21,700	**24,071**	**210,872**
Investments and Other Noncurrent Assets:			
Investment securities (Note 3)	5,439	**4,660**	**40,823**
Investments in nonconsolidated subsidiaries and affiliates	107	**99**	**867**
Deferred tax assets (Note 13)	886	**1,346**	**11,792**
Allowance for doubtful accounts	(82)	**(320)**	**(2,803)**
Other investments and other assets	2,682	**2,679**	**23,469**
Total	9,032	**8,464**	**74,148**
Intangibles:			
Goodwill	1,577	**1,078**	**9,444**
Other intangibles	4,167	**7,424**	**65,037**
Total	5,744	**8,502**	**74,481**
Total Assets	¥129,236	**¥154,367**	**$1,352,317**

See the notes to the consolidated financial statements.

LIABILITIES AND NET ASSETS	Millions of yen 12/2006	12/2007	Thousands of U.S. dollars (Note 1) 12/2007
Current Liabilities:			
Short-term loans payable (Note 6)	¥8,109	**¥6,724**	**$58,905**
Current portion of long-term debt (Note 6)	737	**5,816**	**50,951**
Trade notes and accounts payable:			
Affiliated companies	44	**53**	**464**
Other	14,917	**16,792**	**147,105**
Accounts payable - other	9,087	**12,526**	**109,733**
Accrued income taxes	2,150	**3,796**	**33,254**
Deferred tax liabilities (Note 13)	−	**43**	**377**
Accrued bonuses to employees	1,485	**704**	**6,167**
Accrued bonuses to directors and corporate auditors	300	**120**	**1,051**
Reserve for product warranty	1,161	**1,149**	**10,066**
Provision for possible losses from litigation	−	**1,204**	**10,548**
Other current liabilities	7,914	**9,111**	**79,815**
Total current liabilities	45,904	**58,038**	**508,436**
Long-Term Debt (Note 6)	7,377	**12,637**	**110,705**
Deferred Tax Liabilities (Note 13)	705	**206**	**1,805**
Employees' Retirement Benefits (Note 7)	1,631	**1,814**	**15,891**
Directors' and Corporate Auditors' Retirement Benefits	660	**710**	**6,220**
Reserve for loss on guarantees	−	**52**	**456**
Other Noncurrent Liabilities	584	**529**	**4,634**
Total liabilities	56,861	**73,986**	**648,147**
Contingent Liabilities (Note 11)			
Net Assets (Notes 2(w) and 8):			
Common stock	11,739	**11,953**	**104,713**
Authorized - 100,000,000 shares			
Issued and outstanding - 42,303,816 shares (excluding treasury stock) at 12/2006			
Issued and outstanding - 42,468,502 shares (excluding treasury stock) at 12/2007			
Capital surplus	18,445	**18,659**	**163,460**
Retained earnings	37,864	**45,365**	**397,416**
Treasury stock	(18)	**(10)**	**(88)**
(10,936 shares at 12/2006 and 5,250 shares at 12/2007)			
Net unrealized holding gains on securities	2,090	**1,622**	**14,209**
Foreign currency translation adjustments	2,251	**2,788**	**24,424**
Minority interests in consolidated subsidiaries	4	**4**	**36**
Net assets	72,375	**80,381**	**704,170**
Total Liabilities and Net Assets	¥129,236	**¥154,367**	**$1,352,317**

Consolidated Statements of Income

HORIBA, Ltd. and Consolidated Subsidiaries
For the years ended December 31, 2006 and December 31, 2007

	Millions of yen		Thousands of U.S. dollars (Note 1)
	12/2006	12/2007	12/2007
Net Sales (Note 14)	¥116,099	**¥144,283**	**¥1,263,977**
Operating Costs and Expenses:			
Cost of sales	66,510	**77,365**	**677,749**
Selling, general and administrative expenses	37,882	**50,388**	**441,419**
Total operating costs and expenses	104,392	**127,753**	**1,119,168**
Operating Income (Note 14)	11,707	**16,530**	**144,809**
Other Income (Expenses):			
Interest and dividend income	248	**332**	**2,908**
Interest expense	(505)	**(796)**	**(6,973)**
Foreign exchange gains (losses), net	(199)	**(321)**	**(2,812)**
Gain on sales of investment securities	20	**–**	**–**
Gain on sale of property, plant and equipment	75	**26**	**228**
Loss on disposal of property, plant and equipment	(34)	**(54)**	**(473)**
Loss on sale of property, plant and equipment	(2)	**(20)**	**(175)**
Loss on impairment of fixed assets (Note 2(m))	(237)	**–**	**–**
Retirement benefits to directors and corporate auditors	(2)	**–**	**–**
Loss on disposal of inventories	(138)	**(52)**	**(456)**
Loss on write-down of inventories	(246)	**(48)**	**(420)**
Provision for possible losses from litigation	–	**(1,041)**	**(9,120)**
Loss due to changes in accounting policies	–	**(703)**	**(6,159)**
Reserve for loss on guarantees	–	**(52)**	**(456)**
Other, net	(99)	**305**	**2,673**
Total other expenses, net	(1,119)	**(2,424)**	**(21,235)**
Income Before Income Taxes	10,588	**14,106**	**123,574**
Income Taxes (Note 13):			
Current	4,051	**6,604**	**57,854**
Deferred	(23)	**(1,185)**	**(10,381)**
Total income taxes	4,028	**5,419**	**47,473**
Minority Interests in Earnings of Consolidated Subsidiaries	50	**(4)**	**(36)**
Net Income	¥6,510	**¥8,691**	**$76,137**

	Yen		U.S. dollars (Note 1)
	12/2006	12/2007	12/2007
Per Share Information:			
Net income – basic	¥154.23	**¥205.01**	**$1.80**
Net income – diluted	153.70	**204.39**	**1.79**
Cash dividends	26.00	**39.00**	**0.34**

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, 2006 and December 31, 2007

	Millions of yen		Thousands of U.S. dollars (Note 1)
	12/2006	12/2007	12/2007
Common Stock			
Balance at beginning of period	¥11,570	**¥11,739**	**$102,838**
Issuance of new shares (exercise of stock aquisition rights)	169	**214**	**1,875**
170,000 shares in 12/2006			
159,000 shares in 12/2007			
Balance at end of period	¥11,739	**¥11,953**	**$104,713**
Capital Surplus			
Balance at beginning of period	¥18,276	**¥18,445**	**$161,586**
Issuance of new shares (exercise of stock aquisition rights)	169	**214**	**1,874**
Balance at end of period	¥18,445	**¥18,659**	**$163,460**
Retained Earnings			
Balance at beginning of period	¥32,904	**¥37,864**	**$331,704**
Net income	6,510	**8,691**	**76,137**
Cash dividends	(1,264)	**(1,185)**	**(10,381)**
Bonuses to directors and corporate auditors	(272)	**–**	**–**
Decrease on disposal of treasury stock	(14)	**(5)**	**(44)**
Balance at end of period	¥37,864	**¥45,365**	**$397,416**
Treasury Stock			
Balance at beginning of period	(¥74)	**(¥18)**	**($158)**
Purchase of treasury stock	(1)	**(2)**	**(18)**
237 shares in 12/2006			
314 shares in 12/2007			
Sale of treasury stock	57	**10**	**88**
34,000 shares in 12/2006			
6,000 shares in 12/2007			
Balance at end of period	(¥18)	**(¥10)**	**($88)**
Net Unrealized Holding Gains on Securities			
Balance at beginning of period	¥1,920	**¥2,090**	**$18,309**
Increase (decrease) of net unrealized holding gains on securities	170	**(468)**	**(4,100)**
Balance at end of period	¥2,090	**¥1,622**	**$14,209**
Foreign Currency Translation Adjustments			
Balance at beginning of period	¥850	**¥2,251**	**$19,720**
Increase in foreign currency translation adjustments	1,401	**537**	**4,704**
Balance at end of period	¥2,251	**¥2,788**	**$24,424**
Minority Interests in Consolidated Subsidiaries			
Balance at beginning of period	–	**¥4**	**$36**
Adoption of new accounting standards for presentation of net assets in the balance sheet at March 21, 2006 (Note 2(w))	¥160	**–**	**–**
Decrease in minority interests in consolidated subsidiaries	(156)	**(0)**	**(0)**
Balance at end of period	¥4	**¥4**	**$36**
Net Assets	¥72,375	**¥80,381**	**$704,170**

See the notes to the consolidated financial statements.

Consolidated Statements of Cash Flows

HORIBA, Ltd. and Consolidated Subsidiaries
For the years ended December 31, 2006 and December 31, 2007

	Millions of yen		Thousands of U.S. dollars (Note 1)
	12/2006	12/2007	12/2007
Cash Flows From Operating Activities:			
Income before income taxes	¥10,588	**¥14,106**	**$123,574**
Adjustments to reconcile income before income taxes to net cash provided by operating activities:			
Depreciation and amortization	3,246	**4,161**	**36,452**
Loss on impairment of fixed assets	237	**–**	**–**
Gain on sales of investment securities	(20)	**–**	**–**
Loss on disposal of property, plant and equipment	34	**54**	**473**
Gain on sale of property, plant and equipment	(75)	**(26)**	**(228)**
Decrease in Allowance for doubtful receivables	(45)	**(163)**	**(1,428)**
Increase in provision for possible losses from litigation	–	**1,204**	**10,548**
Increase in directors' and corporate auditors' retirement benefits	54	**50**	**438**
Increase in employees' retirement benefits	3	**150**	**1,314**
Increase in reserve for loss on guarantees	–	**52**	**456**
Interest and dividend income	(248)	**(332)**	**(2,908)**
Interest expense	505	**796**	**6,973**
Bond issuance costs	–	**55**	**482**
Foreign exchange losses	46	**65**	**569**
Loss on sale of property, plant and equipment	2	**20**	**175**
Retirement benefits to directors and corporate auditors	2	**–**	**–**
Loss due to changes in accounting policies	–	**703**	**6,159**
Increase in trade notes and accounts receivable	(3,023)	**(2,432)**	**(21,305)**
Increase in inventories	(2,208)	**(2,830)**	**(24,792)**
Increase in trade notes and accounts payable	985	**610**	**5,344**
Bonuses to directors and corporate auditors	(272)	**–**	**–**
Other, net	(685)	**2,857**	**25,028**
Subtotal	9,126	**19,100**	**167,324**
Interest and dividends received	236	**312**	**2,733**
Interest paid	(449)	**(673)**	**(5,896)**
Payment of retirement benefits to directors and corporate auditors	(14)	**–**	**–**
Income taxes paid	(5,129)	**(5,157)**	**(45,177)**
Net cash provided by operating activities	3,770	**13,582**	**118,984**
Cash Flows From Investing Activities:			
Decrease (increase) in time deposits with maturities longer than three months	123	**(7,508)**	**(65,773)**
Increase in time deposits restricted for use	–	**(700)**	**(6,132)**
Payments for purchase of investment securities	(22)	**(12)**	**(105)**
Proceeds from sale or redemption of investment securities	168	**1**	**9**
Payments for purchase of investments in a consolidated subsidiary	(203)	**–**	**–**
Payments for purchase of investments in newly consolidated subsidiaries	(104)	**–**	**–**
Payments for purchase of property, plant and equipment	(3,559)	**(5,701)**	**(49,943)**
Proceeds from sale of property, plant and equipment	439	**820**	**7,184**
Increase in intangibles	(1,453)	**(3,400)**	**(29,786)**
Other, net	92	**55**	**482**
Net cash used in investing activities	(4,519)	**(16,445)**	**(144,064)**
Cash Flows From Financing Activities:			
Proceeds from issuance of bonds	–	**9,945**	**87,122**
Net increase in short-term borrowings	690	**(1,759)**	**(15,410)**
Increase in long-term debt	1,396	**1,015**	**8,892**
Repayment of long-term debt	(631)	**(753)**	**(6,597)**
Proceeds from exercise of stock aquisition rights	338	**428**	**3,749**
Payments for purchase of treasury stock	(1)	**(1)**	**(9)**
Proceeds from sales of treasury stock	42	**6**	**53**
Cash dividends paid	(1,253)	**(1,193)**	**(10,451)**
Cash dividends paid to minority interests	(30)	**–**	**–**
Reimbursement of funds for redemption of convertible bonds	778	**–**	**–**
Other, net	(14)	**(11)**	**(96)**
Net cash provided by financing activities	1,315	**7,677**	**67,253**
Effect of Exchange Rate Changes on Cash and Cash Equivalents	223	**78**	**683**
Net Increase (Decrease) in Cash and Cash Equivalents	789	**4,892**	**42,856**
Cash and Cash Equivalents at Beginning of Year	14,884	**15,673**	**137,302**
Cash and Cash Equivalents at End of Year	¥15,673	**¥20,565**	**$180,158**

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. dollars is included solely for the convenience of readers outside Japan, using the prevailing exchange rate at December 31, 2007, which was ¥114.15 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.

As a result of a change in the fiscal year-end from March 20 to December 31, 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 for the year ended December 31, 2006 (the previous fiscal year). For the year ended December 31, 2006 (the previous fiscal year), the operating results of the Company and the two consolidated subsidiaries mentioned above for the nine-month period from April through December and the operating results of the other consolidated subsidiaries for the twelve-month period from January through December were consolidated. For the year ended December 31, 2007, the operating results of the Company and all of its consolidated subsidiaries for the twelve-month period from January through December were consolidated.

2. Summary of significant accounting policies

(a) Principles of consolidation

The consolidated financial statements include the accounts of the Company and 42 of its subsidiaries ("HORIBA" as a consolidated group).

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

At December 31, 2007, the year-end of the consolidated subsidiaries matches that of the consolidated financial statements (see note 1).

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

The Company has seven affiliated companies. For one of the seven affiliates, the equity method was applied. 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.

(e) Property, plant and equipment and depreciation

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

Buildings acquired after April 1, 1998 and the EPR system (server, etc) included in "Other property, plant and equipment" is depreciated by the straight-line method.

Other property, plant and equipment is depreciated by the Company and domestic subsidiaries by the declining balance method and by overseas subsidiaries by the straight-line method over the useful life of the asset.
Estimated useful lives of assets are principally as follows:

Buildings and structures - 5 to 60 years

Machinery, equipment and vehicles - 2 to 12 years

(f) Software

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

Prior to the year ended December 31, 2006, bonuses to directors and corporate auditors were accounted for as a reduction of retained earnings. In the year ended December 31, 2006, the Company and certain domestic subsidiaries adopted "Accounting Standard for Directors' Bonuses" (Accounting Standards Board of Japan Statement No. 4 issued on November 29, 2005) and changed to provide for bonuses to directors and corporate auditors at the end of the fiscal year to which such bonuses were attributable.

The effect of the adoption of this new accounting standard on operating income and income before income taxes was ¥300 million. The effect on segment information is described in Note 14.

(j) Reserve for product warranty

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

(k) Retirement benefits and pension plans

The Company and certain 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, 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 certain consolidated subsidiaries, they are expensed in the period they arise.

(l) Retirement benefits for directors and corporate auditors

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

The Company abolished the rule for retirement benefits for the outside director and the outside auditors and decided the payment of retirement benefits for the termination pursuant to resolutions made at the fixed shareholder's meeting held on March 24, 2007.

The amount of retirement benefits was determined according to the length of service of the relevant director and auditors was ¥7 million ($61 thousand) and is presented in "Other noncurrent liabilities".

(m) Impairment of fixed assets.

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

Location	Assets	Loss on impairment
SRH Systems Ltd. (U.K.)	Goodwill	¥237 million

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

(n) 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 set aside 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 ($10,548 thousand), which includes provision for the payment of damages in the amount of ¥933 million ($8,173 thousand) and related costs and interest, was set aside. After adjustment of accrued legal fee for the previous year, the Company booked ¥1,041 million ($9,120 thousand) as special loss for the year ended December 31, 2007.

(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 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.

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

(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, 2006, and December 31, 2007, were ¥6,136 million and ¥9,474 million ($82,996 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 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 ($42,120 thousand) more than what they would have been without the change. However, there was no significant impact on operating income because selling and general and administrative expenses also increased by approximately the same amount. Because of a special loss of ¥703 million ($6,159 thousand) resulting from the recomputation of beginning inventory balances, income before income taxes was ¥924 million ($8,095 thousand) less.

(t) Bond issuance costs

Bond issuance costs are charged to income as incurred.

(u) 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.

(v) 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, 2006 and December 31, 2007 were 42,210 thousand and 42,390 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, 2006 and December 31, 2007 were 42,356 thousand and 42,520 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.

(w) Presentation of net assets in the balance sheet

Effective from the year ended December 31, 2006, the Company adopted "Accounting Standard for Presentation of Net Assets in the Balance Sheet" (Accounting Standards Board of Japan Statement No. 5 issued on December 9, 2005) and "Guidance on Accounting Standard for Presentation of Net Assets in the Balance Sheet" (Accounting Standards Board of Japan Guidance No. 8 issued on December 9, 2005). Due to the adoption of these accounting standards, minority interests are included in net assets at December 31, 2006. Under the previous presentation rules, minority interests were presented as a separate component in the consolidated balance sheets.

The adoption of these accounting standards had no impact on the consolidated statement of income for the year ended December 31, 2006. For the year ended December 31, 2006, the amount of shareholders' equity would have been ¥72,371 million if the previous year's presentation was applied.

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

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

(y) Business combination and business separation

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

3. Securities

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

	Millions of yen		
	12/2006		
	Acquisition cost	Book value	Difference
Securities with book values exceeding acquisition costs:			
Equity securities	¥1,638	¥5,161	¥3,523
	1,638	5,161	3,523
Securities with book values not exceeding acquisition costs:			
Equity securities	18	15	(3)
Other	12	12	(0)
	30	27	(3)
Total	¥1,668	¥5,188	¥3,520

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

	Millions of yen
	12/2006
Total sales of available-for-sale securities	¥167
Related gains	20
Related losses	–

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

	Millions of yen
Available-for-sale securities:	12/2006
Non-listed equity securities	¥216
Limited partnership for investment	29
	¥245

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

	Millions of yen		
	12/2006		
	Within 1 year	Over 1 year but within 5 years	Over 5 years but within 10 years
Bonds			
Government bonds	¥2	¥2	¥4

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			Thousands of U.S. dollars		
	12/2007			12/2007		
	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference
Securities with book values exceeding acquisition costs:						
Equity securities	¥1,246	¥3,998	¥2,752	$10,915	$35,024	$24,109
	1,246	3,998	2,752	10,915	35,024	24,109
Securities with book values not exceeding acquisition costs:						
Equity securities	422	400	(22)	3,697	3,504	(193)
Other	13	13	(0)	114	114	(0)
	435	413	(22)	3,811	3,618	(193)
Total	¥1,681	¥4,411	¥2,730	$14,726	$38,642	$23,916

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

	Millions of yen	Thousands of U.S. dollars
	12/2007	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	Thousands of U.S. dollars
Available-for-sale securities:	12/2007	12/2007
Non-listed equity securities	¥216	$1,892
Limited partnership for investment	27	237
	¥243	$2,129

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

	Millions of yen			Thousands of U.S. dollars		
	12/2007			12/2007		
	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	¥1	¥3	¥3	$9	$26	$26

4. Inventories

Inventories at December 31, 2006 and December 31, 2007 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	12/2006	12/2007	12/2007
Finished products	¥10,820	**¥12,613**	**$110,495**
Work-in-process	12,307	**12,066**	**105,703**
Raw materials and supplies	7,820	**9,055**	**79,325**
Total	¥30,947	**¥33,734**	**$295,523**

5. Notes receivable maturing on December 31, 2007, which was a bank holiday

December 31, 2007, the end of the period, was a bank holiday. Notes receivable maturing on that date were settled on the following business day. Therefore, those notes in the amount of ¥890 million ($7,797 thousand) were included in the ending balance at December 31, 2007.

6. Short-term loans and long-term debt

Short-term loans are generally represented by bank notes with annual interest rates ranging from 0.45% to 8.25% and 1.06% to 8.25% at December 31, 2006 and December 31, 2007, respectively.

Long-term debt at December 31, 2006 and December 31, 2007 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
Secured:	12/2006	12/2007	12/2007
Loans from banks due in 2010			
at rate of 3.51% per annum	¥48	**¥38**	**$333**
Unsecured:			
1.16% bonds due in 2008	5,000	**5,000**	**43,802**
1.98% bonds due in 2014	–	**10,000**	**87,604**
Loans from banks due serially from 2008 to 2013			
at rates from 2.45% to 6.50% per annum	3,066	**3,415**	**29,917**
Total	8,114	**18,453**	**161,656**
Current portion	(737)	**(5,816)**	**(50,951)**
Long-term debt, less current portion	¥7,377	**¥12,637**	**$110,705**

The aggregate annual maturities of long-term debt outstanding at December 31, 2007 were as follows:

Year ending December 31	Millions of yen	Thousands of U.S. dollars
2008	¥5,816	$50,951
2009	955	8,366
2010	549	4,809
2011	342	2,996
2012	345	3,022
Thereafter	10,446	91,512
Total	¥18,453	$161,656

At December 31, 2007, buildings and structures amounting to ¥68 million ($596 thousand) at net book value were pledged as collateral for long-term debt of ¥25 million ($219 thousand) and the current portion of long-term debt of ¥13 million ($114 thousand).

At December 31, 2007, time deposits of ¥700 million ($6,132 thousand) were restricted for use and pledged for possible future payments from litigation.

The Company and its 11 subsidiaries had entered into the agreeements for bank overdrafts or loan commitments with 19 banks as of December 31, 2007 as follows:

	Millions of yen	Thousands of U.S. dollars
The maximum aggregate principal	¥15,908	$139,360
Amount utilized	5,420	47,481
Balance available	¥10,488	$91,879

7. Employees' severance and pension benefits

Liabilities for employees' retirement benefits at December 31, 2006 and December 31, 2007 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	12/2006	12/2007	12/2007
Projected benefit obligation	(¥3,725)	**(¥4,282)**	**($37,512)**
Pension assets	1,188	**1,554**	**13,614**
Unfunded projected benefit obligation	(2,537)	**(2,728)**	**(23,898)**
Unrecognized actuarial differences	96	**219**	**1,919**
Unrecognized differences on change of employees' retirement plan	810	**695**	**6,088**
Employees' retirement benefits	(¥1,631)	**(¥1,814)**	**($15,891)**

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 profoma portion for the Company and certain subsidiaries calculated by the ratio of accumulated pension premiums paid was ¥11,213 million and ¥12,049 million ($105,554 thousand) as of December 31, 2006 and December 31, 2007, respectively.

Employees' retirement benefit expense for the years ended December 31, 2006 and December 31, 2007 comprised the following:

	Millions of yen		Thousands of U.S. dollars
	12/2006	12/2007	12/2007
Service cost	¥1,241	**¥1,595**	**$13,973**
Interest expense on projected benefit obligation	39	**54**	**473**
Expected return on plan assets	(12)	**(24)**	**(210)**
Amortization of actuarial differences	35	**51**	**447**
Amortization of prior service costs	95	**115**	**1,007**
Retirement benefit expenses	¥1,398	**¥1,791**	**$15,690**

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 ¥558 million and ¥847 million ($7,416 thousand) expensed for the year ended December 31, 2006 and December 31, 2007, respectively, were also included in service cost.

Assumptions used were as follows:

	12/2006	12/2007
Discount rate	2.00%	2.00%
Expected rate of return on plan assets	2.00%	2.00%
Allocation method for retirement benefits expected to be paid at retirement dates	Straight-line method based on years of service	
Amortization period for actuarial gains / losses	5 years	5 years
Amortization period for unrecognized prior service cost on change of employees' retirement plan	10 years (the Company), Time of occurance (subsidiary companies)	

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 19, 2008, the Board of Directors approved cash dividends amounting to ¥1,232 million ($10,793 thousand). Such appropriations have not been accrued in the consolidated financial statements as of December 31, 2007. Such appropriations are recognized in the period in which they are approved by the Board of Directors.

9. Stock options

Information regarding stock options existing in the year ended December 31, 2006 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 for resignation at the expiration of term, involuntary retirement or other cases approved by the Board of Directors.

Note 3. The service period is not stipulated.

(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
Before vesting options (number of shares)				
Balance at March 21, 2006	–	–	300,000	–
Granted	–	–	–	300,000
Forfeited	–	–	–	–
Vested	–	–	300,000	–
Balance at December 31, 2006	–	–	–	300,000
After vesting options (number of shares)				–
Balance at March 21, 2006	25,000	128,000	–	–
Vested	–	–	300,000	–
Excercised	(19,000)	(83,000)	(102,000)	–
Forfeited	–	–	–	–
Balance at December 31, 2006	6,000	45,000	198,000	–

(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)	3,700	3,663	3,606	–
Fair value at grant date (Note) (yen)	–	–	–	–

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

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 for resignation at the expiration of term, involuntary retirement or other cases approved by the Board of Directors.
Note 3. The service period is not stipulated.

(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
Before vesting options (number of shares)				
Balance at December 31, 2006	–	–	–	300,000
Granted	–	–	–	–
Forfeited	–	–	–	–
Vested	–	–	–	300,000
Balance at December 31, 2007	–	–	–	–
After vesting options (number of shares)				
Balance at December 31, 2006	6,000	45,000	198000	–
Vested	–	–	–	300,000
Excercised	(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. Omitted due to stock options which had been granted before the Japanese Corporate Law became effective on May 1, 2006.

10. Leases

At December 31, 2006 and December 31, 2007, 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
	12/2006	12/2007	12/2007
Machinery, equipment and vehicles	¥154	**¥267**	**$2,339**
Other property, plant and equipment	622	**691**	**6,053**
Other intangibles	143	**125**	**1,095**
Less accumulated depreciation and amortization	(469)	**(483)**	**(4,231)**
Total	¥450	**¥600**	**$5,256**

The above depreciation and amortization are calculated on the straight-line method over the term of the lease. If the above leases were capitalizead, interest of ¥17 million and ¥20 million ($175 thousand), and depreciation and amortization of ¥143 and ¥176 million ($1,542 thousand) would have been recorded for the years ended December 31, 2006 and December 31, 2007, respectively. Lease payments under non-capitalized finance leases were ¥162 million and ¥195 million ($1,708 thousand) for the years ended December 31, 2006 and December 31, 2007, respectively. Obligations under finance leases at December 31, 2006 and December 31, 2007 were as follows:

	Millions of yen		Thousands of U.S. dollars
Payments remaining:	12/2006	12/2007	12/2007
Payments due within 1 year	¥151	**¥183**	**$1,603**
Payments due after 1 year	319	**437**	**3,828**
Total	¥470	**¥620**	**$5,431**

Payments remaining under operating leases at December 31, 2006 and December 31, 2007 were as follows:

	Millions of yen		Thousands of U.S. dollars
Payments remaining:	12/2006	12/2007	12/2007
Payments due within 1 year	¥479	**¥923**	**$8,086**
Payments due after 1 year	1,652	**2,123**	**18,598**
Total	¥2,131	**¥3,046**	**$26,684**

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 ¥323 million and ¥255 million ($2,234 thousand) at December 31, 2006 and December 31, 2007, respectively. The Company and certain consolidated subsidiaries have discounted notes receivable in the amounts of ¥5 million at December 31, 2006.

12. Derivative transactions

Outstanding derivative transactions at December 31, 2006 and December 31, 2007 were as follows:

Currency related:

	Millions of yen				Millions of yen			
	12/2006				12/2007			
	Amount	Over 1 year	Market value	Gain (loss)	Amount	Over 1 year	Market value	Gain (loss)
Forwards								
Selling								
US dollar	¥1,238	–	¥1,261	(¥23)	**¥1,598**	**–**	**¥1,617**	**(¥19)**
Euro	1,027	–	1,133	(106)	**1,155**	**–**	**1,180**	**(25)**
Pound	243	–	283	(40)	**94**	**–**	**93**	**1**
Total	–	–	–	(¥169)	**–**	**–**	**–**	**(¥43)**

Note 1. Market value is indicated by banking institutions.
Note 2. The above table does not include derivative transactions for which hedge accounting has been applied.

	Thousands of U.S. dollars			
	12/2007			
	Amount	Over 1 year	Market value	Gain (loss)
Forwards				
Selling				
US dollar	**$13,999**	**–**	**$14,166**	**($167)**
Euro	**10,118**	**–**	**10,337**	**(219)**
Pound	**823**	**–**	**815**	**8**
Total	**–**	**–**	**–**	**($378)**

Interest rate related:

	Millions of yen				Millions of yen			
	12/2006				12/2007			
	Amount	Over 1 year	Market value	Gain (loss)	Amount	Over 1 year	Market value	Gain (loss)
Interest rate swap contracts								
Receiving floating rates and paying fixed rates	¥1,322	¥1,179	(¥19)	(¥19)	**¥1,130**	**¥993**	**(¥46)**	**(¥46)**
Total	–	–	–	(¥19)	**–**	**–**	**–**	**(¥46)**

Note 1. Market value is indicated by banking institutions.
Note 2. The above table does not include derivative transactions for which hedge accounting has been applied.

	Thousands of U.S. dollars			
	12/2007			
	Amount	Over 1 year	Market value	Gain (loss)
Interest rate swap contracts				
Receiving floating rates and paying fixed rates	**$9,899**	**$8,699**	**($403)**	**($403)**
Total	**–**	**–**	**–**	**($403)**

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, 2006 and December 31, 2007. 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, 2006 and December 31, 2007.

	12/2006	12/2007
Statutory tax rate	40.60%	**40.60%**
Expenses like entertainment expenses not qualifying for deduction permanently	4.08	1.19
Nontaxable dividend income	(0.45)	(0.20)
Per capita inhabitant tax	0.30	0.29
Increase/decrease in valuation allowance for deferred tax assets	1.68	(2.24)
Amortization of goodwill	1.64	1.30
Consolidated elimination of dividend income from consolidated subsidiaries	2.16	2.21
Differences in tax rate between foreign subsidiaries and the Company	(2.06)	(1.84)
Tax credits	(5.19)	(5.86)
Other	(4.72)	2.97
Effective tax rate	38.04%	**38.42%**

Significant components of HORIBA's deferred tax assets and liabilities at December 31, 2006 and December 31, 2007 were as follows:

	Millions of yen		Thousands of U.S. dollars
	12/2006	12/2007	12/2007
Deferred tax assets			
Accrued enterprise tax	¥164	**¥338**	**$2,961**
Loss on write-down of inventory	319	**438**	**3,837**
Allowance for doubtful receivables	66	**69**	**604**
Accrued bonuses	674	**403**	**3,530**
Loss carryforwards	1,756	**1,650**	**14,455**
Unrealized gains	1,116	**1,571**	**13,763**
Employees' retirement benefits	365	**385**	**3,373**
Depreciation	614	**648**	**5,677**
Loss on valuation of investment securities	109	**115**	**1,007**
Retirement benefits to directors and corporate auditors	265	**288**	**2,523**
Provision for possible losses from litigation	–	**489**	**4,284**
Other	1,410	**1,446**	**12,668**
Total deferred tax assets	6,858	**7,840**	**68,682**
Valuation allowance	(2,350)	**(1,842)**	**(16,137)**
Net deferred tax assets	4,508	**5,998**	**52,545**
Deferred tax liabilities			
Reserve for deferred gains on property, plant and equipment	(32)	**(80)**	**(701)**
Unrealized losses	–	**(390)**	**(3,417)**
Net unrealized holding gains on securities	(1,443)	**(1,123)**	**(9,838)**
Other	(410)	**(527)**	**(4,616)**
Total deferred tax liabilities	(1,885)	**(2,120)**	**(18,572)**
Net deferred tax assets	¥2,623	**¥3,878**	**$33,973**

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

	Millions of yen		Thousands of U.S. dollars
	12/2006	12/2007	12/2007
Current assets	¥2,442	**¥2,781**	**$24,363**
Investments and other noncurrent assets	886	**1,346**	**11,792**
Current liabilities	–	**(43)**	**(377)**
Deferred tax liabilities (noncurrent)	(705)	**(206)**	**(1,805)**
Net deferred tax assets	¥2,623	**¥3,878**	**$33,973**

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, Fuel Cell Evaluation Systems,
Driveline Test Systems, Engine Test Systems, Brake Test Systems, Drive Recorders.

(2) Analytical Instruments & Systems
Scientific Analysis Instruments (Particle-size Distribution Analyzers, X-ray Fluorescence Analyzers,
Raman Spectrophotometers, Diffraction, Gratings), Environmental Measuring Instruments (pH Meters,
Stack Gas Analyzers, Water Quality Analysis and Examination Systems, Air Pollution Analyzers)

(3) Medical/Diagnostic Instruments & Systems
Equipment for Blood Sample Analysis (Hematology Analyzers, Equipment for Measuring Immunological Responses,
Clinical Chemistry Analyzers, Blood Sugar Measurement Systems)

(4) Semiconductor Instruments & Systems
Mass Flow Controllers, Chemical Concentration Monitors,
Thin-film Analyzers for Semiconductors and LCD Inspection, Reticle/Mask Particle Detection Systems,
Residual Gas Analyzers, Vacuum meters

Information about operations by business and geographic segments and sales to foreign customers of HORIBA for the years ended December 31, 2006 and December 31, 2007, was as follows:

(a) Operations by business segment

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

	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**

	Thousands of U.S. dollars					
	12/2007					
	Automotive	Analytical	Medical/ Diagnostic	Semiconductor	Unallocated	Consolidated
Sales to outside customers	**$450,941**	**$350,749**	**$226,334**	**$235,953**	**–**	**$1,263,977**
Operating expenses	**391,739**	**327,341**	**215,541**	**184,547**	**–**	**1,119,168**
Operating income	**$59,202**	**$23,408**	**$10,793**	**$51,406**	**–**	**$144,809**
Assets	**$367,166**	**$280,797**	**$178,344**	**$209,163**	**$316,847**	**$1,352,317**
Depreciation and amortization	**$10,644**	**$7,963**	**$11,441**	**$6,404**	**–**	**$36,452**
Capital expenditures	**$29,576**	**$24,196**	**$19,807**	**$8,208**	**–**	**$81,787**

Note 1. Unallocated assets of ¥23,860 million and ¥36,168 million ($316,847 thousand) at December 31, 2006 and December 31, 2007, respectively, mainly include cash and cash equivalents and marketable and investment securities.

Note 2. As shown in Note2(i), the Company and its domestic subsidiaries adopted "Accounting Standard for Directors' Bonuses" (Accounting Standards Board of Japan Statement No. 4 issued on November 29, 2005) effective from the year ended December 31, 2006. As a result, operating expenses were ¥81 million more in Automotive Test Systems, ¥98 million more in Analytical Instruments & Systems, ¥27 million more in Medical/Diagnostic Instruments & Systems and ¥94 million more in Semiconductor Instruments & Systems than they would have been if the new standard had not been adopted. Operating income was less by the same amounts accordingly.

(b) Operations by geographic segment

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

	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

	Thousands of U.S. dollars					
	12/2007					
	Japan	Americas	Europe	Asia	Elimination and/or unallocated	Consolidated
Sales to outside customers	$540,587	$162,567	$516,618	$44,205	−	$1,263,977
Inter-area	143,092	7,525	36,724	18,800	($206,141)	−
Total sales	683,679	170,092	553,342	63,005	(206,141)	1,263,977
Operating expenses	570,460	160,806	537,214	55,366	(204,678)	1,119,168
Operating income	$113,219	$9,286	$16,128	$7,639	($1,463)	$144,809
Assets	$560,123	$85,440	$365,458	$24,449	$316,847	$1,352,317

Note 1. Unallocated assets of ¥23,860 million and ¥36,168 million ($316,847 thousand) at December 31, 2006 and December 31, 2007, respectively, mainly included cash and cash equivalents and marketable and investment securities.

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

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

(c) Sales to foreign customers

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

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

	Thousands of U.S. dollars			
	12/2007			
	Americas	Europe	Asia	Total
Sales to outside customers	$260,885	$367,473	$180,342	$808,700

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 comprises the following:

<table>
<tr><td colspan="2">Category</td><td colspan="2">Director's close family member</td><td colspan="2">Director</td><td colspan="2">Director</td><td colspan="2">Auditor</td></tr>
<tr><td colspan="2">Name</td><td colspan="2">Masao Horiba</td><td colspan="2">Atsushi Horiba</td><td colspan="2">Kozo Ishida</td><td colspan="2">Keisuke Ishida</td></tr>
<tr><td colspan="2">Address</td><td colspan="2">–</td><td colspan="2">–</td><td colspan="2">–</td><td colspan="2">–</td></tr>
<tr><td colspan="2">Amount of capital stock (millions of yen)</td><td colspan="2">–</td><td colspan="2">–</td><td colspan="2">–</td><td colspan="2">–</td></tr>
<tr><td colspan="2">Business or occupation</td><td colspan="2">Advisor</td><td colspan="2">Chairman, President and CEO</td><td colspan="2">Executive Vice President</td><td colspan="2">The Company's auditor /Chairman, President of SHASHIN KAGAKU Co., Ltd.</td></tr>
<tr><td colspan="2">Percentage of voting rights held</td><td colspan="2">3.5% (direct)</td><td colspan="2">1.4% (direct)</td><td colspan="2">0.1% (direct)</td><td colspan="2">0.0% (direct)</td></tr>
<tr><td rowspan="2">Relationship</td><td>Concurrent directors</td><td colspan="2">–</td><td colspan="2">–</td><td colspan="2">–</td><td colspan="2">–</td></tr>
<tr><td>Business relations</td><td colspan="2">–</td><td colspan="2">–</td><td colspan="2">–</td><td colspan="2">–</td></tr>
<tr><td>Transaction</td><td>Transaction amount</td><td>Consulting fee (Note 2. (a))</td><td>¥24 million ($210 thousand)</td><td>Rental fee on real estate (Note 2. (b))</td><td>¥1million ($9 thousand)</td><td>Rental fee on real estate (Note 2. (b))</td><td>¥1million ($9 thousand)</td><td>Payment of fee for printing, etc (Note 2. (c))</td><td>¥95 million ($832 thousand)</td></tr>
<tr><td rowspan="2">Account</td><td rowspan="2">Barance at December 31,2007</td><td>–</td><td>–</td><td>–</td><td>–</td><td>–</td><td>–</td><td>Accounts payable – other</td><td>¥19 million ($166 thousand)</td></tr>
<tr><td>–</td><td>–</td><td>–</td><td>–</td><td>–</td><td>–</td><td>Trade notes and accounts payable</td><td>¥1million ($9 thousand)</td></tr>
</table>

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

(a) The consulting fee for Masao Horiba is compensation for management consulting services regarding the Company, activities of society-academia collaboration for innovation, and participation in economic organizations.
The payment was determined on a negotiated basis.

(b) Real estate transactions were decided based on actual transactions that had taken place in the neighborhood where the real estate was located.

(c) 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 19, 2008, the Company's Board of Directors resolved to pay cash dividends of ¥29 ($0.25) per share, aggregating ¥1,232 million ($10,793 thousand) to shareholders of record at December 31, 2007.

(b) Acquisition of treasury stock

On February 19, 2008, the Company's Board of Directors resolved to acquire treasury stock in accordance with the Company's Articles of Incorporation applied under Article 459, Section 1 of the Corporation Law.

(1) Purpose of treasury stock acquisition

To improve capital efficiency and implement flexible capital policies in accordance with the business environment.

Acquisition period	From February 20, 2008 to March 19, 2008
Method of acquisition	Acquisition in the market through a trust bank
Type of shares to be acquired	Common stock
Number of shares of treasury stock	Up to 270,000 shares
Amount of acquisition	Up to ¥800 million ($7,008 thousand)

(2) The Company acquired the treasury stock as follows:

Acquisition period	From February 20, 2008 to February 29, 2008
Method of acquisition	Acquisition in the market through a trust bank
Type of shares to be acquired	Common stock
Number of shares of treasury stock	238,900 shares
Amount of acquisition	¥800 million ($7,008 thousand)

Independent Auditors' Report

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

We have audited the accompanying consolidated balance sheets of HORIBA, Ltd. and consolidated subsidiaries as of December 31, 2006 and 2007, 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, 2006 and 2007, and the consolidated results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in Japan.

Without qualifying our opinion, we draw attention to the following:
(1) As 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.
(2) As discussed in Note 2 (i) to the consolidated financial statements, in the year ended December 31, 2006, the Company and certain domestic subsidiaries adopted the new Japanese accounting standard for directors' bonus.
(3) As discussed in Note 16 to the consolidated financial statements, the Company acquired its treasury stock according to a resolution by the Board of Directors on February 19, 2008.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended December 31, 2007 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 24, 2008

Consolidated Balance Sheets

HORIBA, Ltd. and Consolidated Subsidiaries

ASSETS	3/1998	3/1999	3/2000	3/2001
Current Assets:				
Cash and cash equivalents	¥10,681	¥16,388	¥15,264	¥17,443
Trade notes and accounts receivable	26,717	24,427	27,387	31,960
Allowance for doubtful receivables	(686)	(941)	(513)	(617)
Marketable securities	3,085	1,538	3,049	2,688
Inventories	22,175	18,829	16,207	19,503
Deferred tax assets	–	–	896	2,035
Other current assets	4,178	3,695	2,503	2,340
Total current assets	66,150	63,936	64,793	75,352
Property, Plant and Equipment:				
Land	6,472	7,477	7,431	7,534
Buildings and structures	10,879	12,065	11,784	13,565
Machinery, equipment and vehicles	4,340	5,785	5,786	6,246
Construction in progress	719	740	50	68
Other property, plant and equipment	6,667	6,791	7,244	7,574
Total	29,077	32,858	32,295	34,987
Accumulated depreciation	(12,527)	(13,767)	(14,573)	(16,446)
Net property, plant and equipment	16,550	19,091	17,722	18,541
Investments and Other Noncurrent Assets:				
Investment securities	1,469	1,165	1,732	1,861
Investments in nonconsolidated subsidiaries and affiliates	50	51	128	141
Deferred tax assets	–	–	338	1,399
Allowance for doubtful accounts	(1)	(1)	–	(81)
Other investments and other assets	1,746	2,185	1,772	1,655
Total	3,264	3,400	3,970	4,975
Intangibles:				
Goodwill	2,314	1,894	1,196	644
Other intangibles	67	1,186	1,323	1,494
Total	2,381	3,080	2,519	2,138
Foreign Currency Translation Adjustments	–	869	–	–
Total Assets	¥88,345	¥90,376	¥89,004	¥101,006

LIABILITIES AND NET ASSETS	3/1998	3/1999	3/2000	3/2001
Current Liabilities:				
Short-term loans payable	¥5,715	¥8,793	¥6,021	¥7,465
Current portion of long-term debt	6,884	262	218	567
Trade notes and accounts payable:				
Affiliated companies	46	38	55	79
Other	11,253	7,562	10,073	12,081
Accounts payable - other	2,965	3,658	2,891	3,712
Accrued income taxes	1,783	519	1,193	2,919
Accrued enterprise tax	489	298	–	–
Deferred tax liabilities	–	–	–	–
Accrued bonuses to employees	–	–	–	–
Accrued bonuses to directors and corporate auditors	–	–	–	–
Reserve for product warranty	746	629	580	737
Provision for possible losses from litigation	–	–	–	–
Other current liabilities	3,815	4,217	4,253	3,773
Total current liabilities	33,696	25,976	25,284	31,333
Long-term Debt	11,574	19,999	20,572	22,513
Deferred Tax Liabilities	–	–	–	30
Employees' Retirement Benefits	1,773	1,638	1,631	2,421
Directors' and Corporate Auditors' Retirement Benefits	–	–	–	–
Reserve for loss on guarantees	–	–	–	–
Other Noncurrent Liabilities	637	1,997	1,743	1,827
Total liabilities	47,680	49,610	49,230	58,124
Foreign Currency Translation Adjustments	66	–	–	–
Minority Interests in Consolidated Subsidiaries	2,240	2,371	2,560	3,086
Net Assets:				
Common stock	6,570	6,578	6,578	6,578
Authorized - 100,000,000 shares				
Issued and outstanding - 42,303,816 shares (excluding treasury stock) at 12/2006				
Issued and outstanding - 42,468,502 shares (excluding treasury stock) at 12/2007				
Capital surplus	10,867	10,875	10,875	10,875
Retained earnings	20,963	21,205	21,989	23,924
Treasury stock	(41)	(263)	(241)	(143)
(10,936 shares at 12/2006 and 5,250 shares at 12/2007)				
Net unrealized holding gains on securities	–	–	–	–
Foreign currency translation adjustments	–	–	(1,987)	(1,438)
Minority interests in consolidated subsidiaries	–	–	–	–
Net assets	38,359	38,395	37,214	39,796
Total Liabilities and Net Assets	¥88,345	¥90,376	¥89,004	¥101,006

Millions of yen

3/2002	3/2003	3/2004	3/2005	3/2006	12/2006	12/2007
¥16,625	¥22,061	¥13,603	¥16,108	¥14,884	¥15,673	¥20,565
29,622	29,594	29,143	30,595	37,408	42,485	45,873
(397)	(463)	(521)	(512)	(880)	(922)	(564)
–	–	–	–	–	2	1
19,169	18,336	19,402	22,012	27,273	30,947	33,734
1,413	2,000	2,178	2,012	2,742	2,442	2,781
2,109	2,292	1,922	2,290	4,333	2,133	10,940
68,541	73,820	65,727	72,505	85,760	92,760	113,330
7,756	7,510	7,476	6,564	6,618	6,737	7,525
14,570	14,762	15,369	16,097	17,343	18,107	18,593
7,024	7,080	7,731	8,770	10,183	11,709	13,290
192	827	158	81	87	621	645
7,974	8,152	8,604	8,907	10,159	11,087	12,660
37,516	38,331	39,338	40,419	44,390	48,261	52,713
(18,237)	(19,331)	(20,497)	(21,938)	(24,167)	(26,561)	(28,642)
19,279	19,000	18,841	18,481	20,223	21,700	24,071
6,021	3,721	3,938	4,206	5,277	5,439	4,660
187	189	94	91	120	107	99
1,175	968	651	704	671	886	1,346
(113)	(121)	(140)	(119)	(82)	(82)	(320)
1,843	1,577	1,366	1,356	2,545	2,682	2,679
9,113	6,334	5,909	6,238	8,531	9,032	8,464
1,174	652	1,291	1,394	2,404	1,577	1,078
659	736	889	1,295	3,058	4,167	7,424
1,833	1,388	2,180	2,689	5,462	5,744	8,502
–	–	–	–	–	–	–
¥98,766	¥100,542	¥92,657	¥99,913	¥119,976	¥129,236	¥154,367

¥7,942	¥6,715	¥6,352	¥5,468	¥6,747	¥8,109	¥6,724
906	9,684	641	4,131	452	737	5,816
43	51	58	26	45	44	53
7,887	9,147	8,700	11,264	13,017	14,917	16,792
4,547	4,533	5,651	5,476	8,914	9,087	12,526
619	2,079	2,053	1,463	3,121	2,150	3,796
–	–	–	–	–	–	–
–	–	–	–	–	–	43
1,067	2,013	2,095	2,356	2,900	1,485	704
–	–	–	–	–	300	120
795	936	886	820	1,025	1,161	1,149
–	–	–	–	–	–	1,204
2,264	2,803	2,935	3,795	8,157	7,914	9,111
26,070	37,961	29,371	34,799	44,378	45,904	58,038
26,140	16,819	14,466	6,443	6,667	7,377	12,637
20	22	21	23	638	705	206
2,389	2,235	1,109	1,348	1,462	1,631	1,814
–	–	–	1,144	618	660	710
–	–	–	–	–	–	52
1,169	801	2,002	1,348	607	584	529
55,788	57,838	46,969	45,105	54,370	56,861	73,986
–	–	–	–	–	–	–
2,915	2,560	2,340	2,545	160	–	–
6,578	6,578	7,160	9,641	11,570	11,739	11,953
10,875	10,875	11,457	13,933	18,276	18,445	18,659
22,480	22,937	24,341	27,422	32,904	37,864	45,365
(242)	(250)	(277)	(155)	(74)	(18)	(10)
608	406	1,100	1,401	1,920	2,090	1,622
(236)	(402)	(433)	21	850	2,251	2,788
–	–	–	–	–	4	4
40,063	40,144	43,348	52,263	65,446	72,375	80,381
¥98,766	¥100,542	¥92,657	¥99,913	¥119,976	¥129,236	¥154,367

Consolidated Statements of Income

HORIBA, Ltd. and Consolidated Subsidiaries

	3/1998	3/1999	3/2000
Net Sales	¥62,426	¥67,597	¥71,030
Operating Costs and Expenses:			
Cost of sales	38,695	41,191	44,353
Selling, general and administrative expenses	18,829	24,113	22,860
Total operating costs and expenses	57,524	65,304	67,213
Operating Income	4,902	2,293	3,817
Other Income (Expenses):			
Interest and dividend income	281	351	210
Interest expense	(638)	(815)	(713)
Foreign exchange gains (losses), net	300	(184)	(237)
Commission	(1)	–	–
Gain on discharge of indebtedness	–	–	–
Amortization of goodwill	–	–	–
Reversal of reserve for product warranty	–	–	–
Casualty insurance premium income	–	–	–
Gain on transfer of WDM business	–	–	–
Gain on sales of investment securities	–	–	–
Gain on insurance, net of related loss	–	–	–
Gain on settlement of license	–	–	–
Gain on sale of property, plant and equipment	9	11	155
Loss on disposal of property, plant and equipment	–	–	(229)
Loss on sale of property, plant and equipment	–	–	–
Loss on impairment of fixed assets	–	–	–
Retirement benefits to directors and corporate auditors	(185)	(123)	(48)
Loss on disposal of inventories	(169)	–	(177)
Loss on valuation of investment securities	(50)	(124)	(39)
Gain on change in subsidiary's retirement benefits plan	–	–	–
Loss on change of retirement benefit plan	–	–	–
Loss on change in accounting method for retirement benefits	–	–	–
Provision for retirement benefits for directors and corporate auditors for prior years	–	–	–
Loss on write-down of trust fund investments	–	–	(172)
Effect of change in accounting for pension plan	–	–	(115)
Loss on write-down of inventories	–	–	–
Loss on valuation of property, plant and equiptment	–	–	–
Provision for possible losses from litigation	–	–	–
Loss due to changes in accounting policies	–	–	–
Reserve for loss on guarantees	–	–	–
Other, net	(47)	496	417
Total other expenses, net	(500)	(388)	(948)
Income Before Income Taxes	4,402	1,905	2,869
Income Taxes:			
Current	2,808	802	1,302
Deferred	(397)	243	112
Total income taxes	2,411	1,045	1,414
Minority Interests in Earnings of Consolidated Subsidiaries	379	283	355
Net Income (Loss)	¥1,612	¥577	¥1,100

	3/1998	3/1999	3/2000
Per Share Information:			
Net income (loss) – basic	¥51.63	¥18.56	¥35.39
Net income – diluted	40.80	15.38	29.72
Cash dividends	10.50	11.00	6.00

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

Millions of yen

3/2001	3/2002	3/2003	3/2004	3/2005	3/2006	12/2006	12/2007
¥77,873	¥74,468	¥78,501	¥85,073	¥92,492	¥105,665	¥116,099	**¥144,283**
50,185	47,970	47,675	50,418	53,855	60,740	66,510	**77,365**
22,938	23,951	25,352	27,805	29,264	33,650	37,882	**50,388**
73,123	71,921	73,027	78,223	83,119	94,390	104,392	**127,753**
4,750	2,547	5,474	6,850	9,373	11,275	11,707	**16,530**
208	143	122	85	104	121	248	**332**
(838)	(890)	(685)	(449)	(373)	(333)	(505)	**(796)**
390	145	(879)	(236)	(41)	144	(199)	**(321)**
–	–	–	–	–	–	–	**–**
–	–	–	–	–	–	–	**–**
–	(294)	(292)	(301)	(86)	–	–	**–**
–	138	–	–	–	–	–	**–**
228	–	–	–	–	–	–	**–**
1,302	–	–	–	–	–	–	**–**
–	–	–	–	–	395	20	**–**
–	–	–	–	–	96	–	**–**
–	–	–	–	–	177	–	**–**
10	–	–	121	39	47	75	**26**
(36)	(102)	(91)	(57)	(46)	(116)	(34)	**(54)**
(315)	(21)	(203)	(26)	(1,123)	(17)	(2)	**(20)**
–	–	–	–	(54)	–	(237)	**–**
(39)	(256)	(133)	–	–	(750)	(2)	**–**
(261)	(209)	(24)	(68)	(170)	(68)	(138)	**(52)**
(84)	(717)	(320)	(136)	(35)	(13)	–	**–**
–	–	132	–	–	–	–	**–**
–	–	–	(442)	(80)	–	–	**–**
–	–	–	–	(144)	–	–	**–**
–	–	–	–	(1,151)	–	–	**–**
(66)	–	–	–	–	–	–	**–**
–	–	–	–	–	–	–	**–**
–	–	(44)	(345)	(76)	(41)	(246)	**(48)**
–	–	–	(134)	–	–	–	**–**
–	–	–	–	–	–	–	(1,041)
–	–	–	–	–	–	–	(703)
–	–	–	–	–	–	–	(52)
(200)	(20)	62	(82)	(32)	(169)	(99)	**305**
299	(2,083)	(2,355)	(2,070)	(3,268)	(527)	(1,119)	**(2,424)**
5,049	464	3,119	4,780	6,105	10,748	10,588	**14,106**
4,184	1,037	2,393	2,937	2,353	4,424	4,051	**6,604**
(1,151)	471	(232)	(363)	(63)	(210)	(23)	**(1,185)**
3,033	1,508	2,161	2,574	2,290	4,214	4,028	**5,419**
573	27	172	132	291	61	50	**(4)**
¥1,443	(¥1,071)	¥786	¥2,074	¥3,524	¥6,473	¥6,510	**¥8,691**

Yen

3/2001	3/2002	3/2003	3/2004	3/2005	3/2006	12/2006	12/2007
¥46.43	(¥34.47)	¥22.21	¥62.90	¥98.33	¥154.27	¥154.23	**¥205.01**
38.75	–	18.31	50.10	83.81	146.97	153.70	**204.39**
8.50	8.50	14.50	10.00	16.00	28.00	26.00	**39.00**

Consolidated Statements of Cash Flows

HORIBA, Ltd. and Consolidated Subsidiaries

	3/2001	3/2002	3/2003	3/2004
Cash Flows From Operating Activities:				
Income before income taxes	¥5,049	¥464	¥3,119	¥4,780
Adjustments to reconcile income before income taxes to net cash provided by operating activities:				
Depreciation and amortization	3,276	3,381	2,915	3,037
Loss on impairment of fixed assets	–	–	–	–
Loss on valuation of investment securities	84	717	320	136
Gain on sales of investment securities	–	–	–	–
Loss on disposal of inventories	261	209	24	–
Loss on disposal of property, plant and equipment	–	102	91	57
Gain on change in subsidiary's retirement benefits plan	–	–	(132)	–
Gain on sale of property, plant and equipment	(10)	–	–	(121)
Loss on valuation of property, plant and equipment	–	–	–	134
Increase (decrease) in allowance for doubtful receivables	152	(222)	54	11
Increase in provision for possible losses from litigation	–	–	–	–
Increase in directors' and corporate auditors' retirement benefits	–	–	–	–
Increase (decrease) in employees' retirement benefits	782	(32)	(36)	(1,138)
Increase in reserve for loss on guarantees	–	–	–	–
Interest and dividend income	(208)	(143)	(122)	(85)
Interest expense	838	890	685	449
Bond issuance costs	–	–	–	–
Foreign exchange losses (gains)	(44)	(25)	5	(12)
Loss on sale of property, plant and equipment	315	21	203	26
Gain on transfer of WDM business	(1,302)	–	–	–
Casualty insurance premium income	(228)	–	–	–
Retirement benefits to directors and corporate auditors	39	256	133	–
Loss due to changes in accounting policies	–	–	–	–
Decrease (increase) in trade notes and accounts receivable	(3,384)	3,631	397	689
Decrease (increase) in inventories	(3,099)	1,204	813	(881)
Increase (decrease) in trade notes and accounts payable	1,349	(4,951)	1,216	(358)
Bonuses to directors and corporate auditors	(68)	(109)	(66)	(98)
Other, net	650	(779)	863	2,615
Subtotal	4,452	4,614	10,482	9,241
Interest and dividends received	209	164	124	85
Interest paid	(837)	(836)	(685)	(519)
Casualty insurance premium received	228	–	–	–
Payment of retirement benefits to directors and corporate auditors	(39)	(256)	(81)	(30)
Income taxes paid	(2,547)	(3,376)	(879)	(2,987)
Net cash provided by operating activities	1,466	310	8,961	5,790
Cash Flows From Investing Activities:				
Decrease (increase) in time deposits with maturities longer than three months	(262)	(9)	241	2
Increase in time deposits restricted for use	–	–	–	–
Payment for purchase of marketable securities	(1,738)	–	–	–
Proceeds from sale of marketable securities	2,041	318	–	–
Payments for purchase of investment securities	(233)	(1,877)	(337)	(412)
Proceeds from sale or redemption of investment securities	18	53	1,933	451
Payments for purchase of investments in a consolidated subsidiary	–	–	(453)	(169)
Payments for purchase of investments in newly consolidated subsidiaries	–	–	–	(273)
Payments for sale of investments in a consolidated subsidiary	–	–	–	–
Payments for purchase of property, plant and equipment	(2,521)	(2,308)	(2,639)	(2,622)
Proceeds from sale of property, plant and equipment	230	120	365	261
Increase in intangibles	–	(420)	(305)	(419)
Proceeds from sale of WDM business	1,290	–	–	–
Other, net	(762)	(1)	(142)	415
Net cash used in investing activities	(1,937)	(4,124)	(1,337)	(2,766)
Cash Flows From Financing Activities:				
Proceeds from issuance of bonds	–	5,000	–	–
Payment for redemption of corporate bonds	–	–	–	(9,000)
Net increase (decrease) in short-term borrowings	1,154	(800)	(1,389)	(589)
Increase in long-term debt	2,481	300	446	248
Repayment of long-term debt	(786)	(1,058)	(1,006)	(1,618)
Proceeds from exercise of stock aquisition rights	–	–	–	–
Payments for purchase of treasury stock	(8)	(118)	(8)	(27)
Proceeds from sales of treasury stock	–	24	–	–
Cash dividends paid	(217)	(263)	(264)	(450)
Cash dividends paid to minority interests	(74)	(183)	(19)	(40)
Payment of funds for redemption of convertible bonds	–	–	–	–
Reimbursement of funds for redemption of convertible bonds	–	–	–	–
Other, net	(62)	(179)	(115)	(121)
Net cash provided by (used in) financing activities	2,488	2,723	(2,355)	(11,597)
Effect of Exchange Rate Changes on Cash and Cash Equivalents	129	273	167	115
Net Increase (Decrease) in Cash and Cash Equivalents	2,146	(818)	5,436	(8,458)
Cash and Cash Equivalents at Beginning of Year	15,264	17,443	16,625	22,061
Cash and Cash Equivalents of Newly Consolidated Subsidiaries	33	–	–	–
Cash and Cash Equivalents of a Subsidiary Excluded From Consolidation	–	–	–	–
Cash and Cash Equivalents at End of Year	¥17,443	¥16,625	¥22,061	¥13,603

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

Millions of yen

3/2005	3/2006	12/2006	12/2007
¥6,105	¥10,748	¥10,588	**¥14,106**
2,944	3,173	3,246	**4,161**
54	–	237	**–**
35	13	–	**–**
–	(395)	(20)	**–**
–	–	–	**–**
46	116	34	**54**
–	–	–	**–**
(39)	(47)	(75)	**(26)**
–	–	–	**–**
(24)	220	(45)	**(163)**
–	–	–	**1,204**
1,144	75	54	**50**
231	82	3	**150**
–	–	–	**52**
(104)	(121)	(248)	**(332)**
373	333	505	**796**
–	–	–	**55**
23	16	46	**65**
1,123	17	2	**20**
–	–	–	**–**
–	–	–	**–**
–	770	2	**–**
–	–	–	**703**
(895)	(4,693)	(3,023)	**(2,432)**
(2,281)	(674)	(2,208)	**(2,830)**
2,163	313	985	**610**
(103)	(176)	(272)	**–**
(306)	3,447	(685)	**2,857**
10,489	13,217	9,126	**19,100**
100	116	236	**312**
(385)	(324)	(449)	**(673)**
–	–	–	**–**
(27)	(1,341)	(14)	**–**
(2,961)	(2,995)	(5,129)	**(5,157)**
7,216	8,673	3,770	**13,582**
(17)	(1,594)	123	**(7,508)**
–	–	–	**(700)**
–	–	–	**–**
–	–	–	**–**
(393)	(320)	(22)	**(12)**
555	506	168	**1**
(19)	–	(203)	**–**
(119)	(3,270)	(104)	**–**
(45)	–	–	**–**
(2,980)	(4,019)	(3,559)	**(5,701)**
230	134	439	**820**
(730)	(1,766)	(1,453)	**(3,400)**
–	–	–	**–**
(111)	(33)	92	**55**
(3,629)	(10,362)	(4,519)	**(16,445)**
–	–	–	**9,945**
–	–	–	**–**
(1,034)	1,253	690	**(1,759)**
1,049	685	1,396	**1,015**
(721)	(284)	(631)	**(753)**
–	–	338	**428**
(89)	(119)	(1)	**(1)**
207	185	42	**6**
(328)	(723)	(1,253)	**(1,193)**
(72)	(31)	(30)	**–**
–	(787)	–	**–**
–	–	778	**–**
(71)	(50)	(14)	**(11)**
(1,059)	129	1,315	**7,677**
105	336	223	**78**
2,633	(1,224)	789	**4,892**
13,603	16,108	14,884	**15,673**
–	–	–	**–**
(128)	–	–	**–**
¥16,108	¥14,884	¥15,673	**¥20,565**

Corporate Philosophy

HORIBA's company motto "Joy and Fun"

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

Business Operations

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

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

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

Customer Responsiveness

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

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

Responsibility to Shareholders and Investors

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

Employees

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

Board of Directors

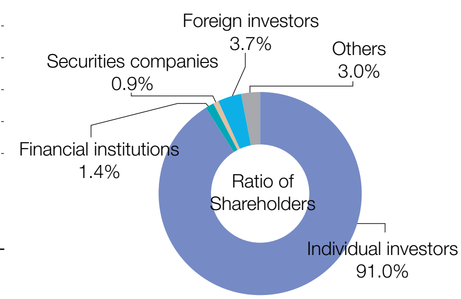
As of April 1, 2008

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.

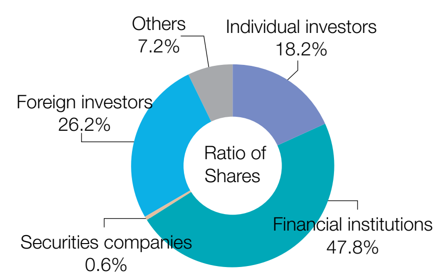
Corporate Information

As of December 31, 2007

Head Office	2, Miyanohigashi-cho, Kisshoin, Minami-ku, Kyoto 601-8510, Japan
Founded	October 17, 1945
Incorporated	January 26, 1953
Paid-in Capital	11,952,684,480 yen
Number of Employees	4,976 (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



Number of Shareholders: 5,225



Number of Shares 42,473,752

Major Shareholders

As of December 31, 2007

Name of Shareholders	Shares (Thousands)	Percentage (%)
Japan Trustee Service Bank, Ltd.	5,574	13.12
The Master Trust Bank of Japan, Ltd.	5,157	12.14
Taiyo Fund LP	2,796	6.58
Masao Horiba	1,500	3.53
Mitsui Asset Trust and Banking Company, Limited	1,094	2.57
Sony Life Insurance Co., Ltd.	971	2.28
Mizuho Corporate Bank, Ltd.	836	1.96
The Bank of Kyoto, Ltd.	828	1.95
HORIBA Raku-Raku Kai	711	1.67
Kyoto Chuo Shinkin Bank	645	1.51

Stock Price and Volume Trend

Stock Price (Based on closing price at end of each period)

HORIBA

HORIBA, Ltd.

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