



One Company, Common Values

Annual Report 2005

Year ended March 20, 2005

Financial Highlights

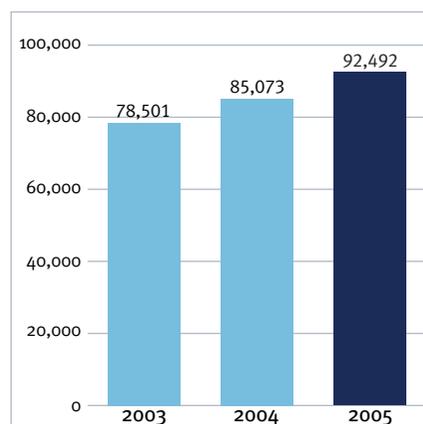
HORIBA, Ltd. and Consolidated Subsidiaries
Years ended March 20, 2003 to 2005

Thousands of
U.S. dollars
(Note)

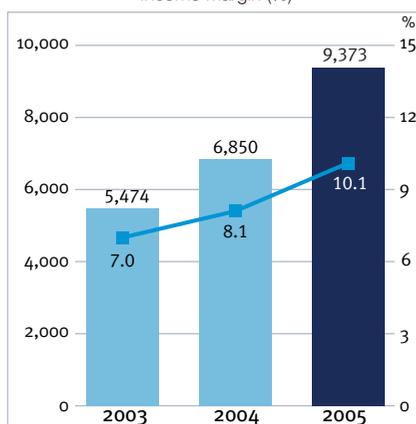
	Millions of yen			Thousands of U.S. dollars (Note)
	2003	2004	2005	
For the Year:				
Net sales	¥ 78,501	¥ 85,073	¥92,492	\$883,063
Operating costs and expenses	73,027	78,223	83,119	793,575
Operating income	5,474	6,850	9,373	89,488
Income before income taxes	3,119	4,780	6,105	58,287
Income taxes	2,161	2,574	2,290	21,864
Net income	786	2,074	3,524	33,645
Capital expenditures	3,444	3,501	3,956	37,770
Depreciation and amortization	2,915	3,037	2,944	28,108
Research and development expenses	4,044	5,129	5,636	53,809
At Year-End:				
Total assets	¥ 100,542	¥ 92,657	¥99,913	\$953,914
Property, plant and equipment, net	19,000	18,841	18,481	176,446
Shareholders' equity	40,144	43,348	52,263	498,978
	Yen			U.S. dollars (Note)
Per Share Information:				
Net income	¥ 22.21	¥ 62.90	¥ 98.33	\$ 0.94
Shareholders' equity	1,293.30	1,350.31	1,415.75	13.52
Cash dividends	¥ 14.50	¥ 10.00	¥ 16.00	\$ 0.15

Note: U.S. dollar amounts are provided solely for convenience at the rate of ¥104.74 to U.S.\$1, at the rate prevailing on March 20, 2005.

Net Sales (Millions of yen)



Operating Income (Millions of yen) and Operating Income Margin (%)



Return on Equity (ROE) (%)

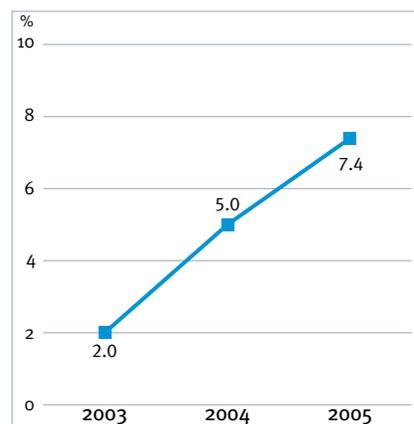


Table of Contents

1 One Company, Common Values	24 Consolidated Financial Review
2 This Is HORIBA	26 Consolidated Balance Sheets
4 To Our Stakeholders	28 Consolidated Statements of Income
8 HORIBA's Strategy	29 Consolidated Statements of Shareholders' Equity
10 At a Glance	30 Consolidated Statements of Cash Flows
12 Review of Operations by Segment	31 Notes to Consolidated Financial Statements
20 Corporate Social Responsibility (CSR)	45 Independent Auditors' Report
22 Intellectual Property Report	46 Seven-Year Summary
	47 Corporate Information

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.

One Company, Common Values

HORIBA is a global company consisting of 7 companies with 1,865 employees in Japan and 31 group companies overseas with 2,119 employees. It specializes in analytical and measuring equipment for the environment, health, and safety fields.

To raise corporate value, HORIBA has acquired and forged alliances with numerous companies, exploiting diverse corporate cultures in developing its business. As a result, over the past decade, our net sales and operating income rose +9% and +17%, respectively.

In pursuit of further growth, we have set forth a new management principle of “The HORIBA Group Is One Company.” This means that HORIBA transcends national boundaries and organizational divisions, and all group companies come together under a common set of values. Going forward, we will boost the unity of the group by promoting HORIBA as a brand that stands for trust and technical expertise. Furthermore, we will bolster our corporate value under the tenets of “Joy and Fun,” “a Venture Spirit,” and “Openness and Fairness.”

Common Values

Corporate Philosophy

Company precept “Joy and Fun”

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

Business Operations

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

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

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

Customer Responsiveness

We maintain a philosophy of pursuing technology to an ultimate degree in both the fundamental and applied technology fields, supplying products that continuously satisfy customers' requirements. We are committed to offering top-quality, highly reliable products and services with a consistent level of excellence throughout the world. Group companies are obliged to attain the highest standards for establishing, developing, and maintaining quality control systems. To provide products and services to customers in the fastest delivery time possible, we have adopted the slogan “Ultra-Quick Supplier” for all the Company's activities. This slogan encompasses not only production lead times but also development, marketing and sales, service, and control functions.

Responsibility to the Shareholders and Investors

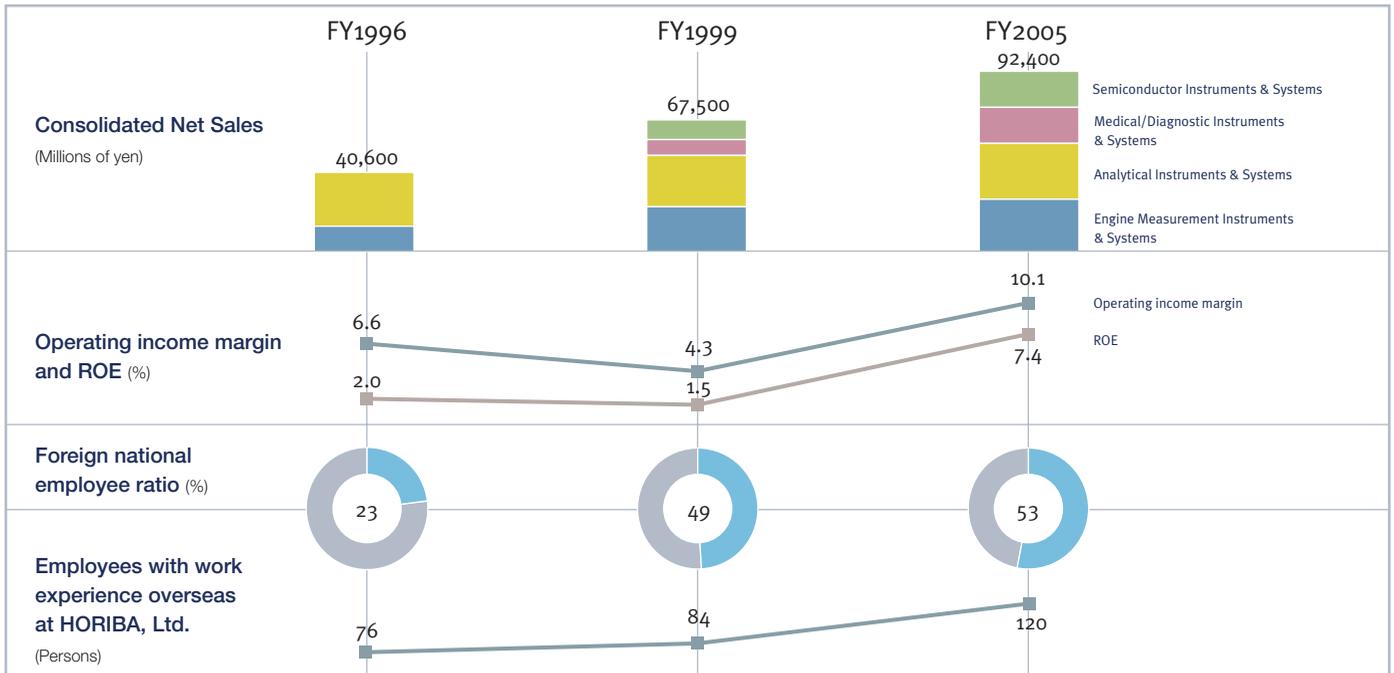
Our basic policy is to calculate annual dividends on an allocated rate of net income. Important information regarding management and business operations are fully disclosed on a regular basis to shareholders and potentially interested parties. A timely responsive management control system will be established by group companies to ensure that company objectives are met, profit generated and the information disclosed the truthful representation of the performance of the Company as well as its management.

Employees

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

This Is HORIBA

Evolution of HORIBA



HORIBA acquired HORIBA ABX S.A.S. (France; previously ABX S.A.) of the Medical/Diagnostic Instruments & Systems segment in 1996 and HORIBA Jobin Yvon S.A.S. (France; previously Jobin Yvon S.A.S.) of the Analytical Instruments & Systems segment in 1997. These companies have made significant contributions to our business in three ways: "superior business portfolio," "profitability and management efficiency," and "talented professionals."

Fiscal 1996 (Before acquisitions)

The majority of our business was comprised of Analytical Instruments & Systems and Engine Measurement Instruments & Systems. Our business portfolio was still in development. Although we conducted our business on a global scale, we were yet to recruit talented human resources from around the world.

Fiscal 1999 (After acquisitions)

Sales expanded rapidly, and we began to diversify our business portfolio and human resources. However, profitability and management efficiency dropped due to large up-front investments in Medical/Diagnostic Instruments & Systems.

Fiscal 2005 (Today)

We expanded sales, while creating a more balanced portfolio, by creating synergies among group companies and promoting efficient management. This resulted in a substantial improvement in profitability and management efficiency. But above all, we succeeded in fostering talented, world-class professionals through the active exchange of employees across the group.

Now that we have built the necessary foundation for conducting a truly global business, we are determined to create a new management principle, "The HORIBA Group Is One Company."

HORIBA's Development of Technologies and Products

Infrared Measurement

Real-time analysis of air and emissions

Products: Motor Exhaust Gas Analyzers (Engine) and Air Pollution Analyzers (Analytical)

Particle-size Distribution Analysis

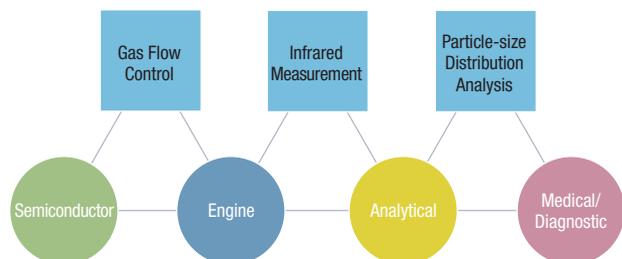
Determine both the size of particles and their state of distribution

Products: Particle-size Distribution Analyzers (Analytical) and Hematology Analyzers (Medical)

Gas Flow Control

Measure and instantly control gas flows

Products: Mass Flow Controllers (Semiconductor) and Fuel Cell Testing Units (Engine)



Major Products and Market Share

HORIBA boasts an array of products with high market shares in very specialized markets. Products commanding world-leading market shares account for **50%** of net sales, while top products in the world and domestic markets combined comprise **60%** of net sales.

Engine Measurement Instruments & Systems > P.12

Motor Exhaust Gas Analyzers



These analyzers continuously and simultaneously measure air-polluting automotive exhaust gas over a wide range of concentrations. They are widely used in R&D and regulatory certification in the automobile industry.

CO and HC Analyzers



These analyzers are designed to measure the level of carbon monoxide (CO) and hydrocarbons (HC) in exhaust gas for engine tuning and vehicle inspection. They are widely used in gasoline and auto service stations.

Analytical Instruments & Systems > P.14

Raman Spectroscopic Analyzers



These analyzers are invaluable in cutting-edge research, including the analysis of molecular structures in pharmaceuticals, carbon nano-tubes, and compound semiconductors.

pH Meters



These high-precision meters measure pH levels (acid and alkaline) in liquids using glass electrodes. They are used in research by institutions and universities and by manufacturers for on-site quality inspections.

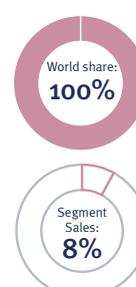
Medical/Diagnostic Instruments & Systems > P.16

Hematology Analyzers



These analyzers measure red and white blood cell counts, hemoglobin concentration, and platelet counts, providing a tool for blood tests that is indispensable in evaluating the health of humans and animals.

Blood Cell and CRP Counters



These are the first counters in the world to allow simultaneous measurement of blood cell counts and C-reactive protein (CRP), which the body produces in response to internal inflammation, thus facilitating faster and more accurate diagnosis.

Reagents are included in the percentage for market share.

Semiconductor Instruments & Systems > P.18

Mass Flow Controllers



These high-precision controllers are used to regulate gas and liquid in semiconductor manufacturing processes, such as thin-film processes, enabling the production of high-quality semiconductors.

Chemical Concentration Monitors



These compact units are used in semiconductor manufacturing to monitor the concentration of cleaning chemicals. They eliminate the waste of liquid chemicals, optimize the cleaning process, and help boost production yields.

To Our Stakeholders

HORIBA posted record consolidated net sales and earnings for fiscal 2005, ended March 20, 2005, buoyed by strong sales in Engine Measurement Instruments & Systems and Semiconductor Instruments & Systems. Under the policy “The HORIBA Group Is One Company,” we are also making progress in building a management structure to ensure that group companies worldwide share the same corporate vision and strategies. Going forward, we will further our efforts in promoting business operations based on strategies formulated for each global segment. Our aim is to become an excellent company, first capable of generating ¥100 billion in net sales, and then taking on the challenge of even higher goals.



Fiscal 2005 Results

HORIBA posted excellent results in fiscal 2005, improving on the record results of the previous fiscal year.

Analytical Instruments & Systems was affected by a drop in demand, which had been boosted by environmental regulations. However, we reaped the fruits of past efforts to expand business in other areas. These include greater demand for Engine Measurement Instruments & Systems in Asia, as well as a strong performance from Semiconductor Instruments & Systems on the back of a market recovery. In addition, we actively launched new products in Medical/Diagnostic Instruments & Systems, while making forward-looking investments in the field. Moreover, we took proactive steps to avert future risks, such as by posting a loss on property and equipment in line with the early adoption of asset-impairment accounting and making a lump-sum provision for directors' and corporate auditors' retirement benefits.

As a result of the above, we posted ¥92.4 billion in consolidated net sales, up 8.7% year on year. Operating income was ¥9.3 billion, up 36.8%, while net income was ¥3.5 billion, up 69.9%. As we enter the final year of our mid- to long-term management plan, we will devote every effort to achieve ¥100 billion in net sales, an operating income margin of 10%, and ROE of 8% for the fiscal year ending March 2006.

HORIBA's Strengths and Challenges

HORIBA's strategy focuses on realizing the balanced management of four operating segments: Engine Measurement Instruments & Systems, Analytical Instruments & Systems, Medical/Diagnostic Instruments & Systems, and Semiconductor Instruments & Systems. This business framework, encompassing four different fields provides stability that offsets weak performance in any one segment with good results in another. In particular, we believe it is vital to build a business structure that does not rely too heavily on semiconductors, given their great vulnerability to changes in the market environment. Recognizing that much technology and know-how is shared among segments, we have built a framework that allows us to shift people and resources efficiently across the group companies, especially in the areas of production, services, and IT, which share a common platform.

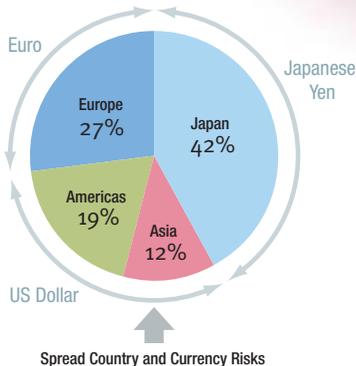
Our analytical and measuring equipment products are founded on HORIBA's accumulated expertise in measurement devices. Products in this category continue to promise substantial growth, as they are indispensable to the environmental, health, and safety fields and also support the development of industry. There are a growing number of business opportunities. Backed by our worldwide, top-class human resources and our global-scale business expansion, we are confident we can capture these opportunities.

We will strive to improve our profitability and expand our business areas by focusing on systems products. Specifically, we will take our business beyond analytical and measuring equipment and other devices to deliver total solutions that incorporate them.

Expanding sales in the U.S. is a top priority. This is a key market in analytical and measuring equipment. The U.S. is a huge market, accounting for nearly 40% of the world market. Currently, U.S. sales represent about 20% of HORIBA's total sales, leaving more than enough room for expansion. Success in the U.S. market is vital to prevail amid global competition. To this end, we will promote product development that strategically focuses on the U.S. market and channel talented people to the country.



Well-balanced Operation Spreading Risk Through Geographic Diversification
Sales Ratio by Region (Fiscal 2005)



The advantages of developing businesses in a four-segment framework

We boost operational stability by having four segments with unique markets and changing demand. Efficiency is also realized by sharing basic technologies and transferring business resources among segments. Under the "The HORIBA Group Is One Company" management principle, HORIBA will take further steps to formulate strategies by segment.

Objectives of “One Company” Management

Today, HORIBA comprises 38 group companies, and continues to expand worldwide. Under the principle “The HORIBA Group Is One Company,” group companies will come together to boost corporate value by transcending national boundaries and organizational divisions—barriers that may lower operational efficiency and prevent the sharing of business resources. Specific measures include formulating strategic plans and managing earnings by business segment rather than on an individual company basis as before. We believe this approach will allow us to conduct our business on a more global scale. In addition, support services common to all segments, such as production, purchasing, legal affairs, accounting, and IT, will be shared by companies in each region, thus improving management efficiency.

I believe that brand strategy is the most important feature of “One Company” management. Since acquiring ABX S.A. (now HORIBA ABX S.A.S.), a French manufacturer of hematology analysis equipment in 1996, we have conducted numerous mergers and acquisitions. Through this process, we focused on instilling HORIBA’s corporate culture in group companies. In 2004, all major subsidiaries adopted “HORIBA” in their corporate names and logos to reinforce a sense of unity across the group. Much to our delight, the new HORIBA group companies embraced the HORIBA brand. We believe this testifies to the reputation and trust HORIBA has built with its technical expertise, as well as to the patient and diligent efforts we have made to share our corporate culture with subsidiaries.

Capital Structure Strategy:

Dividends, Group Finances, and Response to Hostile Takeovers

In terms of dividends, we have adopted a system in which we pay dividends equaling 30% of HORIBA, Ltd.’s net income. This figure reflects 33% of net income from independent subsidiaries and 50% from companies that are dependent on the operations of HORIBA, Ltd. These numbers actually reflect our consolidated results. The remaining net income is retained for making investments to sustain the group’s growth. In the medium term, we aim to implement a dividend policy that takes into consideration such factors as balancing shareholders’ equity with investments, and our growth potential.

We are also turning group companies into wholly owned subsidiaries to prevent corporate value being lost outside the company. For example, on March 21, 2005, we made HORIBA STEC Co., Ltd. a wholly owned subsidiary through a share swap. We will continue our efforts to develop the group with a high level of leadership.

As for hostile takeovers, we will tackle every case from the standpoint of whether it would improve or undermine owner value, rather than protecting the interests of management. To respond to a takeover that has the potential to undermine owner value, we will actively collect information on individual strategies, and consider implementing those that are socially acceptable and naturally clear all legal requirements. Throughout this process, we will prioritize the interests of existing owners and will not take measures that undermine owner value. We place top priority on continuing to improve our corporate value and to have that reflected accurately in our stock price, as we believe this is the most effective means of warding off hostile takeovers and winning the sustained trust of our owners and investors.

Corporate Governance and CSR

Central to corporate governance and corporate social responsibility (CSR) is inspiring employees to derive joy from pursuing their daily activities, in and out of the office. It is more than about regulations and manuals. HORIBA employees are fortunate enough to be involved in businesses that can contribute to improving the global environment, human health, and safety in society. This enables us to enjoy high company loyalty from employees, make their work interesting, and effortlessly create an office environment that fosters an active exchange of ideas and opinions. HORIBA also believes in the principle of “Openness and Fairness,” that employees should be given equal opportunities and be evaluated not just on the results of their performance but on their attitude and efforts. We are confident that the efficacy of this approach will be proven in developing our businesses worldwide.

HORIBA does not believe in empty schemes that superficially raise corporate value. Rather, we remain steadfast in our ongoing commitment to delivering superior products, services and other forms of value unique to HORIBA.

Next Mid- to Long-term Management Plan

The Process of Formulating Our Next Mid- to Long-term Management Plan

- Clarify our long-term vision and share it with all stakeholders
- Maintain objectivity by disclosing goals to be used as management metrics and their basis
- Disclose and explain in a timely manner the factors and impact on the plan if conditions change

Our overriding goal is to bolster the foundation of our four existing business segments. Essential to growth are the power of the HORIBA brand as well as our technology and know-how and our diverse and global human resources. These intangible assets are the product of years of toil. We will also actively consider mergers and acquisitions, which will be strategically devised to secure talented professionals and technical expertise in specific areas, not simply to expand our business scale.

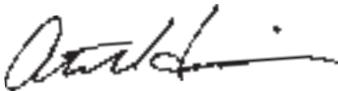
We look forward to hearing the views of our owners and other investors through the various points of contact we have with them. Our goal is to announce the details of our new plan by early 2006.

In Closing

We are determined to boost the power of the HORIBA brand so that all company owners and investors can invest in HORIBA with confidence. We will continue to provide quality products and services that do not betray customer trust in the HORIBA brand.

As with business investments, share investments carry risk. For this reason, we will run the company so as to maintain solid relationships with all investors. We hope to attract new owners who can appreciate HORIBA's unique corporate culture, concur with its management philosophy and strategies, and share its vision. We look forward to sharing the fruits of success with owners.

July 2005



Atsushi Horiba

Chairman, President & CEO

With the hope that investors take part in our business over the medium and long terms, we refer to our shareholders as owners, since we believe that they own HORIBA, not merely its shares.

HORIBA's Strategy

Strengthening HORIBA's Management Framework by the "One Company" System

Under the management principle "The HORIBA Group Is One Company," HORIBA will aim higher on a global scale in all four business segments: Engine Measurement Instruments & Systems, Analytical Instruments & Systems, Medical/Diagnostic Instruments & Systems and Semiconductor Instruments & Systems.

Action on Phase 1

Uniform use of the HORIBA brand and company name

In 2004, all major group companies included "HORIBA" in their company names and logos. Through a number of mergers and acquisitions in the past, we have exploited the unique features of each group company while instilling the corporate culture of HORIBA across the group. Unification of the trusted HORIBA brand, which is built on solid relationships among group companies, has a profound meaning for the group.



Preparations for adopting the Enterprise Resource Planning (ERP) system

To control the large number of group companies and successfully expand globally, HORIBA must share information in real time using a universal language and data. By introducing an ERP system that makes this possible, we will speed up management and realize efficient operation with fewer staff.

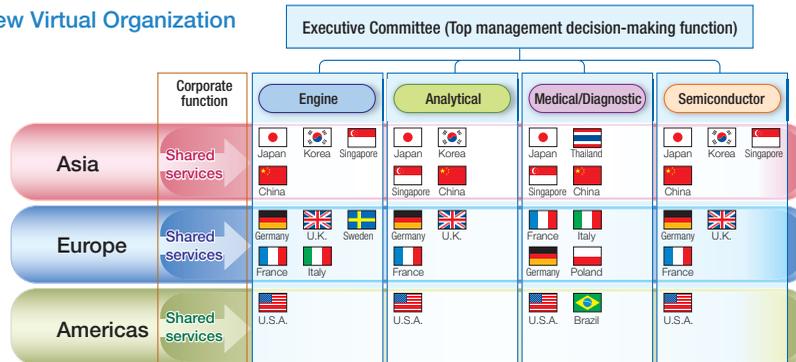
Establishment of virtual organizations

HORIBA will promote its management strategies on a global scale by transcending national borders and organizational divisions that can undermine efficiency and the sharing of business resources across group companies. In addition, HORIBA will devise strategies and manage earnings on a segment basis. Finally, HORIBA will improve management efficiency by implementing a support system that can be shared by all business segments within each geographic region.

Current Organization



New Virtual Organization



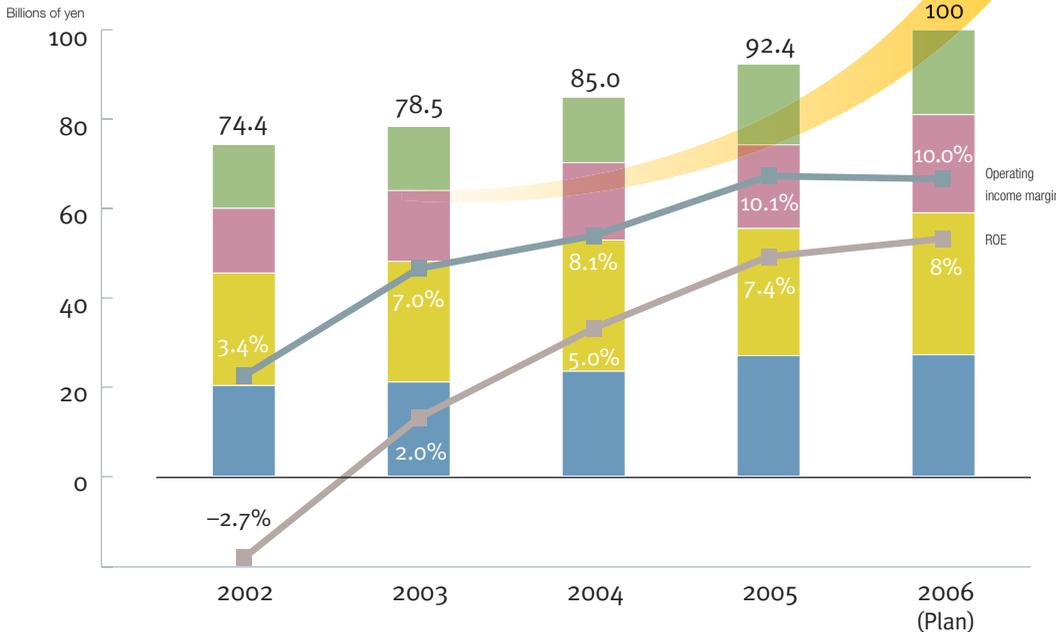
The “One Company” Management Principle That Brings Together the Entire Group



- Promote business operation within a strategic framework comprised of global segments
- Improve the value of the HORIBA brand
- Use resources efficiently
- Speed up management
- Promote resource exchanges among companies and segments
- Foster talented people with skills that can be used anywhere in the world

Targeting Net Sales of ¥200 billion

200
Billion Yen



Mid- to Long-term Management Plan

HORIBA's medium-term plan target for the fiscal year ending March 2006 is net sales of ¥100 billion, an operating income margin of 10%, and ROE of 8%. We believe that ¥100 billion in sales is necessary to globally expand a broad range of businesses and secure and maintain world-class talent. In the more distant future, we will target net sales of ¥200 billion.

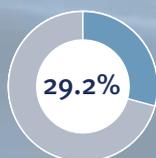
- Semiconductor Instruments & Systems
- Medical/Diagnostic Instruments & Systems
- Analytical Instruments & Systems
- Engine Measurement Instruments & Systems

At a Glance

HORIBA, a manufacturer of analytical and measurement instruments, operates in four business segments: Engine Measurement Instruments & Systems; Analytical Instruments & Systems; Medical/Diagnostic Instruments & Systems; and Semiconductor Instruments & Systems. Because each market has differing characteristics and demands, HORIBA can not only diversify its operational risk, but also achieve efficient and stable growth. These goals are realized through the flexible management of its business resources based on the exchange of expertise and technology among the four business segments.

Engine Measurement Instruments & Systems

Generate strong and stable earnings by focusing on products with leading market shares



HORIBA's mainstay motor exhaust gas analyzers are used worldwide in automotive industries for R&D and quality control. They have also been adopted as standard equipment by the world's many regulatory exhaust gas certification laboratories. In addition to complying with clean air regulations, which are becoming stricter every year, these analyzers are indispensable in the development of fuel-efficient cars, including hybrids and diesels. Going forward, we expect increased demand in regions with expanding automotive markets, such as China and Russia.

Analytical Instruments & Systems

Aim to become the world leader in niche markets while fostering the development of analysis and measurement technology



HORIBA manufactures over 500 different types of instruments in this segment, many of which target niche markets. These products boast widespread applications, including R&D at universities and private businesses, as well as organizations that monitor environmental pollution. In 1997, HORIBA supplemented its technical capabilities and product lineup with the acquisition of Jobin Yvon, S.A.S. (now HORIBA Jobin Yvon S.A.S.), a French manufacturer with world-renowned technology in optical measurement. In addition to launching high-performance products, the segment supplies new analysis and measurement technologies to other business fields within the group.

Medical/Diagnostic Instruments & Systems

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



This segment competes in the global blood testing market, which amounts to over ¥2 trillion in annual terms. The market is divided into testing equipment and reagents, meaning that the sale of consumable reagents provides a stable income source following the initial sale of hardware.

The acquisition of French manufacturer ABX, S.A. (now HORIBA ABX S.A.S.) in 1996 took HORIBA into the medical and diagnostic equipment market, specifically by expanding the company's market share in medium and small hematology analyzers for hospitals and medical practitioners. HORIBA plans to expand operations in this segment by launching large new hematology analyzers, which will expand into a bigger market. In addition, HORIBA will introduce new products in the area of clinical chemistry analyzers, particularly for key blood components.

Semiconductor Instruments & Systems

Expand earnings when conditions are favorable in the semiconductor market and minimize profit declines in times of market downturn



Mass flow controllers, which control gas and liquid flows inside semiconductor production systems, account for 75% of the sales in this segment, making performance vulnerable to the so-called silicon cycle. Meanwhile, the semiconductor industry is making rapid advances in wafer integration and miniaturization, driving demand for higher quality and yield rates. HORIBA will cultivate new markets to achieve sustainable growth while minimizing earnings volatility. To this end, HORIBA is working to strengthen its product lineup so that it can offer total solutions for the control and analysis of peripheral process chambers.

Major products:	motor exhaust gas analyzers, chassis dynamometers, automatic driver systems, onboard emissions measurement systems, portable emissions analyzers, fuel cell testing units
Leading market shares:	motor exhaust gas analyzers (80% of world market)
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

Major products:	scientific analysis instruments (pH meters, X-ray elemental analyzers, particle-size distribution analyzers, diffraction gratings, Raman spectrophotometers), environmental measuring instruments (air pollution analyzers, stack gas analyzers, water quality monitoring systems)
Leading market shares:	Raman spectrophotometer (30% of world market)
Major customers:	manufacturers, national research institutions, universities, government agencies, electric power companies
Product applications:	R&D, product quality testing, measurement of wastewater and emissions, environmental pollution monitoring, criminal forensics

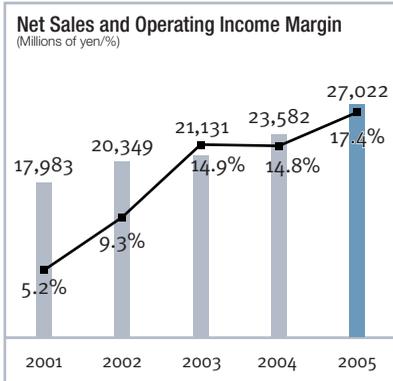
Major products:	equipment for blood sample analysis (hematology analyzers, equipment for measuring immunological responses, clinical analyzers, blood sugar measurement systems)
Leading market shares:	hematology analyzers (8% of world market)
Major customers:	medical testing centers, small- and medium-sized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

Major products:	mass flow controllers, chemical concentration monitors, semiconductor impurity testing equipment, thin-film analyzers for semiconductor and LCD inspection
Leading market shares:	mass flow controllers (30% of world market)
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

Review of Operations by Segment

Engine Measurement Instruments & Systems

Business performance remained strong, due to tighter regulations for exhaust emissions, an area where HORIBA products possess world-class strength, and active R&D investment in the development of new car models and engines by automobile manufacturers. Another contributing factor was a sharp rise in sales to Asia.



Results for Fiscal 2005

Sales and operating income set record highs. This was attributable to increased new investment in exhaust measurement equipment for automobiles and motorcycles in Asia, especially China. In addition, continued high levels of spending by Japanese automobile manufacturers for R&D on eco-friendly products, including those that filter particulate emissions and improve fuel efficiency, boosted sales of major emission measurement equipment.

Business Overview and Strategy

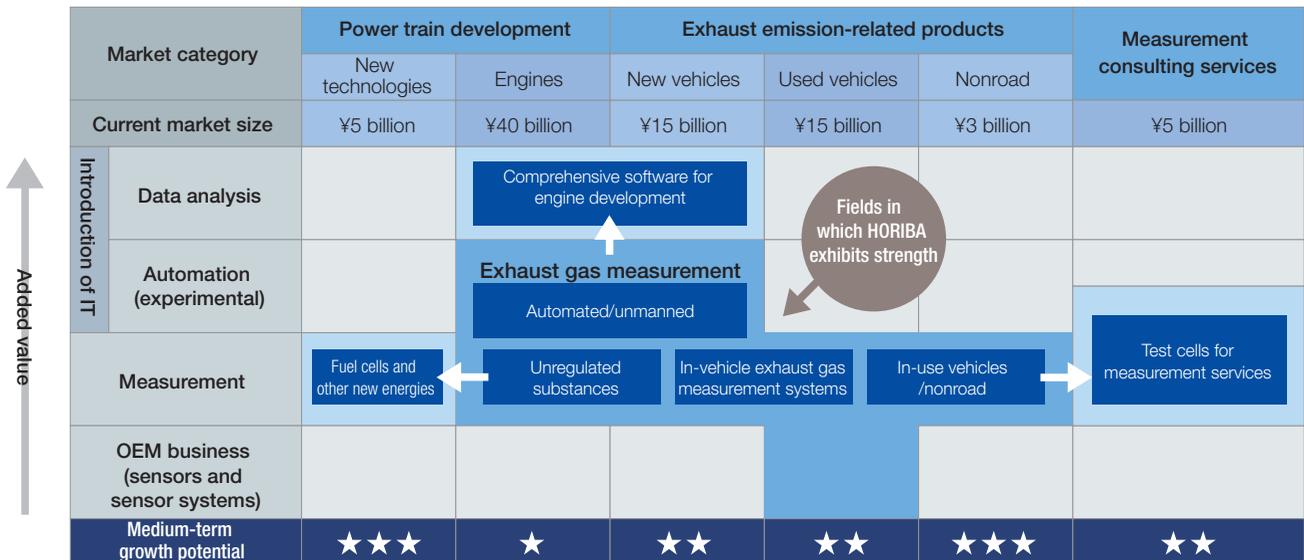
Demands for engine measurement instruments and systems are rising as Japan, the United States, and countries in Europe enact stricter regulations on vehicle emissions. China and other countries in Asia are also starting to implement restrictions. This is forcing the automobile industry to adopt measures to ensure compliance. Another factor is the Kyoto Protocol, which is compelling many countries to take immediate action to meet their quotas for reducing global emissions of CO₂ and other greenhouse gases.

In the field of exhaust gas measurement equipment, two factors are driving increased capital investment and replacement demand. First, automobile manufacturers are starting to shift away from gasoline-powered engines in favor of more fuel-efficient units, including diesel and hybrid systems. Second, the development period for new engines and car models, which previously covered many years, has shortened. Third, the automobile industry, which is centered on Japan, Europe, and the United States, is expected to expand into such promising regions as Eastern Europe, Russia, and South America.

HORIBA remains committed to serving customers in leading-edge fields in the automobile industry. This means that we will go beyond the field of exhaust gas measurement equipment to seek new business opportunities in analysis and measurement devices for the industry.

	2004	2005	Change
Net Sales	23,582	27,022	+14.6%
Operating Income	3,486	4,705	+35.0%

Business Fields of Engine Measurement Instruments & Systems





Seeking to curb the environmental effects of fuel consumption and exhaust emissions, automobile manufacturers are working to develop many specialized engine systems to satisfy different regional regulatory requirements and consumer preferences. Consequently, the number of engine development parameters (control parameters) has increased dramatically. This has significantly boosted demand for HORIBA engine measurement systems, which have become the global standard.

In April 2002, we strengthened our sales activities by adopting a direct-sales business framework in both Japan and overseas, thereby bypassing intermediary companies and agents. By streamlining our sales channels, we have improved sales efficiency. Direct sales also allow us to receive direct customer feedback, enabling the development of products that more accurately reflect user needs.

Always at the forefront of exhaust gas measurement, HORIBA frequently receives requests to collaborate and exchange technology with companies worldwide. In 2004, HORIBA established the Technical Advisor Committee (TAC) to comprehensively explore next-generation engine measurement technologies. HORIBA actively utilizes external resources to enhance its expertise and technology essential to meeting customer needs and sustaining our position in the market. HORIBA is the only company in the world that possesses technologies in exhaust gas measurement that are considered indispensable in the development of power trains. HORIBA intends to leverage this position to continue providing customers with total system solutions that reduce the environmental impact of automobiles.

Outlook for Fiscal 2006

We expect the Engine Measurement Instruments & Systems segment to generate high levels of sales and earnings based on increased U.S. demand arising from tighter emission restrictions, and solid sales in Asia and Europe, despite the expected appreciation of the yen against the U.S. dollar (to ¥103).

Note: For forecasts of net sales and operating income, etc., please refer to information publicly disclosed by HORIBA, such as earnings releases and revisions of earnings forecasts.

THE HORIBARIANS — HORIBA's Human Resources



Jerome Tardieu

Joined HORIBA in 2001—Technical Project Management Division, HORIBA FRANCE Sarl

I'm responsible for the development and design of "turn-key project" including emission gas measurement system, climatic engineering, civil work and automation. This activity is a new business in HORIBA FRANCE around emission system: "turn-key project" is a great asset for the emissions business. I think that the international structure of HORIBA helps us share knowledge to develop the best products that meet the needs of the world-wide market.



Minoru Chikamatsu

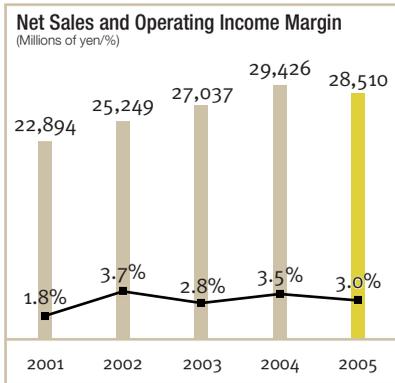
Joined HORIBA in 1974—International Service Group, HORIBA TECHNO SERVICE Co., Ltd.

I manage various issues related to services in Asia while engaging in my own service projects. In 2004, HORIBA received orders for exhaust gas measurement equipment from many Chinese motorcycle manufacturers due to tighter regulations on motorcycle emissions. Despite an extremely tight delivery schedule, I put together a Chinese project team comprising a select group of mostly younger employees, who successfully completed the installation work. My work is another example of the power of HORIBA.

Review of Operations by Segment

Analytical Instruments & Systems

HORIBA is working to boost sales and earnings in the scientific instruments field, which is relatively immune to the effects of economic fluctuations, and has prospects for higher demand in the nanotechnology field. We are also focusing on environmental analysis, a field that is expected to see higher demand resulting from emerging demand for pollution measurement from developing countries and heightened concern over safety and security in industrialized countries.



Results for Fiscal 2005

The segment posted lower sales and earnings for the year under review. Sales of X-ray analyzers and high-performance analyzers for the nanotechnology field were brisk, reflecting moves to comply with domestic versions of Waste Electrical and Electronic Equipment (WEEE) and Restriction of the use of certain Hazardous Substances in Electrical and Electronic Equipment (RoHS) directives, regulations pioneered by the European Union (EU) to promote the collection and recycling of electronic equipment and enact restrictions on hazardous substances. However, following strong sales in the previous fiscal year, domestic sales of wastewater monitoring equipment declined in reaction to demand created by the enactment of environmental regulations.

	2004	2005	Change
Net Sales	29,426	28,510	-3.1%
Operating Income	1,021	862	-15.6%

Business Overview and Strategy

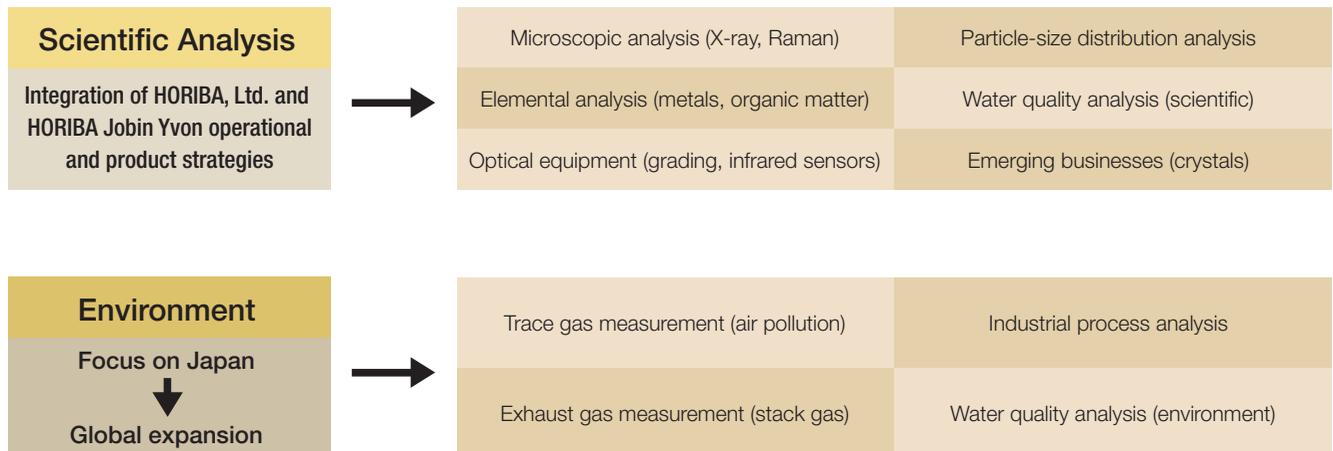
Analytical Instruments & Systems encompasses the scientific analysis and environmental measuring fields. Scientific products consist of analysis and measurement instruments for a variety of industries, while the latter provides measurement devices related to the environment, human health, and safety. Competition in both fields is fierce, and such market conditions are expected to remain unchanged. Amid this environment, HORIBA is working to keep abreast of changes in demand and the global market, and is developing new products with lower costs. Through these efforts, HORIBA strives to bolster its competitiveness and improve profitability.

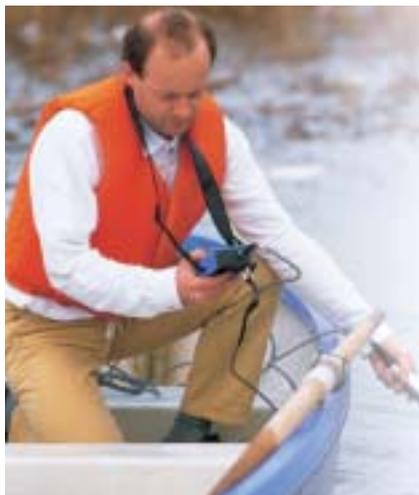
Stronger environmental regulations enforced in recent years, such as restrictions on harmful substances in the EU and legislation on automobile recycling in Japan, have created major business opportunities in the field of scientific and analytical instruments and systems. HORIBA quickly responds to such worldwide developments that create demand for products related to environmental pollution.

China is a region where air and water pollution has become an urgent issue. Aware of the latent demand of this giant market, HORIBA is working to expand its businesses in China.

Customers for scientific analysis instruments are diverse, ranging from national research institutions to R&D centers at universities and manufacturers. This fact insulates the market from the effects of economic fluctuations,

Expand Market Shares of World-leading Products





making it an attractive business. Additionally, demand for mid- and high-end models in this segment is increasing, as customers rapidly improve their technical expertise. In light of this development, HORIBA acquired the French company Jobin Yvon S.A.S. (now HORIBA Jobin Yvon S.A.S.) in 1997. This has enabled HORIBA to jointly develop products with HORIBA Jobin Yvon and make mutual use of sales channels, enabling the rollout of more sophisticated products and better assessment of customer needs. We believe this move has provided an opportunity to become the world leader in niche global markets.

In the field of environmental analyzers, HORIBA has a full lineup of products for addressing various environmental issues, such as air, water, and soil quality. Although this is a highly competitive market, our goal is to increase our market share and raise profits by developing unique products and keeping costs down.

Demand for environmental pollution measurement is rising in China and other developing countries. Meanwhile, there is increased concern over health, safety, and security in industrialized countries. Furthermore, progress is being made to upgrade the quality control of industrial products. Finally, growth is expected in fields that are largely immune to environmental regulations, especially petrochemicals, bioscience (food and beverages), and photocatalysts.

An issue common to both the scientific and environmental fields is the difficulty in expanding sales in the United States, the main market for analytical and measurement equipment. This has prompted HORIBA to bolster its sales framework and emphasize the needs of the U.S. market in product development.

Outlook for Fiscal 2006

In addition to continually increasing sales of X-ray elemental analyzers in Japan and elsewhere in Asia, we expect to see increased demand for analytical and measurement equipment used in nanotechnology research, including new particle-size distribution analyzers and Raman spectroscopic analyzers.

Note: For forecasts of net sales and operating income, etc., please refer to information publicly disclosed by HORIBA, such as earnings releases and revisions of earnings forecasts.

THE HORIBARIANS — HORIBA's Human Resources



Michael R. Narozniak

Joined HORIBA in 1998—Electronic Engineering and Detector Development Division, HORIBA JOBIN YVON S.A.S.

I am responsible for designing high-end CCD Detection Systems, as well as a series of low-cost CCD camera products. These systems utilize the latest electronic technology and are designed for performance and reliability. I approach my work with a high level of enthusiasm and attention to detail. It is an honor to work for a company that possesses a wealth of technologies, is capable of satisfying customer needs and promises to make further advancements in the areas of science, industry and research over the next 50 years.



Sumiyo Ishikawa

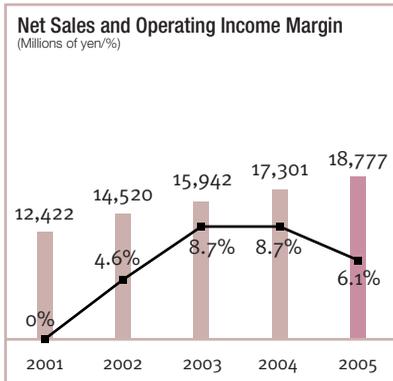
Joined HORIBA in 1993—Applications Center, HORIBA, Ltd.

At the Applications Center, we provide new analysis technologies and applications through product demonstrations and on-demand analysis using X-ray products. This has won greater confidence from our customers and we have more people supporting HORIBA's efforts. In my opinion, HORIBA offers an ideal office environment for employees to pursue and realize their own visions.

Review of Operations by Segment

Medical/Diagnostic Instruments & Systems

In mainstay hematology analyzers, HORIBA, Ltd. and HORIBA ABX S.A.S. are aggressively developing new products that address customer needs in the medical field. HORIBA is also working to increase the sales ratio of diagnostic reagents, which are expected to generate stable earnings. We are also concentrating on expanding sales of clinical chemistry analyzers and other new products.



Results for Fiscal 2005

Sales of new products, including large-scale hematology analyzers and mid-sized clinical chemistry analyzers, primarily increased in Europe. Sales of blood sugar measurement systems expanded in Japan. However, higher costs for new product development and greater selling expenses resulted in lower earnings despite the increased sales.

Business Overview and Strategy

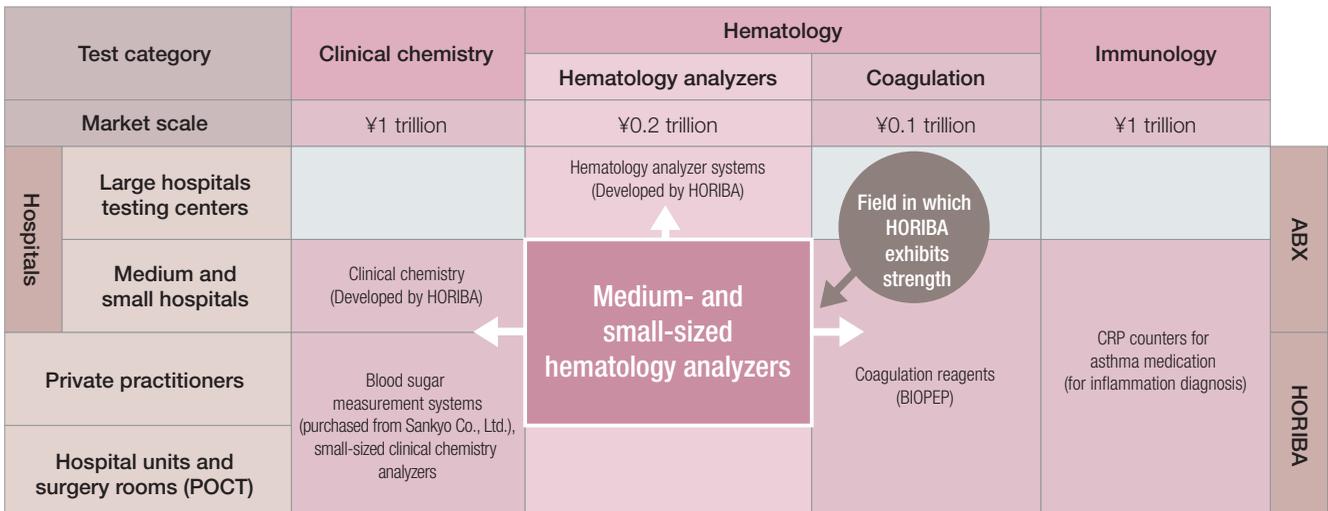
Growth in the medical market is slowing down in industrialized countries, such as in European nations, Japan, and the United States. As healthcare providers, medical customers in this market are extremely conservative, making it difficult to carve out a bigger market share. Despite this environment, HORIBA has consistently supplied advanced products that enable customers to increase productivity and work efficiency by leveraging its unique measurement technologies. As a result, HORIBA has achieved rapid growth in sales and earnings over the past several years.

The driving force behind this development is the resources provided by HORIBA ABX, a manufacturer of hematology analysis equipment that HORIBA acquired in 1996. HORIBA ABX boasts not only advanced analysis technologies, but also superior planning and marketing capabilities underpinned by academic knowledge. With many years of experience in quality control of measurement equipment, HORIBA has leveraged the strengths of this company to generate synergies that drive earnings growth.

The market for medical and diagnostic equipment is expected to expand in heavily populated regions that promise economic growth, such as South America and Asia, especially China. HORIBA has already built a business framework encompassing production, sales, and service bases in these regions so that it is ready to seize new business opportunities.

	2004	2005	Change
Net Sales	17,301	18,777	+8.5%
Operating Income	1,508	1,146	-24.0%

Product Development in the Hematology Analysis Market





HORIBA will integrate its sophisticated analysis and measurement technologies and its product planning and marketing capabilities to continually introduce new products to the hematology analyzer market. Meanwhile, we will reinforce our direct sales capabilities to address the specific needs of customers in Japan and the United States, which make up 50% of the global laboratory testing equipment market. We are confident that these measures will boost our market share and increase sales of highly profitable diagnostic reagents, enabling us to achieve our medium- to long-term business targets. The Medical/Diagnostics Instruments & Systems segment has the potential to become a major source of earnings for HORIBA in the medium and long terms by increasing the sales of clinical chemistry and immunological analyzers, both of which have large markets.

Segment	Medium- to Long-Term Targets (Fiscal 2009)		
■ Improvement of Brand Value	→ World market share of hematology analyzers	8% → 13%	Net sales ¥30-¥35 billion
■ Expansion of Sales	→ Share of clinical chemistry field	15% → 25%	
■ Increase in Profitability	→ Share of segment sales of diagnostic reagents	45% → 55-60%	Operating income margin at least 15%

Outlook for Fiscal 2006

We expect higher earnings due to increased sales of new products and highly profitable diagnostic reagents, which will offset investments in the development of new products and selling costs.

Note: For forecasts of net sales and operating income, etc., please refer to information publicly disclosed by HORIBA, such as earnings releases and revisions of earnings forecasts.

THE HORIBARIANS — HORIBA's Human Resources



José Miguel Lara Garrote

Joined HORIBA in 1998—Service Division, HORIBA ABX S.A.S. Spain Branch

My main task is to handle the technical needs of our current customers, and to support the sales department in looking for the best solutions to keep our systems, technology and service up-to-date. My policy is: "Every question has an answer" and "Get it right first time around."



Yoko Sugiyama

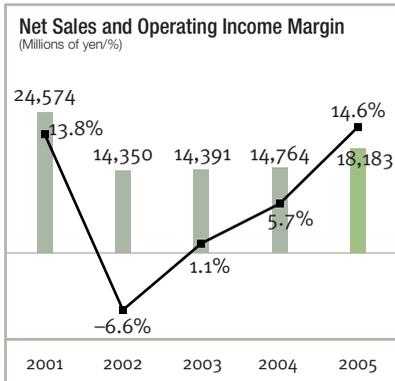
Joined HORIBA in 1997—Marketing Dept., Medical Electronic Systems Division, HORIBA, Ltd.

I am in charge of planning and running exhibitions and seminars, creating catalogs and websites, and promoting sales for HORIBA's laboratory testing equipment. While many manufacturers in the field of medical instruments are highly specialized, HORIBA is active in a broad range of fields. This enables HORIBA to apply advanced technologies from each segment to its medical products, making HORIBA products highly attractive to customers. I think that this is HORIBA's biggest strength.

Review of Operations by Segment

Semiconductor Instruments & Systems

Mass flow controllers are HORIBA's mainstay product in the semiconductor industry, which is highly susceptible to fluctuations in market conditions. During the period under review, HORIBA sought to minimize earnings volatility by building a system capable of flexibly responding to market trends and by expanding its product lineup through collaboration with other companies.



Results for Fiscal 2005

The Semiconductor Instruments & Systems segment posted higher sales and earnings, due to increased demand in the semiconductor market. Sales of HORIBA's mainstay mass flow controllers for semiconductor production equipment and chemical concentration monitors used in the semiconductor cleaning process both increased.

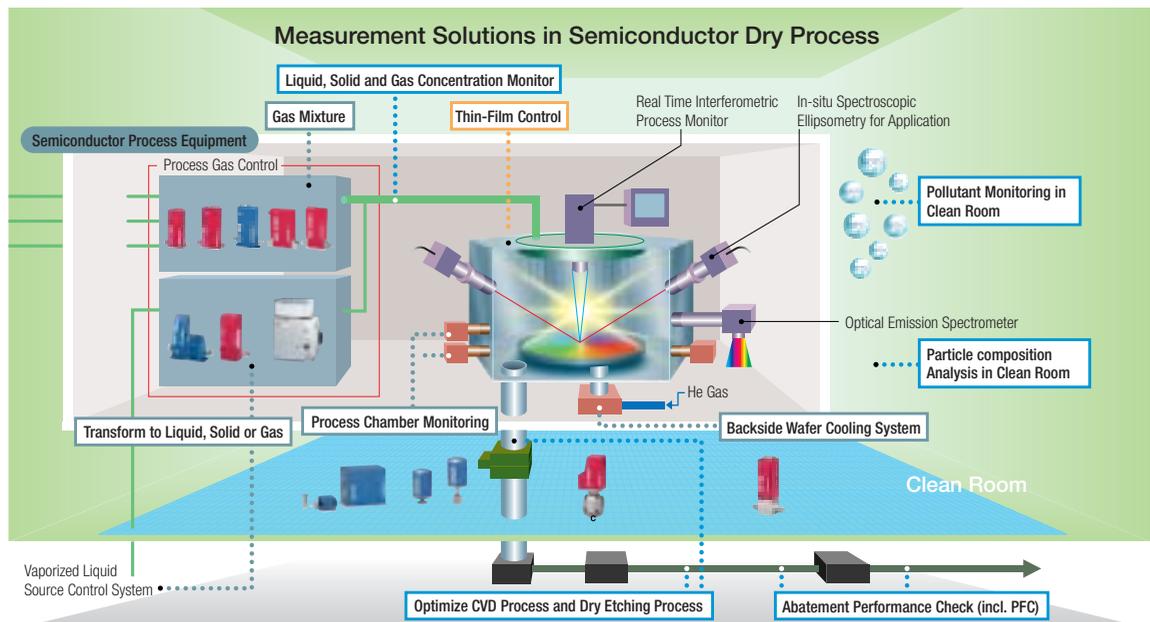
Business Overview and Strategy

With the semiconductor market rapidly switching from 200mm wafers to 300mm wafers, we expect accelerated technical innovation in the semiconductor industry. We also expect that customers will demand higher performance and quality. This presents a favorable opportunity for HORIBA, as it is the only company capable of providing total solutions comprising analysis, measurement, and control equipment. We plan to make our presence felt in the areas of R&D in semiconductor production equipment and quality control of semiconductor production and develop new businesses within these areas. HORIBA will also apply its cutting-edge technologies and expertise and quick-response capabilities acquired in the semiconductor business to other fields in the group, as helping to boost the overall growth of the group is an important issue for this segment.

Results for Fiscal 2005
(Millions of yen)

	2004	2005	Change
Net Sales	14,764	18,183	+23.2%
Operating Income	835	2,660	+218.6%

The semiconductor market frequently experiences fluctuations in demand. Despite this drawback, it is a promising market with vast business opportunities. In our mainstay mass flow controllers, we introduced new multi-function digital products. As a result, we greatly reduced the number of analog models, thereby paving the way for mass production of high-precision instruments. We are also planning a full-scale launch of differential pressure mass flow controllers in fiscal 2006. This product fits on the gas panel of semiconductor





production equipment and eliminates the need for gas pressure sensors and regulators, making it a groundbreaking instrument that helps to lower costs, save space, and boost yields.

HORIBA is also working to reduce the effects of the so-called “silicon cycle” by diversifying its products. To this end, we are leveraging the expertise and customer channels we have developed in the production of mass flow controllers to strengthen our lineup of peripheral products for semiconductor production, particularly measurement and control products required for thin-film processes. As part of this strategy, we formed important alliances with two U.S. companies in 2003. This expansion of our product lineup will allow us to offer total solutions and reduce the effects of fluctuating demand on results.

HORIBA frequently receives offers to tie-up with many venture firms, who see advantages in HORIBA’s strong sales and service networks with global manufacturers of semiconductor production equipment and devices. We will fortify our position in the semiconductor market by actively utilizing these and other external resources to further expand our business. Specifically, in addition to mainstay mass flow controllers, we will share technologies with other companies to create a product lineup for analysis and control of process chambers, allowing us to provide total solutions in the field.

Outlook for Fiscal 2006

We expect to add a consolidated subsidiary that specializes in compound semiconductors. We also project higher sales of equipment used to inspect thin films for liquid crystal displays (LCDs) and semiconductors. However, given the unclear future direction of the semiconductor market, we forecast that sales of mainstay mass flow controllers will decline.

Note: For forecasts of net sales and operating income, etc., please refer to information publicly disclosed by HORIBA, such as earnings releases and revisions of earnings forecasts.

THE HORIBARIANS — HORIBA’s Human Resources



Kyle Miklos

Joined HORIBA in 2002—Quality Specialist, HORIBA/STEC Incorporated

I am responsible for quality management at our main manufacturing sites and service centers to maintain our certifications such as ISO 9001. I also provide support for product launches and address issues related to product quality and reliability to ensure high customer satisfaction. I firmly believe HORIBA’s Semiconductor Systems Division can both increase its profit and grow further by expanding into new markets and capturing new customers who appreciate the excellent quality and high customer satisfaction that HORIBA products deliver.



Tadahiro Yasuda

Joined HORIBA in 2000—R&D Division, HORIBA STEC Co., Ltd.

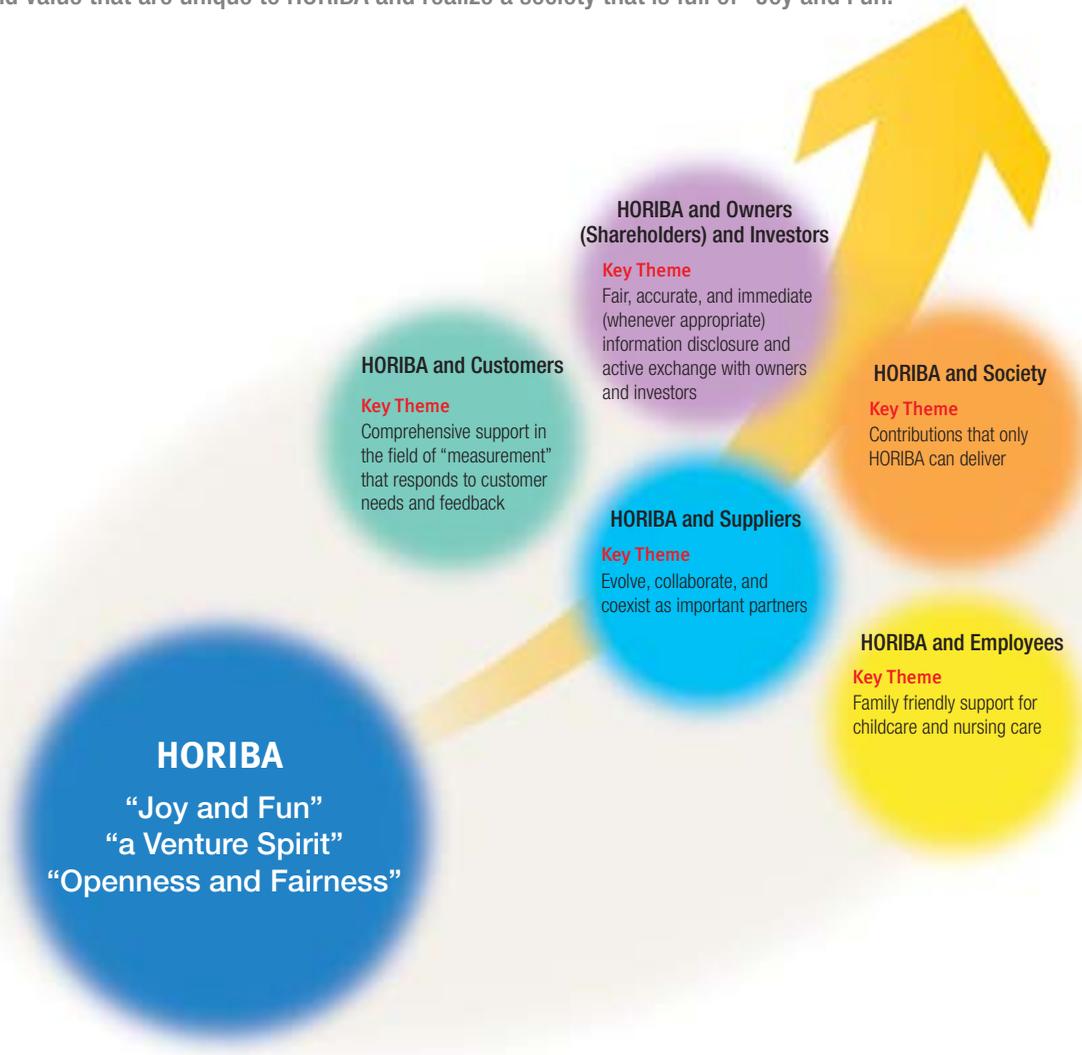
I develop pressure-based mass flow controllers that feature new technology with the potential to revolutionize semiconductor manufacturing production. My everyday work requires a lot of trial and error. My goal is to deliver the best products in the world. Such products are underpinned by the business platform shared by all group companies, including IT and joint purchasing, as well as cooperation with an R&D center in the United States and headquarters in Kyoto.

Corporate Social Responsibility (CSR)

“Moving Forward With All Stakeholders”

This is the principle underlying HORIBA’s corporate social responsibility (CSR).

As a corporate citizen, HORIBA focuses on business developments and R&D that contribute to environmental protection, safety in society, and human health. We will move forward step by step with our stakeholders by delivering products, services and value that are unique to HORIBA and realize a society that is full of “Joy and Fun.”



Company Precept “Joy and Fun”

Coined by HORIBA’s founder and current supreme counsel Dr. Masao Horiba, this motto reminds employees that they should derive joy from their everyday professional life, the most exciting phase of life. It reflects Dr. Horiba’s positive attitude and his wish that employees lead a healthy and fruitful life in pursuing their careers at HORIBA. It is a credo we inculcate in all HORIBA employees.

“Joy and Fun,” “a Venture Spirit,” and “Openness and Fairness” as HORIBA’s Corporate Culture

Translating these principles into actions, we will build a corporate structure that inhibits impropriety and promotes an active exchange of ideas and opinions among employees in their daily work environment. At the same time, we will disclose information to the public in a proper manner and improve communication with stakeholders.

Corporate Governance

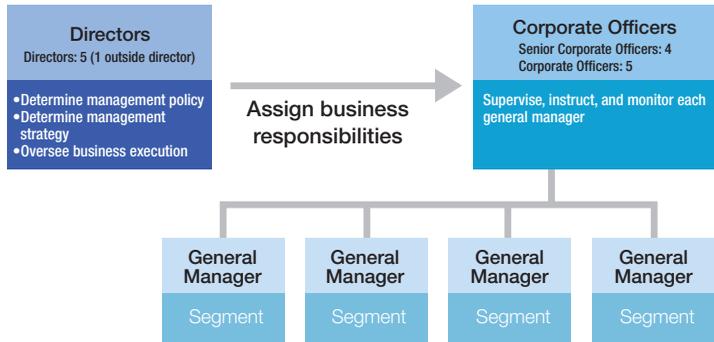
To strengthen corporate governance, the Board of Directors is responsible for determining basic management policies and strategies and overseeing business execution.

As regards management decision-making, HORIBA has appointed one outside director and two external auditors. Calling on people from outside the company with diverse knowledge and experience allows us to improve the quality of management decision-making, transparency, and monitoring.

Under the corporate officer system introduced in June 1998, directors entrust corporate officers with the execution of business operations. In turn, corporate officers give specific orders to the general manager of each segment and monitor activities. This system expedites decision-making and strengthens monitoring functions.

Under the principle of "The HORIBA Group Is One Company" (refer to p.8), HORIBA's management also oversees the group's organizations on a global level and focuses on expeditious decision-making and clarification of responsibilities among business units.

Management Decision-Making (Corporate Governance)



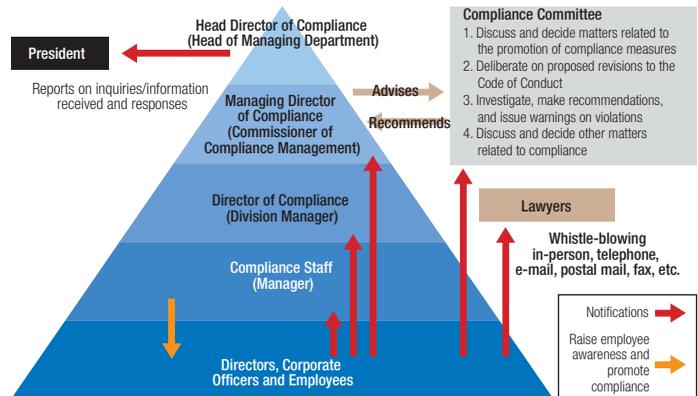
Promotion of CSR at HORIBA in Japan



Compliance

In April 2005, we established HORIBA CSR Promotion Committee, which includes members from each major group company in Japan. Under this committee, the Compliance Committee was established to promote understanding of compliance, discuss and decide matters related to the promotion of compliance measures, and investigate, report and make recommendations in response to notifications made internally to the committee. Specifically, we have introduced a system that raises employee awareness on observing rules and regulations in conducting their everyday duties, including a whistle-blowing system, counseling with external lawyers, and an e-mail address to which employees can write to communicate related concerns.

Promotion of Compliance and Whistle-Blowing System



A detailed report on HORIBA's CSR, corporate governance, and compliance is published in "HORIBA/ Environmental and Social Report: Gaiareport 2005," viewable on our website. (http://www.jp.horiba.com/about_e/environment/)



Recognized for its actions to contribute to society, HORIBA was included as one of 150 companies in Morningstar Japan K.K.'s Socially Responsible Investment (SRI) Index on November 1, 2004.

Intellectual Property Report

“A Step Ahead in Hi-Tech: HORIBA”

In keeping with this slogan, HORIBA consistently strives to develop unique technologies as the leading force in its industry. HORIBA will contribute to society by developing technologies in analysis and measurement, and support a variety of advanced technical fields, such as nanotechnology. This is HORIBA's Policy on Technological Development.

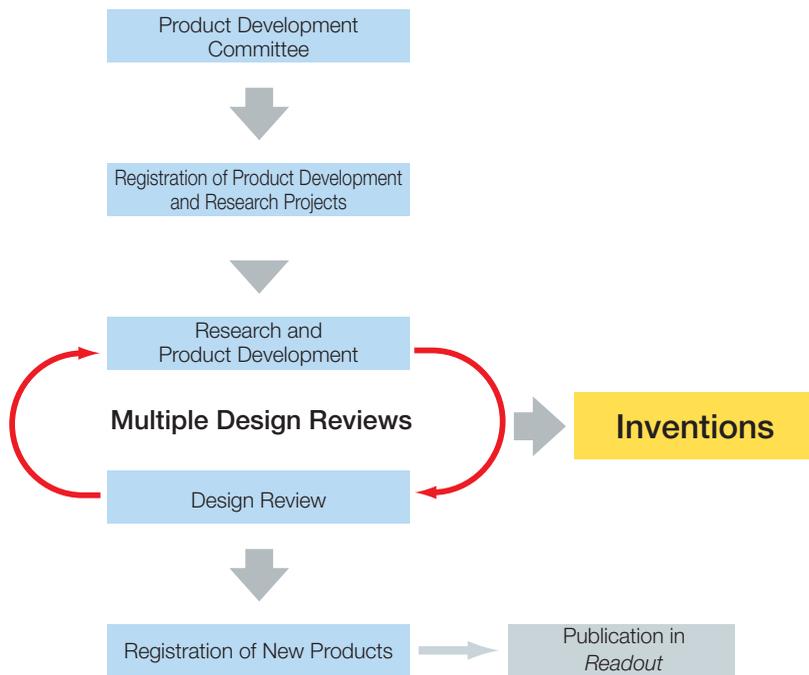
HORIBA's Policy on Intellectual Property

Acquisition of intellectual property rights: Secure a superior position in the market by submitting high-quality patent applications and ensure that HORIBA can deliver technological added value.

Exercise of intellectual property rights: Actively exploit the privileges based on HORIBA's IP rights in good faith while respecting the rights of other companies.

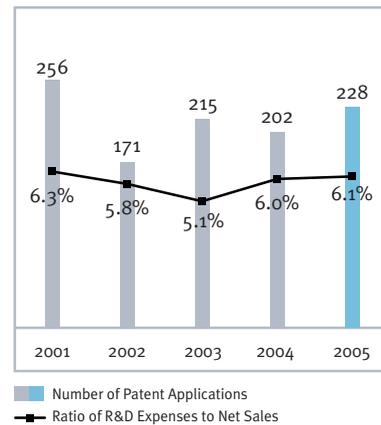
R&D and Invention

The flow of HORIBA's R&D activities and its product development are described in the chart below. The most salient feature of HORIBA's R&D process is design review*, which is conducted multiple times so that HORIBA can create inventions and file patent applications in a comprehensive manner.



The Number of HORIBA's Patent Publications and Ratio of R&D Expenses to Net Sales

(Patent Publications in Japan, Europe, and the United States)



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

Disputes Related to Intellectual Property

HORIBA was involved in several disputes related to intellectual property at the end of the fiscal year ended March 20, 2005. However, none of these disputes are likely to have a significant impact on HORIBA's business. In response to inquiries related to licensing its intellectual property, HORIBA takes a flexible approach in line with its management policies.

Major Inventions

Invention of a Plasma Immunoassay Method Using Whole Blood to Diagnose Infectious Diseases

This invention has enabled HORIBA to commercialize an instrument (product serial no.: LC-175CRP) and reagents for simultaneously measuring blood cell count and C-reactive protein (CRP). While existing products can only count blood cells, HORIBA's invention features a CRP analysis function. It enables health clinics and other healthcare providers to accurately diagnose the progression of diseases. The new instrument has received high acclaim for cutting medical costs by reducing the necessity for diagnosis and treatment using antibiotics or X-rays. In 2004, this invention has received the President's Prize from the Japan Patent Attorneys Association (JPAA) at the National Commendation for Invention Ceremony. Dominating almost the entire market in Japan, HORIBA plans to expand sales overseas, including in the United States and Europe, where it has already acquired patents.



Yasuo Yamao Joined HORIBA in 1993
Scientific & Medical Products Manufacturing Dept.,
HORIBA, Ltd.

I have long aspired to provide the world with high-quality medical equipment that is capable of performing accurate diagnoses and provides accurate data simply and quickly. This invention was triggered by a professor's remark that there should be a way to combine hematology analyzers with CPR testers.

Quote: "A successful invention requires the researcher's resolve and passion to pursue innovation and progress. At the same time, he or she must also strive to make a contribution to society by serving the practical needs of people."

Development of the World's First In-vehicle Emissions Measurement System

Having concluded a patent license agreement with the United States Environmental Protection Agency (EPA), one of the top authorities in the world on exhaust gas emission standards, HORIBA has developed various inventions and functions, and created a compact and easy-to-use in-vehicle emissions measurement system (product serial no.: OBS-2000). This new system provides next-generation technology in emission analysis, which would be used to conduct on-board certification tests for diesel vehicles as mandated by new heavy-duty emission regulations in the United States starting in 2007, and for gasoline-powered vehicles, which have not been tested previously.



Hiroshi Nakamura Joined HORIBA in 1998
Engine Measurement R&D Dept., HORIBA, Ltd.

The biggest challenge in developing this product was taking equipment used in a large laboratory and condensing it to fit inside the trunk of an automobile without any loss in functions. But this was more than a question of size. We had to develop sampling equipment and software from scratch. This resulted in the development of a product based on a new conceptual approach.

Quote: "Product development requires us to be objective. But with passion and by making no compromise, we can create products that draw people's attention."

Readout (HORIBA Technical Reports)

Readout is a technical journal published by HORIBA.

The title "Readout" was decided by taking votes from HORIBA employees. As a manufacturer of analysis and measurement equipment, through this publication, HORIBA hopes that its products and technologies will become widely known.

The first issue of *Readout* was published 15 years ago in July 1990. Today, it is published biannually, with 2,500 copies in Japanese and 1,800 copies in English. In addition to universities, research organizations, and public libraries, its distribution targets mainly HORIBA customers. Although *Readout* struck some readers in the past as "hard to read" and "difficult to understand," starting 2004, *Readout* is now published in color and offers easy-to-read introductions to the HORIBA Group's technologies with vivid graphics. *Readout* is also available online on HORIBA's website, in both Japanese and English, and all issues from the past to the most recent edition are available.

Readout not only promotes HORIBA's technical expertise in their fields but also facilitates communication with our customers, including the publication of submissions from its readers.



Readout can be accessed on the Web at the following URLs:
Japanese version: http://www.jp.horiba.com/support/tech_info/
English version: http://www.jp.horiba.com/support_e/tech_info/

HORIBA, Ltd. and Consolidated Subsidiaries/Consolidated Financial Review

The Japanese economy in fiscal 2005 (year ended March 20, 2005) continued to recover, buoyed by higher exports to Asia, increased capital investment, and a modest increase in consumer spending. However, the economic recovery slowed down in the second half, due to dropping exports to Europe and the United States and repeated natural disasters.

Despite challenging conditions created by intensifying competition, the measurement and analytical instruments industry benefited from brisk demand from the automobile and semiconductor industries. Cost-cutting measures were also successfully implemented. As a result, HORIBA posted record net sales and profits.

Net Sales

Consolidated net sales in fiscal 2005 increased by ¥7,419 million, or 8.7% year on year, to ¥92,492 million, a record high.

Business Segment Breakdown

Engine Measurement Instruments & Systems

Sales of large-scale motor exhaust gas analyzers grew favorably reflecting the continuation of high R&D spending on eco-friendly products. Contributing factors included increased new investments in emission measurement systems for automobiles and motorcycles in Asian markets, especially China, as well as emission gas purification and improved fuel efficiency realized by domestic automobile manufacturers. Consequently, total segment sales rose 14.6% year on year to ¥27,022 million. By geographic region*1, sales in Japan and other Asian countries, America, and Europe rose 21.7%, 3.4%, and 8.9%, respectively.

Analytical Instruments & Systems

Segment sales declined 3.1% to ¥28,510 million. Despite strong domestic sales of X-ray elemental analyzers for hazardous substances and high-performance analysis instruments for nano-technology, overall sales were negatively affected by the lack of high demand of monitoring devices for discharged water pursuant to water-quality regulations in the domestic market as was the case in fiscal 2004. By geographic region*1, sales fell 4.8% in Japan and other Asian countries, 11.9% in America, but rose 1.5% in Europe.

Medical/Diagnostic Instruments & Systems

Segment sales rose 8.5% to ¥18,777 million due to higher sales of new models of large-scale hematology analyzers and

mid-sized clinical chemistry analyzers, mainly in the European market, and enlarged domestic operations of blood glucose analyzers. By geographic region*1, sales rose 13.5% in Japan and other Asian countries and 7.5% in Europe.

Semiconductor Instruments & Systems

Increased demand in the semiconductor market boosted sales of mass flow controllers and chemical concentration meters for semiconductor manufacturing. As a result, segment sales rose 23.2% to ¥18,183 million. By geographic region*1, sales rose 19.3% in Japan and other Asian countries, 56.8% in America, but dipped 0.8% in Europe.

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

Average foreign exchange rates applied in accounting procedures reflected a decrease in the yen-dollar exchange rates from ¥116.00 to ¥108.23 and an increase in the yen-euro exchange rates from ¥131.15 to ¥134.44. If exchange rates had remained at fiscal 2004 levels, consolidated net sales in fiscal 2005 would have totaled ¥92,697 million. Thus, the reduction in sales due to yen appreciation amounted to ¥205 million.

Cost of Sales, SG&A Expenses and Operating Income

Cost of sales for the period was ¥53,855 million. The cost of sales ratio improved significantly to 58.2% (compared to 59.3% in fiscal 2004). This was primarily attributable to economies of scale resulting from higher sales and to comprehensive cost-cutting measures, including integrated group-wide purchasing from suppliers. Although the cost of sales increased ¥3,437 million year on year, foreign exchange movements reduced this amount by ¥108 million. Excluding this impact, cost of sales increased by ¥3,545 million.

Selling, general and administrative expenses (SG&A) rose 5.2% to ¥29,264 million. The ratio of SG&A expenses to net sales was 31.6% (compared to 32.6% in fiscal 2004). Within the year-on-year increase in SG&A expenses of ¥1,459 million, ¥219 million was attributable to foreign exchange movements. Excluding this impact, the rise in SG&A expenses was ¥1,240 million.

As a result, operating income surged by 36.8%, or ¥2,523 million, to ¥9,373 million.

HORIBA, Ltd. and Consolidated Subsidiaries/Consolidated Financial Review

Business Segment Breakdown**Engine Measurement Instruments & Systems**

Segment operating income rose 35.0% from fiscal 2004 to ¥4,705 million due to increased sales and effectiveness in mass production.

Analytical Instruments & Systems

Segment operating income fell 15.6% to ¥862 million. The decrease was attributed to the effect of the high demand of monitoring devices for discharged water in the domestic market in fiscal 2004.

Medical/Diagnostic Instruments & Systems

Selling expenses rose due to expanded sales of new models of large-scale hematology analyzers and mid-sized clinical chemistry analyzers. As a result, segment operating income dropped 24.0% to ¥1,146 million.

Semiconductor Instruments & Systems

With increased sales and effectiveness in mass production, segment operating income soared 218.6% to ¥2,660 million.

Net Income

Factors including the adoption of relevant countermeasures contributed to a foreign exchange gain of ¥195 million from fiscal 2004. Reduced bank borrowings and the conversion of convertible corporate bonds related to higher stock prices led to an improvement of ¥76 million in interest expense. Additionally, the amortization of goodwill declined by ¥215 million.

Meanwhile, there was a special loss of ¥1,151 million on directors' and corporate auditors' retirement benefits for prior years, which was caused by the change in accounting method to provide for retirement benefits for directors and corporate auditors at the Company and certain consolidated subsidiaries. HORIBA also posted a special loss of ¥54 million by the application of the new accounting standards for impairment of fixed assets two years before required to do so.

Aided by the large increase in operating income, income before income taxes rose 27.7%, or ¥1,325 million, from fiscal 2004, to ¥6,105 million. Net income for fiscal 2005 was ¥3,524 million, up 69.9%, or ¥1,450 million.

Financial Position**Assets**

Total assets as of the fiscal 2005 year-end were ¥99,913 million,

up ¥7,256 million year on year. Cash and cash equivalents totaled ¥16,108 million, up ¥2,505 million. Inventories rose ¥2,610 million to ¥22,012 million. Consequently, total current assets increased ¥6,778 million to ¥72,505 million. Net property, plant and equipment fell ¥360 million to ¥18,481 million. The total value of investments and other securities rose ¥329 million to ¥6,238 million.

Liabilities

Total liabilities as of the fiscal 2005 year-end were ¥45,105 million, down ¥1,864 million year on year. Total interest-bearing debt declined ¥5,417 million to ¥16,042 million, due mainly to the repayment of bank borrowings and the conversion of ¥4,956 million in convertible corporate bonds.

Cash Flow**Operating Activities**

Net cash provided by operating activities totaled ¥7,216 million, comprising mainly income before income taxes of ¥6,105 million and an increase in trade notes and accounts payable.

Investing Activities

Net cash used in investing activities totaled ¥3,629 million. This was due mainly to a total of ¥2,980 million in the acquisition of plant, property and equipment, including land and other fixed assets adjacent to the Company site, demo products by the Company, and lease assets by HORIBA ABX Group.

Financing Activities

Net cash used in financing activities totaled ¥1,059 million. This was due mainly to the repayment of bank borrowings.

As a result, cash and cash equivalents rose ¥2,633 million, compared to the beginning of fiscal 2005, for a total of ¥16,108 million, after the effect of a decrease of ¥128 million associated with the exclusion of one consolidated subsidiary.

Consolidated Balance SheetsHORIBA, Ltd. and Consolidated Subsidiaries
At March 20, 2004 and 2005Thousands of
U.S. dollars
(Note 1)

ASSETS	Millions of yen		2005
	2004	2005	
Current Assets:			
Cash and cash equivalents.....	¥13,603	¥16,108	\$153,790
Trade notes and accounts receivable.....	29,143	30,595	292,104
Allowance for doubtful receivables.....	(521)	(512)	(4,888)
Inventories (Note 4).....	19,402	22,012	210,158
Deferred tax assets (Note 12).....	2,178	2,012	19,210
Other current assets.....	1,922	2,290	21,864
Total current assets.....	65,727	72,505	692,238
Property, Plant and Equipment (Note 5):			
Land.....	7,476	6,564	62,669
Buildings and structures.....	15,369	16,097	153,686
Machinery, equipment, and vehicles.....	7,731	8,770	83,731
Construction in progress.....	158	81	773
Other property, plant and equipment.....	8,604	8,907	85,039
Total.....	39,338	40,419	385,898
Accumulated depreciation.....	(20,497)	(21,938)	(209,452)
Net property, plant and equipment.....	18,841	18,481	176,446
Investments and Other Non-current Assets:			
Investment securities (Note 3).....	3,938	4,206	40,157
Investments in non-consolidated subsidiaries and affiliates.....	94	91	889
Deferred tax assets (Note 12).....	651	704	6,721
Allowance for doubtful accounts.....	(140)	(119)	(1,136)
Other investments and other assets.....	1,366	1,356	12,946
Total.....	5,909	6,238	59,557
Intangibles:			
Goodwill.....	84	79	754
Consolidation difference.....	1,207	1,315	12,555
Other intangibles.....	889	1,295	12,364
Total.....	2,180	2,689	25,673
Total Assets.....	¥92,657	¥99,913	\$953,914

See notes to the consolidated financial statements.

LIABILITIES, MINORITY INTERESTS AND SHAREHOLDERS' EQUITY	Millions of yen		Thousands of U.S. dollars (Note 1)
	2004	2005	2005
Current Liabilities:			
Short-term loans payable (Note 5).....	¥6,352	¥5,468	\$52,205
Current portion of long-term debt (Note 5).....	641	4,131	39,441
Trade notes and accounts payable:			
Affiliated companies.....	58	26	248
Other.....	8,700	11,264	107,543
Accrued income taxes.....	2,053	1,463	13,968
Accrued bonuses to employees.....	2,095	2,358	22,494
Reserve for product warranty.....	886	820	7,829
Other current liabilities.....	8,586	9,271	88,514
Total current liabilities.....	29,371	34,799	332,242
Long-term Debt (Note 5).....	14,466	6,443	61,514
Employees' Retirement Benefits (Note 7).....	1,109	1,348	12,870
Directors' and Corporate Auditors' Retirement Benefits.....	-	1,144	10,922
Deferred Tax Liabilities (Note 12).....	21	23	220
Other Non-current Liabilities.....	2,002	1,348	12,870
Total liabilities.....	46,969	45,105	430,638
Contingent Liabilities (Note 10)			
Minority Interests in Consolidated Subsidiaries.....	2,340	2,545	24,298
Shareholders' Equity (Note 8):			
Common stock.....	7,160	8,641	92,047
Authorized - 100,000,000 shares			
Issued and outstanding - 32,026,494 shares (excluding treasury stock) in 2004			
Issued and outstanding - 36,797,578 shares (excluding treasury stock) in 2005			
Capital surplus.....	11,457	13,933	133,025
Retained earnings.....	24,341	27,422	261,810
Net unrealized holding gains on securities.....	1,100	1,401	13,376
Foreign currency translation adjustments.....	(433)	21	200
Treasury stock.....	(277)	(155)	(1,480)
(308,272 shares in 2004 and 147,369 shares in 2005)			
Total shareholders' equity.....	43,348	52,263	498,978
Total Liabilities, Minority Interests, and Shareholders' Equity.....	¥92,657	¥99,913	\$953,914

Consolidated Statements of Shareholders' EquityHORIBA, Ltd. and Consolidated Subsidiaries
For the years ended March 20, 2004 and 2005Thousands of
U.S. dollars

	Millions of yen		(Note 1)
	2004	2005	2005
Common stock			
Balance at beginning of period.....	¥6,578	¥7,160	\$68,360
Conversion of convertible bonds.....	582	2,481	23,887
1,082,774 shares in 2004			
4,610,181 shares in 2005			
Balance at end of period.....	¥7,160	¥9,641	\$92,047
Capital surplus			
Balance at beginning of period.....	¥10,875	¥11,457	\$109,385
Conversion of convertible bonds.....	582	2,476	23,840
Balance at end of period.....	¥11,457	¥13,933	\$133,025
Retained earnings			
Balance at beginning of period.....	¥22,937	¥24,341	\$232,395
Net income.....	2,074	3,524	33,845
Cash dividends.....	(450)	(327)	(3,123)
Bonus to directors and statutory auditors.....	(98)	(103)	(883)
Decrease on disposal of treasury stock.....	-	(5)	(48)
Decrease by merger of a consolidated subsidiary.....	(122)	-	-
Effect of excluding a subsidiary from consolidation.....	-	(8)	(76)
Balance at end of period.....	¥24,341	¥27,422	\$281,810
Net unrealized holding gains on securities			
Balance at beginning of period.....	¥406	¥1,100	\$10,502
Increase of net unrealized holding gains on securities.....	694	301	2,874
Balance at end of period.....	¥1,100	¥1,401	\$13,376
Foreign currency translation adjustments			
Balance at beginning of period.....	(¥402)	(¥433)	(\$4,134)
Increase (decrease) of foreign currency translation adjustments.....	(31)	454	4,334
Balance at end of period.....	(¥433)	¥21	\$200
Treasury stock			
Balance at beginning of period.....	(¥250)	(¥277)	(\$2,645)
Purchase of treasury stock.....	(27)	(88)	(850)
20,613 shares in 2004			
55,097 shares in 2005			
Sale of treasury stock.....	-	211	2,015
216,000 shares in 2005			
Balance at end of period.....	(¥277)	(¥155)	(\$1,480)
Total shareholders' equity.....	¥43,348	¥52,283	\$498,978

See notes to the consolidated financial statements.

Consolidated Statements of Cash Flows

HORIBA, Ltd. and Consolidated Subsidiaries

For the years ended March 20, 2004 and 2005

Thousands of
U.S. dollars
(Note 1)

	Millions of yen		2005
	2004	2005	
Cash Flows from Operating Activities:			
Income before income taxes.....	¥4,780	¥6,105	\$58,287
Adjustments to reconcile income before income taxes to net cash provided by operating activities:			
Depreciation and amortization.....	3,037	2,944	28,108
Loss on impairment of fixed assets.....	-	54	516
Loss on valuation of investment securities.....	136	35	334
Loss on disposal of property, plant and equipment.....	57	48	439
Gain on sale of property, plant and equipment.....	(121)	(39)	(372)
Loss on valuation of property, plant and equipment.....	134	-	-
Increase (decrease) in allowance for doubtful receivables.....	11	(24)	(229)
Increase in directors' and corporate auditors' retirement benefits.....	-	1,144	10,922
Increase (decrease) in employees' retirement benefits.....	(1,138)	231	2,205
Interest and dividend income.....	(85)	(104)	(993)
Interest expense.....	449	373	3,561
Foreign exchange losses (gains).....	(12)	23	220
Loss on sale of property, plant and equipment.....	26	1,123	10,722
Decrease (increase) in trade notes and accounts receivable.....	689	(895)	(8,545)
Increase in inventories.....	(881)	(2,281)	(21,778)
Increase (decrease) in trade notes and accounts payable.....	(358)	2,163	20,652
Bonuses to directors and statutory auditors.....	(98)	(103)	(983)
Other, net.....	2,615	(308)	(2,922)
Subtotal.....	9,241	10,489	100,144
Interest and dividends received.....	85	100	955
Interest paid.....	(519)	(385)	(3,676)
Payment of retirement benefits to directors.....	(30)	(27)	(258)
Income taxes paid.....	(2,987)	(2,961)	(28,270)
Net cash provided by operating activities.....	5,790	7,216	68,895
Cash Flows from Investing Activities:			
Decrease (increase) in time deposits with maturities longer than three months.....	2	(17)	(162)
Payments for purchase of investment securities.....	(412)	(393)	(3,752)
Proceeds from sales or redemption of investment securities.....	451	555	5,299
Payments for purchase of investments in a consolidated subsidiary.....	(169)	(19)	(181)
Payments for purchase of investments in newly consolidated subsidiaries.....	(273)	(119)	(1,136)
Payments for sales of investments in a consolidated subsidiary.....	-	(45)	(430)
Payments for purchase of property, plant and equipment.....	(2,622)	(2,980)	(28,451)
Proceeds from sale of property, plant and equipment.....	261	230	2,195
Increase in intangibles.....	(419)	(730)	(6,970)
Other, net.....	415	(111)	(1,060)
Net cash used in investing activities.....	(2,766)	(3,629)	(34,648)
Cash Flows from Financing Activities:			
Payment for redemption of corporate bonds.....	(9,000)	-	-
Net decrease in short-term borrowings.....	(589)	(1,034)	(9,872)
Increase in long-term debt.....	248	1,049	10,015
Repayment of long-term debt.....	(1,618)	(721)	(6,884)
Payments for purchase of treasury stock.....	(27)	(89)	(850)
Proceeds from sales of treasury stock.....	-	207	1,978
Cash dividends paid.....	(450)	(328)	(3,132)
Cash dividends paid to minority interests.....	(40)	(72)	(687)
Other, net.....	(121)	(71)	(677)
Net cash used in financing activities.....	(11,597)	(1,059)	(10,111)
Cash and Cash Equivalents Foreign Currency Translation Adjustments.....	115	105	1,002
Net Increase (Decrease) in Cash and Cash Equivalents.....	(8,458)	2,633	25,139
Cash and Cash Equivalents at Beginning of Year.....	22,061	13,603	129,874
Cash and Cash Equivalents of a Subsidiary Excluded from Consolidation.....	-	(128)	(1,222)
Cash and Cash Equivalents at End of Year.....	¥13,603	¥16,108	\$153,790

See notes to the consolidated financial statements.

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

1. Basis of presenting financial statements

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

The accounts of overseas subsidiaries are based on their accounting records maintained in conformity with generally accepted accounting principles prevailing in the respective countries of domicile. The accompanying consolidated financial statements have been restructured and translated into English (with some expanded descriptions and the inclusion of consolidated statements of shareholders' equity) from the consolidated financial statements of the Company prepared in accordance with Japanese GAAP and filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Securities and Exchange Law. Some supplementary information included in the statutory Japanese language consolidated financial statements, but not required for fair presentation, is not presented in the accompanying consolidated financial statements.

The translations of the Japanese yen amounts into U.S. dollars are included solely for the convenience of readers outside Japan, using the prevailing exchange rate at March 20, 2005, which was ¥104.74 to U.S. \$1. The convenience translations should not be construed as representations that the Japanese yen amounts have been, could have been, or could in the future be, converted into U.S. dollars at this or any other rate of exchange.

Certain prior year amounts have been reclassified to conform to the 2005 presentation.

2. Summary of significant accounting policies

(a) Principles of consolidation

The consolidated financial statements include the accounts of the Company and 37 of its subsidiaries (referred to subsequently as "the Group"). In the year ended March 20, 2005, three consolidated subsidiaries were newly established, one consolidated subsidiary was liquidated, one consolidated subsidiary was sold and one consolidated subsidiary was merged into another consolidated subsidiary. In addition, one consolidated subsidiary was excluded from consolidation and became an affiliated company at the beginning of 2005 since the Company had no more effective control of it, and again included in consolidation as a wholly owned subsidiary through the Company's additional acquisition of its shares in the 2nd half of 2005.

The accompanying consolidated financial statements include the accounts of the Company and significant companies, over which the Company has control through majority voting rights or certain other conditions evidencing control by the Company. Significant

inter-company transactions and accounts have been eliminated in consolidation. In the elimination of investments in subsidiaries, the assets and liabilities of the subsidiaries, including the portion attributable to minority shareholders, are evaluated using the fair value at the time the Company acquired control of the respective subsidiaries. Acquisition costs in excess of the net assets of acquired subsidiaries and affiliates which cannot be specifically assigned to individual accounts are amortized on the straight-line basis over five years. Some of the foreign consolidated subsidiaries amortize acquisition costs in excess of the net assets of acquired subsidiaries and affiliates, which cannot be specifically assigned to individual accounts, on the straight-line basis over ten to twenty years, in accordance with generally accepted accounting principles of the country of their incorporation.

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

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

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

(b) Cash and cash equivalents

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

(c) Securities

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

(d) Inventories

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

(e) Property, plant and equipment and depreciation

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

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

of the assets:

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

Other:

The Company and domestic subsidiaries
- Declining balance method

Overseas subsidiaries
- Straight-line method

Estimated useful lives of the assets are principally as follows:

Buildings and structures 3 to 60 years

Machinery, equipment, and vehicles 2 to 17 years

(f) Software costs

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

(g) Allowance for doubtful receivables

The Company and its domestic subsidiaries provide for doubtful accounts principally at an amount computed based on the actual ratio of bad debts in the past plus the estimated uncollectible amounts based on analysis of certain individual receivables. The foreign subsidiaries provide for doubtful accounts based on estimates of management.

(h) Accrued bonuses to employees

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

(i) Reserve for product warranty

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

(j) Retirement benefits and pension plans

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

The Company and 2 consolidated subsidiaries changed to defined contribution plans and a new defined-benefit corporate pension plan from a non-contributory funded retirement plan in March 2004, and adopted the new accounting standard, "Opinion on Setting Accounting Standard for Employees' Severance and Pension

Benefits", issued by the Business Accounting Deliberation Council. The effect of this change was a special loss of ¥442 million.

Certain consolidated subsidiaries changed to defined contribution plans and a new defined-benefit corporate pension plan from a non-contributory funded retirement plan and a lump-sum severance benefit payment plan in September 2004, and adopted the new accounting standard, "Opinion on Setting Accounting Standard for Employees' Severance and Pension Benefits," issued by the Business Accounting Deliberation Council. The effect of this change was a special loss of ¥80 million (\$764 thousand). For the year ended March 20, 2005, one consolidated domestic subsidiary changed the calculation of projected benefit obligation from a simplified method to a standard method since the number of its employee increased. The effect of this change was a special loss of ¥144 million (\$1,375 thousand).

(k) Retirement benefits for directors and corporate auditors

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

As a result of this change, the Group recorded retirement benefits of ¥82 million (\$783 thousand) in selling, general and administrative expenses and directors' retirement benefits for prior years of ¥1,151 million (\$10,989 thousand) as a special loss. Compared with the previous method, operating income decreased ¥82 million (\$783 thousand), and income before income taxes decreased ¥1,144 million (\$10,922 thousand) (net of expense reversal for 2005).

The effect of ¥41 million (\$391 thousand) for directors' retirement benefits for prior years, which was caused by certain domestic subsidiaries' revising their internal rules in the 2nd half of 2005, was included in a special loss.

The effect on segment information is described in Note 13.

(l) Impairment of fixed assets

The Company and its domestic subsidiaries have adopted "Accounting Standard for Impairment of Fixed Assets" ("Opinion on Establishing Accounting Standards for Impairment of Fixed Assets" issued by Accounting Standards Board of Japan on August 9, 2002) and "Guidance on Application of Accounting Standards for Impairment of Fixed Assets" (Application Guidance on Accounting Standards Number 6, issued on October 31, 2003), which became applicable to the consolidated financial statements in the year ended March 20, 2005. By the application of the new accounting standards, the Group recognized a special loss on impairment of fixed assets of ¥54 million (\$516 thousand), which led to a decrease of income before income taxes of the same amount compared with the previous accounting method.

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

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

In applying the accounting standard for impairment of fixed assets, the Company and its domestic subsidiaries evaluated indications of impairment grouping assets on the industry segment basis. Leased assets and idle assets were evaluated on an individual asset basis. The Company and its domestic subsidiaries estimated the recoverable amounts for the following assets for which there were indications of impairment due to the continuous decline in land prices in Japan and recognized a special loss of ¥54 million (\$516 thousand) on impairment of fixed assets.

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

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

(m) Foreign currency translation

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

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

(n) Finance leases

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

(o) Deferred assets

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

(p) Research and development expenses

Research and development expenses are charged to income when incurred. Research and development expenses charged to income for the years ended March 20, 2004 and 2005 were ¥5,129 million and ¥5,636 million (\$53,809 thousand), respectively.

(q) Derivatives and hedge accounting

Derivative financial instruments are stated at fair value and changes in the fair value are recognized as gains or losses unless

derivative financial instruments are used for hedging purposes.

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

(r) Income taxes

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

The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

(s) Per share information

The computations of net income per share are based on the weighted average number of shares of common stock outstanding during each period. The weighted average numbers of common shares used in the computation for 2004 and 2005 were 31,343 thousand and 34,143 thousand, respectively. Diluted net income per share of common stock assumes full conversion of dilutive convertible bonds at the beginning of the year or the later date of issuance with an applicable adjustment for related interest expense, net of tax and dilutive stock option plans. The weighted average numbers of shares used in the computation for 2004 and 2005 were 40,292 thousand and 40,371 thousand, respectively.

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

3. Securities

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

	Millions of yen		
	2004		
	Acquisition cost	Book value	Difference
Securities with book values exceeding acquisition costs:			
Equity securities.....	¥1,028	¥2,923	¥1,895
Corporate bonds.....	497	501	4
	<u>1,525</u>	<u>3,424</u>	<u>1,899</u>
Securities with book values not exceeding acquisition costs:			
Equity securities.....	31	14	(17)
Government bonds.....	4	4	-
Other.....	125	124	(1)
	<u>160</u>	<u>142</u>	<u>(18)</u>
Total	<u>¥1,685</u>	<u>¥3,566</u>	<u>¥1,881</u>

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

	Millions of yen
	2004
Total sales of available-for-sale securities.....	¥451
Related gains.....	-
Related losses.....	(35)

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

	Millions of yen
	2004
Available-for-sale securities:	
Non-listed equity securities (excluding over-the-counter securities).....	¥297

Available-for-sale securities with maturities and held-to-maturity debt securities at March 20, 2004 mature as follows:

	Millions of yen	
	2004	
	Over 1 year but within 5 years	Over 5 years but within 10 years
Bonds		
Government bonds.....	¥4	¥-
Corporate bonds.....	-	501
Total.....	<u>¥4</u>	<u>¥501</u>

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

	Millions of yen			Thousands of U.S. dollars		
	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference
	<u>2005</u>			<u>2005</u>		
Securities with book values exceeding acquisition costs:						
Equity securities.....	¥1,428	¥3,793	¥2,365	\$13,634	\$36,214	\$22,580
	<u>1,428</u>	<u>3,793</u>	<u>2,365</u>	<u>13,634</u>	<u>36,214</u>	<u>22,580</u>
Securities with book values not exceeding acquisition costs:						
Equity securities.....	20	12	(8)	191	115	(76)
Other.....	121	96	(25)	1,155	916	(239)
	<u>141</u>	<u>108</u>	<u>(33)</u>	<u>1,346</u>	<u>1,031</u>	<u>(315)</u>
Total	<u>¥1,569</u>	<u>¥3,901</u>	<u>¥2,332</u>	<u>\$14,980</u>	<u>\$37,245</u>	<u>\$22,265</u>

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

	Millions of yen	Thousands of U.S. dollars
	<u>2005</u>	<u>2005</u>
Total sales of available-for-sale securities.....	¥55	\$525
Related gains.....	1	10
Related losses.....	-	-

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

	Millions of yen	Thousands of U.S. dollars
	<u>2005</u>	<u>2005</u>
Available-for-sale securities:		
Non-listed equity securities	¥263	\$2,511
Limited partnership for investment	47	449
	<u>¥310</u>	<u>\$2,960</u>

Available-for-sale securities with maturities of ¥4 million (\$38 thousand) at March 20, 2005 mature over one year, but within five years.

4. Inventories

Inventories at March 20, 2004 and 2005 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2004	2005	2005
Finished products.....	¥9,414	¥9,457	\$90,290
Work in process.....	5,383	6,726	64,216
Raw materials and supplies.....	4,605	5,829	55,652
Total.....	¥19,402	¥22,012	\$210,158

5. Short-term loans and long-term debt

Short-term loans are generally represented by 90 and 365 day bank notes, with annual interest rate ranging from 0.48% to 4.63% and 0.48% to 5.50% at March 20, 2004 and 2005, respectively.

Long-term debt at March 20, 2004 and 2005 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2004	2005	2005
Secured:			
Loans from banks due serially through 2010, at rates from 3.02% per annum to 5.00% per annum.....	¥48	¥107	\$1,022
Unsecured:			
1.16% bonds due 2008.....	5,000	5,000	47,737
0.85% convertible bonds due 2006.....	8,819	3,863	36,882
Loans from banks due serially from 2006 to 2010, at rates from 0.84% to 6.79% per annum.....	1,240	1,804	15,314
Total.....	15,107	10,574	100,955
Current portion.....	(841)	(4,131)	(39,441)
Long-term debt, less current portion.....	¥14,466	¥6,443	\$61,514

The conversion price per share and issuable number of shares for the above-mentioned convertible bonds at March 20, 2005, subject to adjustments as provided in the indenture under which the bonds were issued, were as follows:

	Conversion price per share	Issuable number of shares
0.85% convertible bonds due 2006.....	¥1,075.00	3,593,488

The aggregate annual maturities of long-term debt outstanding at March 20, 2005 were as follows:

Year ending March 20	Millions of yen	Thousands of U.S. dollars
2006.....	¥4,131	\$39,441
2007.....	387	3,695
2008.....	368	3,513
2009.....	5,367	51,241
2010.....	301	2,874
Thereafter.....	20	191
Total.....	¥10,574	\$100,955

At March 20, 2005, buildings and structures amounting to ¥163 million (\$1,556 thousand), at net book value are pledged as collateral for long-term debt of ¥103 million (\$983 thousand) and current portion of long-term debt of ¥4 million (\$38 thousand).

The Company and its 5 subsidiaries had entered into the agreements for bank overdrafts or loan commitments with 15 banks as of March 20, 2005 as follows:

	Millions of yen	Thousands of U.S. dollars
The maximum aggregate principal.....	¥8,953	\$85,478
Amount utilized.....	382	3,647
Balance available.....	¥8,571	\$81,831

6. Significant non-cash transactions

In the year ended March 20, 2004, due to the conversion of convertible bonds, "Common Stock" and "Capital Surplus" each increased ¥582 million, and "Long-term debt (convertible bonds)" decreased ¥1,164 million. In the year ended March 20, 2005, due to the conversion of convertible bonds, "Common Stock" and "Capital Surplus" increased ¥2,480 million (\$23,678 thousand), ¥2,476 million (\$23,639 thousand), respectively, and "Long-term debt (convertible bonds)" decreased ¥4,956 million (\$47,317 thousand).

7. Employees' severance and pension benefits

The liabilities for employees' retirement benefits at March 20, 2004 and 2005 consist of the following:

	Millions of yen		Thousands of
	2004	2005	U.S. dollars
			2005
Projected benefit obligation.....	(¥3,101)	(¥2,849)	(\$27,200)
Pension assets.....	721	377	3,599
Unfunded projected benefit obligation.....	(2,380)	(2,472)	(23,601)
Unrecognized actuarial differences.....	137	104	993
Unrecognized differences on change of employees' retirement plan.....	1,134	1,020	9,738
Employees' retirement benefits.....	(¥1,109)	(¥1,348)	(\$12,870)

Employees' retirement benefit expense for the years ended March 20, 2004 and 2005 comprise the following:

	Millions of yen		Thousands of
	2004	2005	U.S. dollars
			2005
Service cost.....	¥1,072	¥1,185	\$11,314
Interest cost on projected benefit obligation.....	124	38	344
Expected return on plan assets.....	(56)	(1)	(10)
Amortization of actuarial differences.....	356	30	288
Amortization of prior service costs.....	10	114	1,088
Loss on change of retirement benefit plan.....	442	80	784
Loss on change of accounting method of retirement benefits from a simplified method to a standard method.....	-	144	1,375
Retirement benefit expenses.....	¥1,948	¥1,588	\$15,181

The details of the loss on change of retirement benefit plan for the year ended March 20, 2004 are as below:

	Millions of yen
	2004
Decrease in projected benefit obligation by change into the defined contribution plan.....	(¥5,557)
The amount of pension assets transferred to the defined contribution plans...	4,911
The amount of amortization of unrecognized actuarial differences due to change into the defined contribution plans.....	730
The amount of amortization of unrecognized prior service costs on change of employees' retirement plan (domestic consolidated subsidiaries).....	358
	¥442

As of March 20, 2004, the pension assets to be transferred over 4 years to the defined contribution plan system were ¥4,911 million. The amount not transferred to the defined contribution plans was ¥1,922 million. This amount was included in other current liabilities and other non-current liabilities in the consolidated balance sheet at March 20, 2004.

Assumptions used were as follows:

	2004	2005
Discount rate.....	2.00%	2.00%
Expected rate of return on plan assets.....	2.00%	2.00%
Allocation method of the retirement benefits		
expected to be paid at retirement dates.....	Straight-line method based on years of service	
Amortization period for actuarial gains / losses.....	5 Years	5 Years
Amortization period for unrecognized prior service cost on change of employees' retirement plan.....	10 years (the Company), Time of occurrence (subsidiary companies)	

8. Shareholders' equity

The Japanese Commercial Code (the "Code") requires at least 50% of the issue price of new shares, to be designated as stated capital as determined by resolution of the Board of Directors. Proceeds in excess of amounts designated as stated capital are credited to additional paid-in capital which is included in capital surplus.

The Code also requires the Company to appropriate from retained earnings a legal reserve in an amount equal to at least 10% of all cash payments made as an appropriation of retained earnings until the total amount of additional paid-in capital and legal reserve equals 25% of the stated capital. This reserve is included in retained earnings.

The Company may transfer portions of additional paid-in capital and legal reserve to stated capital by the Board of Directors' resolution. The Company may also transfer portions of unappropriated retained earnings, available for dividends, to stated capital by shareholders' resolution.

The maximum amount that the Company can distribute as dividends is calculated based on the unconsolidated financial statements of the Company in accordance with the Code.

Year-end dividends are approved by the shareholders at a meeting held after the end of the fiscal year. In addition, a semi-annual interim dividends may be paid upon resolution of the Board of Directors pursuant to the provisions of the Code.

Cash dividends charged to retained earnings during the fiscal year were year-end cash dividends for the preceding fiscal year and interim cash dividends for the current fiscal year.

In the shareholders' meeting on June 15, 2002, the shareholders approved common stock option plans for directors, statutory auditors and employees of the Group. Details of these option plans as of March 20, 2005 are as follows:

Persons granted	Number of shares	Option price per share	Exercise period	The conditions for the exercise
6 directors, 32 employees and 2 directors of subsidiary companies	200,000 shares	¥961 (Note)	July 1, 2004 to June 30, 2007	<ul style="list-style-type: none"> • To exercise these options, the person granted the option is principally required to be a director, a statutory auditor, a corporate officer or an employee of the Group. • These options are not inheritable. • Other conditions follow contracts between the Company and the person granted the option according to resolution by shareholders and the Board of Directors.

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

In the shareholders' meeting on June 14, 2003, the shareholders approved common stock option plans for directors, statutory auditors, corporate officers and employees of the Group. Details of these option plans as of March 20, 2005 are as follows:

Persons granted	Number of shares	Option price per share	Exercise period	The conditions for the exercise
5 directors, 9 corporate officers 36 employees and 4 directors of subsidiary companies	200,000 shares	¥1,572 (Note)	July 1, 2005 to June 30, 2008	<ul style="list-style-type: none"> • To exercise these options, the person granted the option is principally required to be a director, a statutory auditor, a corporate officer or an employee of the Group. • These options are not inheritable. • Other conditions follow contracts between the Company and the person granted the option according to resolution by shareholders and the Board of Directors.

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

In the shareholders' meeting on June 12, 2004, the shareholders approved common stock option plans for directors, statutory auditors, corporate officers and employees of the Group. Details of these option plans as of March 20, 2005 are as follows:

Persons granted	Number of shares	Option price per share	Exercise period	The conditions for the exercise
2 directors, 9 corporate officers, 39 employees and 3 directors, 2 corporate officers, 12 employees, of subsidiary companies	300,000 shares	¥2,265 (Note)	July 1, 2006 to June 30, 2009	<ul style="list-style-type: none"> • To exercise these options, the person granted the option is principally required to be a director, a statutory auditor, a corporate officer or an employee of the Group. • These options are not inheritable. • Other conditions follow contracts between the Company and the person granted the option according to resolution by shareholders and the Board of Directors.

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

9. Leases

At March 20, 2004 and 2005, 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
	2004	2005	2005
Machinery, equipment, and vehicles.....	¥319	¥367	\$3,504
Other property, plant and equipment.....	691	870	8,306
Other intangibles.....	90	159	1,518
Less accumulated depreciation and amortization.....	(665)	(784)	(7,485)
Total.....	¥435	¥612	\$5,843

The above depreciation and amortization is calculated on the straight-line method over lease terms. If the above leases were capitalized, interest of ¥35 million and ¥33 million (\$315 thousand), and depreciation and amortization of ¥276 million and ¥227 million (\$2,167 thousand) would have been recorded for the years ended March 20, 2004 and 2005, respectively. Lease payments under non-capitalized finance leases were ¥318 million and ¥268 million (\$2,559 thousand) for the years ended March 20, 2004 and 2005, respectively. Obligations under finance leases at March 20, 2004 and 2005 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2005	2005
Payments remaining:			
Payments due within 1 year.....	¥197	¥233	\$2,225
Payments due after 1 year.....	282	408	3,895
Total.....	¥479	¥641	\$6,120

Payments remaining under operating leases at March 20, 2004 and 2005 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2005	2005
Payments remaining:			
Payments due within 1 year.....	¥142	¥174	\$1,661
Payments due after 1 year.....	1,143	1,297	12,383
Total.....	¥1,285	¥1,471	\$14,044

10. Contingent liabilities

The Company and certain consolidated subsidiaries are contingently liable as guarantors of loans to affiliated companies and employees in the amounts of ¥387 million and ¥378 million (\$3,609 thousand) at March 20, 2004 and 2005, respectively. At March 20, 2004 and 2005, the Group had no discounted notes receivable.

11. Derivative transactions

Currency related:

	Millions of yen				Millions of yen			
	2004				2005			
	Amount	Over 1 year	Market value	Gain (loss)	Amount	Over 1 year	Market value	Gain (loss)
Forwards								
Selling								
US Dollar	¥1,160	-	¥1,160	¥-	¥1,103	-	¥1,118	(¥15)
Euro	868	144	818	(50)	890	124	972	(82)
Pound	21	-	20	(1)	59	-	59	-
Buying								
Euro	-	-	-	-	318	-	321	3
Total	-	-	-	(¥51)	-	-	-	(¥94)

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

	Thousands of U.S. dollars			
	2005			
	Amount	Over 1 year	Market value	Gain (loss)
Forwards				
Selling				
US Dollar	\$10,531	-	\$10,674	(\$143)
Euro	8,497	1,184	9,280	(783)
Pound	563	-	563	-
Buying				
Euro	3,036	-	3,065	29
Total	-	-	-	(\$897)

12. Income taxes

The Company is subject to a number of taxes based on income, which, in the aggregate, indicate a statutory income tax rate in Japan of approximately 41.90% for the years ended March 20, 2004 and 2005.

The following table summarizes the significant differences between the statutory tax rate and the Group's effective tax rates for financial statement purposes for the years ended March 20, 2004 and 2005

	2004	2005
Statutory tax rate.....	41.90%	41.90%
Expenses like entertainment expenses not qualifying for deduction permanently.....	1.89	1.52
Non-taxable dividend income.....	-1.65	-0.20
Per capita inhabitant tax.....	0.80	0.64
Increase/decrease in valuation allowance for deferred tax assets.....	9.35	3.04
Amortization of consolidation adjustment account.....	1.17	1.72
Consolidated elimination of dividend income from consolidated subsidiaries.....	2.73	2.09
Differences in tax rate between foreign subsidiaries and the Company.....	-1.37	-2.94
Tax credits.....		-5.26
Other.....	-0.98	-4.99
Effective tax rate.....	53.84%	37.52%

Significant components of the Group's deferred tax assets and liabilities at March 20, 2004 and 2005 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2005	2005
Deferred tax assets			
Accrued enterprise tax.....	¥191	¥115	\$1,098
Loss on write-down of inventory.....	185	178	1,699
Allowance for doubtful receivables.....	47	17	162
Accrued bonuses.....	598	757	7,227
Amount of loss carryforward.....	2,338	2,383	22,752
Unrealized gains.....	601	709	6,769
Employees' retirement benefits.....	303	423	4,039
Accounts payable on pension plan.....	797	492	4,697
Depreciation.....	348	300	2,864
Loss on valuation of investment securities.....	228	232	2,215
Retirement benefits to directors and corporate auditors.....	-	468	4,468
Other.....	892	881	8,412
Total deferred tax assets.....	6,528	6,955	66,402
Valuation allowance.....	(2,571)	(2,894)	(27,630)
Net deferred tax assets.....	3,957	4,061	38,772
Deferred tax liabilities			
Allowance for doubtful receivables.....	(1)	(1)	(10)
Reserve for deferred gains on property, plant and equipment.....	(54)	(51)	(487)
Net unrealized holding gains on securities.....	(789)	(930)	(8,879)
Other.....	(305)	(386)	(3,685)
Total deferred tax liabilities.....	(1,149)	(1,368)	(13,061)
Net deferred tax assets.....	¥2,808	¥2,693	\$25,711

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

	Millions of yen		Thousands of U.S. dollars
	2004	2005	2005
Current assets.....	¥2,178	¥2,012	\$19,210
Investments and other non-current assets.....	651	704	6,721
Deferred tax liabilities (non-current).....	(21)	(23)	(220)
Net deferred tax assets.....	¥2,808	¥2,693	\$25,711

13. Segment information

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

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

Information about operations in the above industry segments for the years ended March 20, 2004 and 2005 and foreign operations and sales to foreign customers of the Group for the years ended March 20, 2004 and 2005, is as follows:

(a) Operations in different industries

	Millions of yen					Consolidated
	Engine Measurement	Analytical	Medical Diagnostic	Semiconductor	Unallocated	
	2004					
Sales to customers.....	¥23,582	¥29,426	¥17,301	¥14,764	–	¥85,073
Operating expenses.....	20,096	28,405	15,793	13,929	–	78,223
Operating income.....	¥3,486	¥1,021	¥1,508	¥835	–	¥6,850
Assets.....	¥20,294	¥25,311	¥14,078	¥14,097	¥18,877	¥92,657
Depreciation and amortization.....	¥687	¥706	¥1,344	¥400	–	¥3,037
Capital expenditures.....	¥738	¥991	¥933	¥839	–	¥3,501

	Millions of yen					Consolidated
	Engine Measurement	Analytical	Medical Diagnostic	Semiconductor	Unallocated	
	2005					
Sales to customers.....	¥27,022	¥28,510	¥18,777	¥18,183	–	¥92,492
Operating expenses.....	22,317	27,648	17,631	15,523	–	83,119
Operating income.....	¥4,705	¥882	¥1,146	¥2,660	–	¥9,373
Assets.....	¥22,588	¥24,110	¥15,741	¥15,746	¥21,728	¥99,913
Depreciation and amortization.....	¥574	¥686	¥1,254	¥430	–	¥2,944
Capital expenditures.....	¥937	¥1,128	¥1,386	¥505	–	¥3,956

	Thousands of U.S. dollars					Consolidated
	Engine Measurement	Analytical	Medical Diagnostic	Semiconductor	Unallocated	
	2005					
Sales to customers.....	\$257,991	\$272,199	\$179,272	\$173,601	–	\$883,063
Operating expenses.....	213,070	263,969	168,331	148,205	–	793,575
Operating income.....	\$44,921	\$8,230	\$10,941	\$25,396	–	\$89,488
Assets.....	\$215,658	\$230,189	\$150,286	\$150,334	\$207,447	\$953,914
Depreciation and amortization.....	\$5,480	\$6,550	\$11,973	\$4,105	–	\$28,108
Capital expenditures.....	\$8,946	\$10,770	\$13,233	\$4,821	–	\$37,770

Note 1: Unallocated assets of ¥18,877 million and ¥21,728 million (\$207,447 thousand) of March 20, 2004 and 2005, respectively, mainly include cash and cash equivalents and marketable and investment securities.

Note 2: As shown in "summary of significant accounting policies," the accounting method for retirement benefits for directors and corporate auditors was changed in the year ended March 20, 2005. As a result, operating expenses increased ¥20 million (\$191 thousand) in engine measurement instruments & systems, ¥25 million (\$239 thousand) in analytical instruments & systems, ¥4 million (\$38 thousand) in medical/diagnostic instruments & systems and ¥33 million (\$315 thousand) in semiconductor instruments & systems. Operating income decreased by the same amounts accordingly.

(b) Foreign operations

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

Millions of yen						
2005						
	Japan	America	Europe	Asia	Elimination and/or unallocated	Consolidated
Sales to outside customers.....	¥45,288	¥9,965	¥35,529	¥1,710	–	¥92,492
Interarea.....	9,889	261	2,103	827	(¥12,880)	–
Total sales.....	55,177	10,226	37,632	2,337	(12,880)	92,492
Operating expenses.....	47,813	10,099	36,199	2,090	(13,082)	83,119
Operating income.....	¥7,364	¥127	¥1,433	¥247	¥202	¥9,373
Assets.....	¥45,824	¥5,710	¥25,567	¥1,084	¥21,728	¥99,913

Thousands of U.S. dollars						
2005						
	Japan	America	Europe	Asia	Elimination and/or unallocated	Consolidated
Sales to outside customers.....	\$432,385	\$95,140	\$339,212	\$18,326	–	\$883,063
Interarea.....	94,415	2,492	20,078	5,988	(\$122,971)	–
Total sales.....	526,800	97,632	359,290	22,312	(122,971)	883,063
Operating expenses.....	456,493	96,419	345,609	19,954	(124,900)	793,575
Operating income.....	\$70,307	\$1,213	\$13,681	\$2,358	\$1,929	\$89,488
Assets.....	\$437,502	\$54,516	\$244,100	\$10,349	\$207,447	\$953,914

Note 1: Unallocated assets of ¥18,877 million, and ¥21,728 million (\$207,447 thousand) of March 20, 2004 and 2005, respectively, mainly include cash and cash equivalents and marketable and investment securities.

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

Note 3: As shown in "summary of significant accounting policies," the accounting method for retirement benefits for directors and corporate auditors was changed in the year ended March 20, 2005. As a result, in the Japan segment operating expenses increased ¥82 million (\$783 thousand) and operating income decreased by the same amount accordingly.

(c) Sales to foreign customers

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

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

Thousands of U.S. dollars				
2005				
	America	Europe	Asia	Total
Sales to outside customers.....	\$169,038	\$237,979	\$104,755	\$511,772

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

14. Subsequent events

On January 11, 2005, the Company entered into a definitive share exchange agreement with HORIBA STEC Co., Ltd. (HORIBA STEC), a domestic consolidated subsidiary of the Company, in order to convert HORIBA STEC into a wholly owned subsidiary. Under the terms of the agreement, 7.5 shares of the Company's common stock were granted in exchange for each share of HORIBA STEC's common stock. The Company completed the share exchange on March 21, 2005 through the new stock issue of 1,614,750 shares.

At the June 18, 2005 annual meeting, the Company's shareholders approved:

- (1) The payment of cash dividends of ¥13 (\$0.12) per share aggregating ¥478 million (\$4,564 thousand) to shareholders of record at March 20, 2005.
- (2) The payment of bonuses to directors and statutory auditors totaling ¥116 million (\$1,108 thousand).
- (3) Common stock option plan
The plan provides for granting options to directors, statutory auditors, corporate officers and employees to purchase up to 300,000 shares of the Company's common stock. The exercise period is from July 1, 2007 to June 30, 2010.

Independent Auditors' Report

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

We have audited the accompanying consolidated balance sheets of HORIBA, Ltd. and consolidated subsidiaries as of March 20, 2004 and 2005, and the related consolidated statements of income, shareholders' equity and cash flows for the years then ended, expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to independently express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of HORIBA, Ltd. and subsidiaries as of March 20, 2004 and 2005, and the consolidated results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in Japan.

Without qualifying our opinion, we draw attention to the following:

- (1) As explained in Note 2 (k), in the year ended March 20, 2005, the Company and its certain domestic subsidiaries changed its method of accounting for retirement benefits for directors and corporate auditors.
- (2) As explained in Note 2 (l), in the year ended March 20, 2005, the Company and its domestic subsidiaries adopted the new Japanese accounting standard for impairment of fixed assets.
- (3) As explained in Note 14, on March 21, 2005, HORIBA STEC Co., Ltd. became the Company's wholly owned subsidiary, according to the definitive share exchange agreement made between the Company and HORIBA STEC Co., Ltd. on January 11, 2005.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 20, 2005 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

KPMG AZSA & Co.

Kyoto, Japan
June 20, 2005

Seven-Year SummaryHORIBA, Ltd. and Consolidated Subsidiaries
Years ended March 20, 1999 to 2005

	Millions of yen							Thousands of U.S. dollars (Note 1)
	1999	2000	2001	2002	2003	2004	2005	2005
For the Year:								
Net sales.....	¥67,597	¥71,030	¥77,873	¥74,468	¥78,501	¥85,073	¥92,492	\$883,063
Operating costs and expenses.....	65,304	67,213	73,123	71,921	73,027	78,223	83,119	793,575
Operating income.....	2,293	3,817	4,750	2,547	5,474	6,850	9,373	89,488
Income before income taxes.....	1,905	2,869	5,049	464	3,119	4,780	6,105	58,287
Income taxes.....	1,045	1,414	3,033	1,508	2,161	2,574	2,290	21,864
Net income (loss).....	577	1,100	1,443	(1,071)	786	2,074	3,524	33,645
Capital expenditures.....	6,980	3,090	3,032	3,137	3,444	3,501	3,956	37,770
Depreciation and amortization.....	2,869	3,448	3,276	3,381	2,915	3,037	2,944	28,108
Research and development expenses...	3,466	4,030	4,938	4,336	4,044	5,129	5,836	53,809
At Year-End:								
Total assets.....	¥90,376	¥89,004	¥101,006	¥98,766	¥100,542	¥92,657	¥99,913	\$953,914
Property, plant and equipment, net...	19,091	17,722	18,541	19,279	19,000	18,841	18,481	176,446
Shareholders' equity.....	38,395	37,214	39,796	40,063	40,144	43,348	52,263	498,978
Per Share Information:								
	Yen (Notes 2, 3 and 4)							U.S. dollars (Note 1)
Net income (loss).....	¥18.56	¥35.39	¥46.43	(¥34.47)	¥22.21	¥62.90	¥98.33	\$0.94
Shareholders' equity.....	1,235.59	1,197.12	1,280.51	1,293.42	1,293.30	1,350.31	1,415.75	\$13.52
Cash dividends.....	11.00	6.00	8.50	8.50	14.50	10.00	16.00	\$0.15
Financial Ratios:								
Return on assets (%).....	0.65	1.21	1.50	(1.07)	0.79	2.15	3.66	
Return on equity (%).....	1.50	2.84	3.65	(2.68)	1.96	4.97	7.37	
Inventory turnover (days).....	111	90	84	95	87	81	82	
Price-earnings ratio (times).....	69.57	23.05	17.77	(26.00)	34.44	21.94	19.83	
Shareholders' equity ratio (%).....	42.48	43.04	39.40	40.56	39.93	46.78	52.31	
Interest coverage ratio (times).....	3.24	5.65	5.92	3.02	8.17	15.45	25.43	
Dividend payout ratio (%).....	33.52	32.27	31.45	30.90	40.78	30.26	41.78	

- Notes: 1. The U.S. dollar amounts are provided solely for convenience at the rate of ¥104.74 to US\$1, the rate prevailing on March 20, 2005.
2. Effective for the year ended March 20, 2001, the Company adopted the revised accounting standard for foreign currency translation. The amounts in 2000 have been restated in compliance with this revised accounting standard.
3. Effective for the year ended March 20, 2002, the Company adopted the revised accounting standards for financial instruments and employees' retirement benefits. The amounts in prior years have not been restated.
4. Effective for the year ended March 20, 2003, the Company adopted early the revised accounting standard for per share information. The amounts in prior years have not been restated.

Definitions:

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

Shareholders' equity per share (¥) = [shareholders' equity – projected bonuses to directors and statutory auditors]
/ [number of shares issued and outstanding, corrected for treasury stock]

Return on assets (ROA, %) = 100 x net income / average total assets in prior fiscal period

Return on equity (ROE, %) = 100 x net income / average shareholders' equity in prior fiscal period

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

Price-earnings ratio (PER, times) = share price at end of fiscal period / net income per share

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

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

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

Corporate Information

Board of Directors

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

Corporate Data

Head Office	2, Miyanohigashi-cho, Kisshoin, Minami-ku, Kyoto 601-8510, Japan
Founded	October 17, 1945
Incorporated	January 26, 1953
Paid-in Capital	¥9,640 million
Number of Employees	3,984 (consolidated)
Fiscal Closing Date	March 20, annually
Stock Listings	Tokyo Stock Exchange (1st Section) and Osaka Securities Exchange (1st Section) Securities Code: 6856

Major Consolidated Subsidiaries

HORIBA STEC Co., Ltd.

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HORIBA ITECH Co., Ltd.

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HORIBA Advanced Techno Co., Ltd.

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Phone: +81-75-321-7184 Fax: +81-75-321-7291

HORIBA Biotechnology Co., Ltd.

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HORIBA Techno Service Co., Ltd.

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HORIBA Instruments Ltd.

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HORIBA Korea Ltd.

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