HORIBA
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Consolidated Financial Statements for the Year ended December 31, 2006

Company Name	HORIBA, Ltd.		February 21, 2007
Listing Code	6856		Stock Exchange Listings: Tokyo, Osaka
(URL http://www.horiba.co.jp)			Address of Head Office: Kyoto
Representative:	Atsushi Horiba	Chairman, President and CEO	
Contact:	Fumitoshi Sato	Managing Director	Telephone: (81)75-313-8121
Board of Directors meeting:	February 21, 2007		
U.S. accounting standards used:	No		

1. Results for the Year ended December 31, 2006 (March 21, 2006 - December 31, 2006)

The term ended December 31, 2006 was only 9 months and 11 days (from March 21, 2006 to December 31, 2006) for the Company and HORIBA Advanced Techno Co., Ltd. and 9 months (from April 1, 2006 to December 31, 2006) for HORIBA STEC Co., Ltd.

(1) Sales and Income — Note: Figures have been rounded down to the nearest million yen.

	Net sales		Operating income		Ordinary income	
	¥ million	%	¥ million	%	¥ million	%
Year ended 12/31/06	116,099	9.9	11,706	3.8	10,768	(3.8)
Year ended 3/20/06	105,664	14.2	11,275	20.3	11,197	26.1

	Net income		Net income per share	Net income per share (diluted)	Return on equity	Return on assets	Ordinary income to net sales
	¥ million	%	¥	¥	%	%	%
Year ended 12/31/06	6,510	0.6	154.23	153.70	9.4	8.6	9.3
Year ended 3/20/06	6,473	83.7	154.27	146.97	11.0	10.2	10.6

Notes:
1. Equity in earnings of affiliates: Year ended Dec. 31, 2006: ¥ 5 million   Year ended March 20, 2006: ¥ - million
2. Average number of shares outstanding (consolidated):
   Year ended Dec. 31, 2006: 42,210,159 shares   Year ended Mar. 20, 2006: 40,199,849 shares
3. Changes in accounting principles: None
4. Percentages represent year-on-year changes in net sales, operating income, ordinary income and net income compared with the previous fiscal year.

(2) Financial Position

	Total assets	Net assets	Shareholders' equity ratio	Net assets per share
	¥ million	¥ million	%	¥
As of 12/31/06	129,236	72,375	56.0	1,710.75
As of 3/20/06	119,976	65,446	54.5	1,548.08

Note: Number of shares outstanding at end of period (consolidated):
Dec. 31, 2006: 42,303,816 shares   March 20, 2006: 42,100,053 shares

(3) Cash Flows

	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Cash and cash equivalents at end of period
	¥ million	¥ million	¥ million	¥ million
Year ended 12/31/06	3,769	(4,519)	1,315	15,672
Year ended 3/20/06	8,672	(10,361)	129	14,884

(4) Scope of consolidation and application of the equity method
Consolidated subsidiaries: 42 companies   Unconsolidated subsidiaries accounted for by the equity method: None
Affiliated companies accounted for by the equity method: 1 company

(5) Changes in scope of consolidation and application of the equity method
Consolidation: (New) 2 companies (Eliminated) 4 companies   Equity method: (New) 1 company (Eliminated) None

2. Projected Results for the Year ending December 31, 2007 (January 1, 2007 - December 31, 2007)

	Net sales	Operating income	Ordinary income	Net income
	¥ million	¥ million	¥ million	¥ million
Interim term	63,000	6,300	6,000	2,600
Full term	130,000	13,000	12,400	6,700

Reference: Estimated net income per share (full year)   ¥158.38

In the year ending December 31, 2007, HORIBA will change its method for R&D expense. R&D expenses, which previously had been included in Cost of Sales, will be included in SG&A expenses. As a result of this change, we expect to recognize a special loss of ¥1,000 million to revaluate inventories at the beginning of fiscal 2007 and reflect it in the above projected results. The impact on operating income and ordinary income will not be material. The projected results are computed based on information available to us at February 21, 2007. HORIBA's actual results could materially differ from those contained in these forward-looking statements as a result of numerous factors outside of HORIBA's control. Please refer to page 10 of the attachments with regard to the above projected results.

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HORIBA, Ltd. Financial Highlights for the Year ended December 31, 2006

February 21, 2007

Consolidated Results

1. Consolidated Financial Results

	12/2006 Result	3/2006 Result	Change from previous year		12/2007 Estimate	Change from previous year	12/2007 Estimate	Change from previous period
	Full year	Full year	Amount	Ratio	Full year	Amount	1st Half	Amount
	Millions of yen	Millions of yen	Millions of yen		Millions of yen	Millions of yen	Millions of yen	Millions of yen
Net Sales	116,099	105,664	+10,434	+9.9%	130,000	+13,900	63,000	+2,377
Operating Income	11,706	11,275	+431	+3.8%	13,000	+1,293	6,300	+246
Operating Income Ratio	*10.1%*	*10.7%*	*−0.6P*		*10.0%*	*−0.1P*	*10.0%*	−
Ordinary Income	10,768	11,197	−429	−3.8%	12,400	+1,631	6,000	+203
Ordinary Income Ratio	*9.3%*	*10.6%*	*−1.3P*		*9.5%*	*+0.2P*	*9.5%*	−
Net Income	6,510	6,473	+36	+0.6%	6,700	+189	2,600	−658
Net Income Ratio	*5.6%*	*6.1%*	*−0.5P*		*5.2%*	*−0.4P*	*4.1%*	*−1.3P*
US$	116.37	110.25	+6.12		110.00	−6.37	110.00	−5.73
Euro	146.20	136.91	+9.29		140.00	−6.20	140.00	−2.28

2. Consolidated Segment Information

Net Sales	12/2006 Result	3/2006 Result	Change from previous year		12/2007 Estimate	Change from previous year	12/2007 Estimate	Change from previous period
	Full year	Full year	Amount	Ratio	Full year	Amount	1st Half	Amount
	Millions of yen	Millions of yen	Millions of yen		Millions of yen	Millions of yen	Millions of yen	Millions of yen
Automotive*	37,945	34,446	+3,499	+10.2%	43,000	+5,054	20,500	+1,275
Analytical	35,053	32,671	+2,382	+7.3%	36,000	+946	17,500	−639
Medical	22,988	20,508	+2,480	+12.1%	25,000	+2,011	12,000	+405
Semiconductor	20,111	18,038	+2,072	+11.5%	26,000	+5,888	13,000	+1,335
Total	116,099	105,664	+10,434	+9.9%	130,000	+13,900	63,000	+2,377

Operating Income	12/2006 Result	3/2006 Result	Change from previous year		12/2007 Estimate	Change from previous year	12/2007 Estimate	Change from previous period
	Full year	Full year	Amount	Ratio	Full year	Amount	1st Half	Amount
	Millions of yen	Millions of yen	Millions of yen		Millions of yen	Millions of yen	Millions of yen	Millions of yen
Automotive*	3,679	6,509	−2,830	−43.5%	4,500	+820	2,200	+324
Analytical	2,668	1,322	+1,346	+101.8%	2,400	−268	800	−144
Medical	1,404	952	+451	+47.4%	1,700	+295	850	+26
Semiconductor	3,954	2,490	+1,463	+58.8%	4,400	+445	2,450	+39
Total	11,706	11,275	+431	+3.8%	13,000	+1,293	6,300	+246

3. Trend of Consolidated Sales by Segment and Area

	12/2006 Result	3/2006 Result	Change from previous year		12/2007 Estimate	Change from previous year	12/2007 Estimate	Change from previous period
	Full year	Full year	Amount	Ratio	Full year	Amount	1st Half	Amount
	Millions of yen	Millions of yen	Millions of yen		Millions of yen	Millions of yen	Millions of yen	Millions of yen
Automotive*	37,945	34,446	+3,499	+10.2%	43,000	+5,054	20,500	+1,275
Japan + Asia	14,691	17,276	−2,584	−15.0%	18,546	+3,854	9,586	+778
America	7,077	7,324	−246	−3.4%	8,066	+989	3,355	+221
Europe	16,176	9,845	+6,330	+64.3%	16,388	+211	7,560	+275
Analytical	35,053	32,671	+2,382	+7.3%	36,000	+946	17,500	−639
Japan + Asia	15,591	16,939	−1,347	−8.0%	18,768	+3,175	9,614	+145
America	4,946	3,455	+1,490	+43.1%	3,460	−1,486	1,581	−1,017
Europe	14,516	12,276	+2,239	+18.2%	13,772	−743	6,305	+232
Medical	22,988	20,508	+2,480	+12.1%	25,000	+2,011	12,000	+405
Japan + Asia	3,821	3,887	−65	−1.7%	5,066	+1,244	2,476	+266
America	−	−	−	−	−	−	−	−
Europe	19,166	16,621	+2,545	+15.3%	19,934	+767	9,524	+139
Semiconductor	20,111	18,038	+2,072	+11.5%	26,000	+5,888	13,000	+1,335
Japan + Asia	14,203	14,481	−277	−1.9%	19,796	+5,592	9,720	+956
America	4,722	2,615	+2,107	+80.6%	4,833	+110	2,634	+257
Europe	1,185	941	+243	+25.9%	1,371	+185	646	+121
Total	116,099	105,664	+10,434	+9.9%	130,000	+13,900	63,000	+2,377

4. Consolidated Financial Results (Quarterly Comparison)

	12/2006			3/2006			
	1Q Result	2Q Result	2H Result	1Q Result	2Q Result	3Q Result	4Q Result
	Millions of yen	Millions of yen	Millions of yen	Millions of yen	Millions of yen	Millions of yen	Millions of yen
Net Sales	28,521	32,100	55,476	22,418	22,275	26,861	34,109
Operating Income	2,812	3,240	5,652	2,702	1,035	3,994	3,543
Operating Income Ratio	*9.9%*	*10.1%*	*10.2%*	*12.1%*	*4.6%*	*14.9%*	*10.4%*
Ordinary Income	2,703	3,092	4,972	2,683	1,175	3,967	3,371
Ordinary Income Ratio	*9.5%*	*9.6%*	*9.0%*	*12.0%*	*5.3%*	*14.8%*	*9.9%*
Net Income	1,418	1,840	3,251	1,047	604	2,559	2,262
Net Income Ratio	*5.0%*	*5.7%*	*5.9%*	*4.7%*	*2.7%*	*9.5%*	*6.6%*

5. Consolidated Segment Information (Quarterly Comparison)

Net Sales	12/2006			3/2006			
	1Q Result	2Q Result	2H Result	1Q Result	2Q Result	3Q Result	4Q Result
	Millions of yen	Millions of yen	Millions of yen	Millions of yen	Millions of yen	Millions of yen	Millions of yen
Automotive*	8,668	10,556	18,720	6,318	6,275	9,734	12,117
Analytical	8,784	9,354	16,914	7,107	7,138	7,579	10,846
Medical	5,480	6,113	11,394	4,616	4,732	5,252	5,907
Semiconductor	5,588	6,076	8,446	4,375	4,129	4,295	5,237
Total	28,521	32,100	55,476	22,418	22,275	26,861	34,109

Operating Income	12/2006			3/2006			
	1Q Result	2Q Result	2H Result	1Q Result	2Q Result	3Q Result	4Q Result
	Millions of yen	Millions of yen	Millions of yen	Millions of yen	Millions of yen	Millions of yen	Millions of yen
Automotive*	612	1,262	1,803	1,751	801	2,696	1,259
Analytical	706	238	1,723	59	−152	279	1,135
Medical	279	543	581	118	91	479	263
Semiconductor	1,214	1,196	1,544	772	295	538	883
Total	2,812	3,240	5,652	2,702	1,035	3,994	3,543

6. Consolidated Orders, Backlog Information (Quarterly Comparison)

Orders	12/2006			3/2006			
	1Q Result	2Q Result	2H Result	1Q Result	2Q Result	3Q Result	4Q Result
	Millions of yen	Millions of yen	Millions of yen	Millions of yen	Millions of yen	Millions of yen	Millions of yen
Automotive*	10,246	9,443	19,114	8,965	5,842	9,935	10,469
Analytical	10,059	9,904	14,852	7,936	8,138	8,120	10,464
Medical	6,114	6,015	11,190	4,888	5,114	5,575	5,593
Semiconductor	6,075	6,278	8,096	4,610	3,988	4,417	5,071
Total	32,496	31,641	53,253	26,400	23,084	28,049	31,599

Backlog	12/2006			3/2006			
	1Q Result	2Q Result	2H Result	1Q Result	2Q Result	3Q Result	4Q Result
	Millions of yen	Millions of yen	Millions of yen	Millions of yen	Millions of yen	Millions of yen	Millions of yen
Automotive*	21,638	20,525	20,919	11,472	11,039	21,707	20,059
Analytical	9,901	10,451	8,409	7,466	8,467	9,008	8,627
Medical	2,628	2,531	2,327	1,603	1,985	2,309	1,995
Semiconductor	2,102	2,304	1,953	1,800	1,659	1,781	1,615
Total	36,271	35,813	33,609	22,343	23,152	34,807	32,297

* The segment name for Engine Measurement Instruments & Systems was changed to Automotive Test Systems effective March 21, 2006.

The term ended December 31, 2006 was only 9 months and 11 days (from March 21, 2006 to December 31, 2006) for the Company and HORIBA Advanced Techno Co., Ltd. and 9 months (from April 1, 2006 to December 31, 2006) for HORIBA STEC Co., Ltd.

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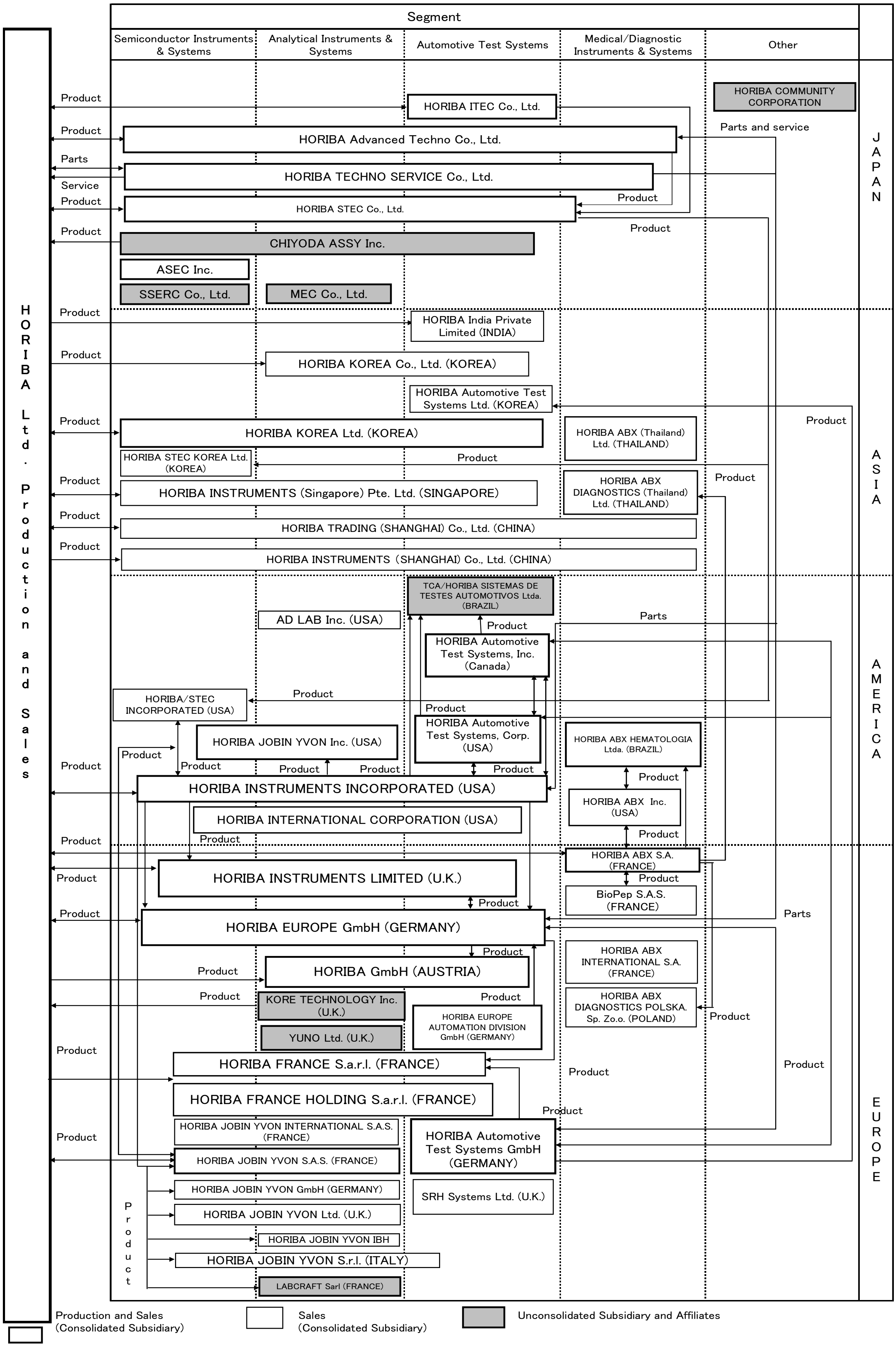
The HORIBA Group

The HORIBA Group consists of 42 consolidated subsidiaries, 1 unconsolidated subsidiary and 7 affiliates, producing and selling analyzers.
The HORIBA Group consists of the following divisions: Automotive Test Systems, Analytical Instruments & Systems, Medical/Diagnostic Instruments & Systems and Semiconductor Instruments & Systems.
The following shows the main products and main companies for each segment.

	Main products	Main companies
Automotive Test Systems	Emission Measurement Systems In-Use Automotive Emission Analyzers On-Board Emissions Measurement Systems Fuel Cell Evaluation Systems Driveline Test Systems Engine Test Systems Brake Test Systems Drive Recorders	HORIBA, Ltd. HORIBA INSTRUMENTS INCORPORATED (USA) HORIBA AUTOMOTIVE TEST SYSTEMS, Corp. (USA) HORIBA EUROPE GmbH (GERMANY) HORIBA INSTRUMENTS LIMITED (U.K.) HORIBA EUROPE AUTOMATION DIVISION GmbH (GERMANY) HORIBA AUTOMOTIVE TEST SYSTEMS GmbH (GERMANY) HORIBA KOREA Ltd. (KOREA) HORIBA INSTRUMENTS (Singapore) Pte. Ltd. (SINGAPORE) 18 other companies (Total 27 companies)
Analytical Instruments & Systems	Scientific Analysis Instruments Particle-size Distribution Analyzers X-ray Fluorescence Analyzers Raman Spectrophotometers Diffraction Gratings Environmental Measuring Instruments pH Meters Stack Gas Analyzers Water Quality Analysis and Examination Systems Air Pollution Analyzers	HORIBA, Ltd. HORIBA JOBIN YVON S.A.S. (FRANCE) HORIBA JOBIN YVON Inc. (USA) HORIBA JOBIN YVON GmbH (GERMANY) HORIBA INSTRUMENTS INCORPORATED (USA) HORIBA EUROPE GmbH (GERMANY) HORIBA INSTRUMENTS LIMITED (U.K.) HORIBA Advanced Techno Co., Ltd. 21 other companies (Total 29 companies)
Medical/ Diagnostic Instruments & Systems	Equipment for Blood Sample Analysis Hematology Analyzers Equipment for Measuring Immunological Responses Clinical Chemistry Analyzers Blood Sugar Measurement Systems	HORIBA, Ltd. HORIBA ABX S.A.S.(FRANCE) HORIBA ABX DIAGNOSTICS POLSKA. Sp. Zo.o. (POLAND) HORIBA ABX Inc. (USA) HORIBA ABX HEMATOLOGIA Ltda. (BRAZIL) 9 other companies (Total 14 companies)
Semiconductor Instruments & Systems	Mass Flow Controllers Chemical Concentration Monitors Thin-film Analyzers for Semiconductors and LCD Inspection Reticle/Mask Particle Detection Systems Residual Gas Analyzers Vacuum Meters	HORIBA, Ltd. HORIBA STEC Co., Ltd. HORIBA JOBIN YVON S.A.S. (FRANCE) HORIBA INSTRUMENTS INCORPORATED (USA) HORIBA EUROPE GmbH (GERMANY) HORIBA INSTRUMENTS LIMITED (U.K.) HORIBA INSTRUMENTS (Singapore) Pte. Ltd. (SINGAPORE) HORIBA STEC KOREA Ltd. (KOREA) 17 other companies (Total 25 companies)
Employee Welfare	Employee Welfare	HORIBA COMMUNITY CORPORATION (Total 1 company)

* The segment name for Engine Measurement Instruments & Systems was changed to Automotive Test Systems effective March 21, 2006.

A brief overview is as follows.



Business Policies

1. Fundamental Business Policies of HORIBA

As a manufacturer of analytical equipment that is developing its business worldwide, the HORIBA Group ("HORIBA") aims to be a truly global company. Our basic philosophy is to contribute to society by preserving the environment, bringing human health and greater convenience to society and promoting the development of science and technology through our business activities, which focus on analytical technologies and span a variety of industrial fields in the global market. The HORIBA Group has also long placed great importance on its affiliated businesses and is aggressively promoting the strengthening and amalgamation of its alignments that utilize the human and technological resources of its 43 companies throughout the world.

2. Fundamental Profit Sharing Policies of HORIBA

The HORIBA Group is working to strengthen its profit structure through efforts such as those to increase productivity, while striving to make dividend payments for HORIBA, Ltd. ("the Company") at a dividend payment ratio of 30%. (In some cases, special gains and losses may be excluded when computing the dividend payment ratio.) The dividend payment includes dividend income from subsidiaries and actually reflects the Company's consolidated results. Regarding the reserve for retained capital, HORIBA intends to appropriate this reserve as operating capital for business expansion and as basic capital for facility, research and development investments and for strengthening its financial position.

3. Concepts and Policies on Reduction of Investment Unit

The Company revised the number of shares in a minimum trading unit, reducing it from 1,000 to 100 shares as of January 4, 2006. We aim to make share transactions easier to ensure the liquidity of the stock and to promote investment participation from a wider range of investors.

4. Management Index Targets of HORIBA

With its mid- and long-term plan that was initiated in 2006, the HORIBA Group aims to achieve ¥150 billion in net sales, a operating income ratio of 10% or higher and a ROE of 11% or higher in the year ending December 31, 2010.

5. Mid- and Long-term Business Strategies of HORIBA

The HORIBA Group's business consists of four business segments: Automotive Test Systems, Analytical Instruments & Systems, Medical/Diagnostic Instruments & Systems and Semiconductor Instruments & Systems. Each of these segments targets an essentially separate market. Commonalities in fundamental technology and know-how, however, allow us to shift people and resources and to tap combinations among these segments for greater segment strength individually and overall. Our flexible strategic approach enables us to offset weak performance in any one segment with good results in another, to mitigate poor performance in struggling areas and to operate efficiently. We can achieve balanced growth by overcoming each segment's weaknesses with complementary strengths among all our operating segments. We also declared a new management policy, "The HORIBA Group is One Company" to focus the power of the entire HORIBA Group on generating higher levels of growth. In the past, the HORIBA Group companies conducted their own strategic planning and compiled their own operational performance projections individually. To accelerate the growth of the integrated group, we plan to ignore national boundaries and divisions between HORIBA Group companies. Instead, we will divide the HORIBA Group into four virtual segments. Effective strategic management at the segment level will improve the profitability of the whole group, promote a more global approach to operations and management and, in doing so, raise the overall value of the company.

The following are the primary measures of the mid- and long-term plan from 2006 to 2010:

Primary Measures

(1) To be well prepared for the post 2010 stage: "¥200 billion" in net sales

1. Promote a global business strategy based on segment matrix operation

We strive to increase corporate value of the entire HORIBA Group by utilizing the segment matrix operation implemented in 2004, which allows us to promote our business more actively and efficiently by removing the frame of corporation and national boundaries.

2. Efficient operations by region matrix

In Japan, the Americas and Europe, we pursue efficient operations by introducing regional shared services in administrative divisions of the HORIBA Group, including accounting and financial, legal affairs, intellectual property and information systems services. This allows us to improve efficiency of asset turnover and returns and to reduce operating costs.

3. Introduction of ERP/SAP

Making operating decisions based on detailed and timely information is necessary. Accordingly, we will introduce the new Enterprise Resource Planning (ERP), a unified operating system to promote efficient operations by region. The introduction of this system is one of the core investments in our mid- and long-term management plan. In the early-stage, we aim to promote standardization of operating processes by corporation as well as promote changes in the consciousness of all employees.

(2) Enhance well-balanced operations

We will strive to improve business volume and increase profits beyond the Automotive Test Systems segment and promote the well balanced development of our four segments, including the stable Analytical Instruments & Systems segment. Moreover, our active investments in the Semiconductor Instruments & Systems and Medical/Diagnostic Instruments & Systems segments will begin to reach fruition. We will expand our business in emerging markets, including India and South America, as well as in China's fast growing market.

(3) Value increase in "Valuable Intangibles"

We will make efforts focused on "valuable intangibles" such as our unique corporate culture, the HORIBA brand value, human resources, technological capabilities, management capabilities and respect for CSR and environmental issues, which aren't shown on the balance sheet. We will continuously aim to make dramatic progress in profitability and investment efficiency by utilizing these valuable intangibles as well as improving their value respectively.

6. Challenges of HORIBA

We think it is essential to improve investment efficiency and productivity for sustained growth and corporate value and to establish a network system for managing business risks. To achieve this, we must improve the information system that is the basis of business management for all of the HORIBA Group companies. The Company set up the Enterprise Resources Planning office on March 21, 2005 to establish and introduce a unified information system aiming to provide detailed information promptly to top management and investors and to build a managerial environment leading to the targets of the mid- and long-term plan by 2010 (¥150 billion in net sales, an operating income ratio greater than 10% and a ROE of over 11%). We also believe it important to ensure fairness, transparency and accountability in a daily routine. HORIBA's directors and employees conduct their work based on the principle of "open & fair," which is consistent with the law and the Company's articles of association. To secure fair and effective management, the basic policy concerning the establishment of an internal control system was adopted at the Board of Directors meeting held on May 10, 2006 to promote compliance and the risk control system. We started a project for internal control and have promoted an internal control system to secure fairness in financial statements and documentation in accordance with the Financial Instrument and Exchange Law, or J-SOX Act (a Japanese version of Sarbanes-Oxley Act), enacted to achieve an appropriate and reliable reporting system of financial statements. Through documentation, we seek to promote the visualization of all details and improve the effectiveness of work.

7. Matters Concerning the Parent Company

The Company has no parent company.

Operating Results and Financial Condition

The term ended December 31, 2006 was only 9 months and 11 days (from March 21, 2006 to December 31, 2006) for the Company and HORIBA Advanced Techno Co., Ltd. and 9 months (from April 1, 2006 to December 31, 2006) for HORIBA STEC Co., Ltd.

1. Operating Results

Despite shortening the fiscal term of the main domestic companies due to a change in the accounting term, net sales for the year ended December 31, 2006 increased compared with the previous fiscal year and exceeded ¥100,000 million. Also, operating income and net income increased compared with the previous fiscal year. Net sales and profits increased compared with the forecast released to the press on November 14, 2006, and the first year of the mid- and long-term plan was a good start.

Net sales increased by 9.9% to ¥116,099 million compared with the previous fiscal year resulting from increased sales in all four segments. Operating income increased by 3.8% to ¥11,706 million due to a large increase in profit resulting from increased sales and improvement in profitability in three business segments, the Analytical Instruments & Systems, the Medical/Diagnostic Instruments & Systems and the Semiconductor Instruments & Systems segments, even though there was a decline in profitability in the Automotive Test Systems segment due to a business acquisition. Ordinary income decreased by 3.8% to ¥10,768 million due to an increase in non-operating expense, including foreign exchange losses. Net income increased by 0.6% to ¥6,510 million due to a decrease in special loss and the effective tax rate compared with the previous fiscal year.

(Automotive Test Systems)

It was the first year that the development test systems acquired from Carl Schenck AG in September 2005 were integrated into the previous Engine Measurement Instruments & Systems. We focused on improving a business environment in which we could widely provide solutions to the overall automotive R&D and test systems. With one-year sale, sales for the development test systems increased by ¥8,800 million compared with the previous fiscal year. As for income, the development test systems created a deficit and lowered the profitability of the segment due to the lower profitability of products than that for exhaust gas analyzers and start-up costs such as amortization of goodwill. In addition, sales of motor exhaust gas analyzers for the U.S. decreased due to the decrease in demand for exhaust gas regulations in the previous fiscal year. As a result, net sales in this segment increased by 10.2% to ¥37,945 million, and operating income decreased by 43.5% to ¥3,679 million.

(Analytical Instruments & Systems)

Due to an increase in investments in analytical and measurement instruments for environmental regulations among private enterprises, both net sales and operating income achieved high levels. By product, sales of X-ray analyzers for Waste Electrical and Electronic Equipment (WEEE) and directives restricting the use of certain hazardous substances in Electrical and Electronic Equipment (RoHS) increased in the domestic and Asian markets, and the demand for sulfur-in-oil analyzers in the American market and exhaust gas measurement (stack gas) in the domestic market expanded. In addition, HORIBA Jobin Yvon S.A.S. (France), which has a strong position in the nanotechnology measurement area, expanded sales in the advanced science area with its high technical skills. As a result, total segment sales increased by 7.3% to ¥35,053 million, and operating income increased by 101.8% to ¥2,668 million relative to the previous fiscal year.

(Medical/Diagnostic Instruments & Systems)

Even though we projected a negative impact from the revision of medical fees in Japan in April 2006, net sales and operating income were favorable. With an increase in sales of large sized hematology analyzers and diagnostic reagents in the European and American markets, in addition to an increase in sales of automatic blood cell counters plus CRPs in the domestic market, total segment sales increased by 12.1% to ¥22,988 million compared with the previous fiscal year. Operating income increased by 47.4% to ¥1,404 million.

(Semiconductor Instruments & Systems)

With a large investment in production facilities for DRAM and NAND flash memory, the semiconductor market remained brisk beyond the IT bubble economy in 2000. In addition to such a favorable trend in the market, demand increased due to effective product development fitting the needs of the HORIBA Group and Aso Plant of HORIBA STEC Co., Ltd., and our main plant expansion in October 2005 succeeded in increasing production. As a result, business in this segment was brisk. By product, sales of the main product, mass flow controllers, increased in the domestic and North America markets resulting from a boom in the semiconductor market and a greater market share, and sales of chemical concentration monitors also expanded with high demand from the manufacturers of cleaning equipment. Total segment sales increased by 11.5% to ¥20,111 million, and operating income increased by 58.8% to ¥3,954 million compared with the previous fiscal year.

2. Financial Condition

(1) Cash Flows

Cash Flows Resulting from Operating Activities

Net cash provided by operating activities amounted to ¥3,769 million. This was due mainly to ¥10,588 million in income before income taxes, ¥2,797 million in depreciation and ¥985 million for an increase in trade notes and accounts payable despite ¥5,128 million for income tax paid, ¥3,023 million for an increase in trade notes and accounts receivable and ¥2,208 million for an increase in inventories.

Cash Flows Resulting from Investing Activities

Net cash used in investing activities totaled ¥4,519 million. This was due primarily to the payment of ¥3,559 million for the purchase of tangible fixed assets and the payment of ¥1,452 million for the purchase of intangible fixed assets. Moreover, additional investment in HORIBA Korea Ltd. (Korea) converting into a wholly owned subsidiary was ¥202 million, and new investment in HORIBA Korea Co., Ltd. (Korea) was ¥103 million.

Cash Flows Resulting from Financing Activities

Net cash provided by financing activities amounted to ¥1,315 million. This was due primarily to ¥1,396 million for an increase in long-term debt, ¥777 million for the reimbursement of funds for the redemption of convertible bonds and ¥337 million for proceeds from the exercise of stock acquisition rights, even though ¥1,252 million of cash dividends were paid.

As a result, cash and cash equivalents increased by ¥788 million, and cash and cash equivalents at the end of the period amounted to ¥15,672 million.

(2) Trends in Cash Flow Indexes

	Year ended December 31, 2006	Year ended March 20, 2006
Shareholders' Equity Ratio(%)	56.0	54.5
Shareholders' Equity Ratio on a Market Value Basis(%)	144.0	129.5
Number of Years for Debt Redemption(Years)	4.3	1.6
Interest Coverage Ratio	8.4	26.8

(Notes) Shareholders' Equity Ratio = Shareholders' Equity/Total Assets

Shareholders' Equity Ratio on a Market Value Basis = Total Market Value of Shares/Total Assets

Number of Years for Debt Redemption = Interest-Bearing Debt/Operating Cash Flow

Interest Coverage Ratio = Operating Cash Flow/Interest Payments

* All indexes are calculated according to consolidated financial values.
* The total market value of shares is calculated using the closing share price at the end of the year multiplied by the total number of shares issued at the end of the year after deduction for treasury stock.
* The value used for the operating cash flow is the "cash flow resulting from operating activities" shown in the consolidated statements of cash flows. Interest-bearing debt includes all debt in the consolidated balance sheet for which interest is paid. The value used for the interest paid is the amount of payments for interest shown in the consolidated statement of cash flows.

3. Outlook for the Year Ending December 31, 2007

Please refer to page 2 with regard to the segment information of net sales and operating income.

There will be a slowdown in the U.S. economy and uncertainties in the semiconductor market and other external factors which could have a material effect on our business. HORIBA, despite such concerns, will continuously make efforts to enhance its corporate value, to maximize profits and to promote activities that contribute to society, building "win-win relationships" with shareholders, investors, customers, employees and all other HORIBA stakeholders under a management policy represented in the slogan, "HORIBA Group is One Company." The outlook for the year ending December 31, 2007 is set forth below.

<u>Net Sales of ¥130,000 million (12.0% increase from the previous fiscal year)</u>
In Automotive Test Systems, the synergistic effect of integration with development test systems is expected to be seen. In Analytical Instruments & Systems, we will make efforts to secure a demand in the advanced science area and the Chinese market even though some products are forecast to lack demand because of environmental regulations as seen in the previous fiscal year. In Medical/Diagnostic Instruments & Systems, we will promote the expansion of sales of large sized hematology analyzers and clinical chemistry analyzers though we expect harsh competition with increased large-scale M&A beyond the In-vitro diagnostics market. In Semiconductor Instruments & Systems, we will catch up with increased production corresponding with an increase in demand and expanded sales of analyzers and measurement instruments which could contribute to lower yields in the production of 300mm wafers. Through such action plans, net sales are forecast to increase by ¥13,900 million to ¥130,000 million.

<u>Operating Income of ¥13,000 million (11.0% increase from the previous fiscal year)</u>
Though price competitiveness is harsh in the analytical and measurement market, we aim to secure an operating ratio of 10% and expect to increase operating income compared with the previous fiscal year by ¥1,293 million to ¥13,000 million by promoting effectiveness of management.

<u>Ordinary Income of ¥12,400 million (15.1% increase from the previous fiscal year</u>)
We expect a ¥600 million loss in non-operating expense, net of income, with foreign exchange losses and other uncertain expenses. Ordinary income is expected to increase by ¥1,631 million to ¥12,400 million compared with the previous fiscal year.

<u>Net Income of ¥6,700 million (2.9% increase from the previous fiscal year)</u>
In the year ending December 31, 2007, HORIBA will change its method for R&D expense, and R&D expenses, which previously had been included in Cost of Sales, will be included in SG&A expenses. As a result of this change, we expect to recognize a special loss of ¥1,000 million to revaluate inventories at the beginning of fiscal 2007. Under these circumstances, net income is expected to increase by ¥189 million to ¥6,700 million compared with the previous fiscal year.

(Note) The outlook is calculated based on information available to us at February 21, 2007. Uncertainties could cause our actual results to be different from these projections.

4. Risks Concerning HORIBA' s Businesses

The following are the risks that may significantly affect HORIBA' s financial condition and business performance. Please note that matters pertaining to the future described here have been determined by HORIBA as of February 21, 2007.

(1) Risks Associated with International Business Activities

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

a. Business Risks

Risks include sudden shifts in economic conditions or in product supply and demand, sudden changes in retail prices due to competition, regulatory trends in the environmental field, delays in development of new products, etc.

b. Risks Associated with International Business Activities

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

Especially for fluctuations in foreign exchange rates, HORIBA promotes local production and supply and employs foreign exchange forward contracts within the limits of the balance of foreign currency denominated receivables and payables to minimize foreign exchange risks. However, sharp fluctuations in foreign exchange rates beyond our estimates could affect financial conditions and business performance, not only when the financial statements prepared in local currencies are translated into Japanese yen for the consolidated financial statements.

(2) Compensation for Product Liability

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

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

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

(4) Shifts in the Market Price of Securities Holdings or Other Assets

HORIBA holds shares in its major alliance partners and other companies as part of its technology and business strategies for the future. In recent years, HORIBA recorded losses on the valuation of investment securities due to the value of shares declining as a result of a downturn in the performance of the companies. In consideration of such circumstances, HORIBA' s acquisitions and sales of investment securities are carefully investigated by the Board of Directors, the market price of shares are timely reported to top management and the purpose for holding the investment securities are properly reviewed. Also, HORIBA implemented impairment accounting in the year ended March 31, 2005, before legally required, but if further declines in the market price or profitability of land, building or other assets occur in the future, there may be a significant impact on the financial condition and business performance of HORIBA.

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

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

(6) Delays in Delivery, etc., Associated with Repair of Facilities Following Natural Disasters

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

(7) Delays in Development of New Products

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

(8) Risks Concerning Intellectual Property Rights

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

(9) Risk by Business Segment

The HORIBA Group consists of four business segments: Automotive Test Systems, Analytical Instruments & Systems, Medical/Diagnostic Instruments & Systems, Semiconductor Instruments & Systems. We can achieve balanced growth by overcoming each segment's weaknesses with complementary strengths among the business segments, but we have the following risks, organized by business segment, associated with fluctuations in operating results.

a. Automotive Test Systems

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

b. Analytical Instruments & Systems

Scientific analysis instruments in this segment are used for R&D or product quality testing and there are risks that demand may be affected by the R&D budgets of government agencies, investments in R&D and the production of private enterprises. Also, the demand for environmental measuring instruments, such as analyzers for air pollution and water quality, may be affected by changes in environmental regulations. It is possible that such circumstances could have a significant impact on HORIBA's financial condition and business performance.

c. Medical/Diagnostic Instruments & Systems

The main products in this segment are hematology analyzers, which are targeted for the market for small- and medium-sized equipment for small- and medium-sized hospitals and medical practitioners. If the price competition is beyond our expectations, there is a possibility of a significant impact on HORIBA's financial condition and business performance.

d. Semiconductor Instruments & Systems

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

Consolidated Balance Sheets

Accounts	As of December 31, 2006		As of March 20, 2006		Increase (Decrease)
	Amount	%	Amount	%	Amount
Assets	¥ million		¥ million		¥ million
Current Assets:	92,759	71.8	85,760	71.5	6,999
Cash and bank deposits	14,807		14,612		195
Trade notes and accounts receivable	42,484		37,407		5,077
Marketable securities	868		394		473
Inventories	30,947		27,272		3,674
Deferred tax assets	2,441		2,741		(300)
Other current assets	2,132		4,211		(2,079)
Allowance for doubtful receivables	(922)		(880)		(42)
Fixed Assets:	36,476	28.2	34,216	28.5	2,260
Property, Plant and Equipment:	21,700	16.8	20,223	16.9	1,477
Buildings and structures	8,028		8,006		22
Machinery, equipment and vehicles	3,866		3,316		549
Land	6,737		6,617		119
Construction in progress	620		87		533
Other property, plant and equipment	2,446		2,195		251
Intangibles:	5,744	4.4	5,462	4.5	282
Goodwill	1,577		39		1,538
Consolidation difference	–		2,365		(2,365)
Other intangibles	4,167		3,057		1,109
Investments and Other Non-current Assets:	9,032	7.0	8,530	7.1	501
Investment securities	5,546		5,397		148
Deferred tax assets	886		671		214
Other investments and other assets	2,681		2,544		137
Allowance for doubtful accounts	(81)		(81)		0
Total Assets	129,236	100.0	119,976	100.0	9,260

Consolidated Balance Sheets

Accounts	As of December 31, 2006		As of March 20, 2006		Increase (Decrease)
	Amount	%	Amount	%	Amount
Liabilities	¥ million		¥ million		¥ million
Current Liabilities:	45,903	35.5	44,377	37.0	1,526
Trade notes and accounts payable	14,960		13,061		1,898
Short-term loans payable	8,109		6,746		1,362
Current portion of long-term debt	737		452		285
Accounts payable - other	9,087		8,913		173
Accrued income taxes	2,149		3,121		(971)
Accrued bonuses to employees	1,484		2,900		(1,415)
Accrued bonuses to directors	300		-		300
Reserve for product warranty	1,161		1,025		136
Other current liabilities	7,913		8,156		(243)
Non-Current Liabilities:	10,957	8.5	9,992	8.4	965
Corporate bonds	5,000		5,000		-
Long-term debt	2,377		1,666		710
Employees' retirement benefits	1,631		1,461		169
Directors' and corporate auditors' retirement benefits	659		617		41
Deferred tax liabilities	705		637		67
Other non-current liabilities	583		607		(24)
Total Liabilities	56,861	44.0	54,369	45.4	2,491

Consolidated Balance Sheets

Accounts	As of December 31, 2006		As of March 20, 2006		Increase (Decrease)
	Amount	%	Amount	%	Amount
	¥ million		¥ million		¥ million
Minority Interests in Consolidated Subsidiaries	–	–	160	0.1	–
Shareholders' Equity					
Common stock	–	–	11,569	9.6	–
Capital surplus	–	–	18,275	15.2	–
Retained earnings	–	–	32,904	27.5	–
Net unrealized holding gains on securities	–	–	1,919	1.6	–
Foreign currency translation adjustments	–	–	849	0.7	–
Treasury stock	–	–	(73)	(0.1)	–
Shareholders' Equity	–	–	65,446	54.5	–
Total Liabilities, Minority Interests, and Shareholders' Equity	–	–	119,976	100.0	–
Net Assets					
Shareholders' Equity	68,029	52.7	–	–	–
Common stock	11,738	9.1	–	–	–
Capital surplus	18,444	14.3	–	–	–
Retained earnings	37,864	29.3	–	–	–
Treasury stock	(18)	(0.0)	–	–	–
Valuation and Translation Adjustments	4,341	3.3	–	–	–
Net unrealized holding gains on securities	2,090	1.6	–	–	–
Foreign currency translation adjustments	2,251	1.7	–	–	–
Minority Interests in Consolidated Subsidiaries	3	0.0	–	–	–
Total Net Assets	72,375	56.0	–	–	–
Total Liabilities and Net Assets	129,236	100.0	–	–	–

Consolidated Statements of Income

Accounts	Year ended December 31, 2006		Year ended March 20, 2006		Increase (Decrease)
	Amount	%	Amount	%	Amount
	¥ million		¥ million		¥ million
Net Sales	116,099	100.0	105,664	100.0	10,434
Cost of Sales	66,510	57.3	60,739	57.5	5,771
Gross Income	49,588	42.7	44,925	42.5	4,663
Selling, General and Administrative Expenses	37,882	32.6	33,650	31.8	4,231
Operating Income	11,706	10.1	11,275	10.7	431
Other Income	645	0.6	765	0.7	(119)
Interest and dividend income	247	0.2	120	0.1	126
Foreign exchange gains	–	–	143	0.1	(143)
Other	398	0.4	500	0.5	(102)
Other Expenses	1,583	1.4	842	0.8	740
Interest expense	504	0.4	333	0.3	171
Foreign exchange losses	198	0.2	–	–	198
Other	880	0.8	509	0.5	370
Ordinary Income	10,768	9.3	11,197	10.6	(429)
Special Gains	94	0.0	714	0.7	(620)
Gain on sale of property, plant and equipment	75	0.0	46	0.0	28
Gain on sale of investment securities	19	0.0	394	0.4	(375)
Gain on insurance, net of related loss	–	–	95	0.1	(95)
Gain on settlement of license	–	–	177	0.2	(177)
Other	–	–	0	0.0	(0)
Special Losses	275	0.2	1,164	1.1	(889)
Loss on disposal of property, plant and equipment	33	0.0	115	0.1	(81)
Loss on sale of property, plant and equipment	2	0.0	16	0.0	(14)
Retirement benefits to directors	1	0.0	749	0.7	(747)
Loss on valuation of investment securities	–	–	12	0.0	(12)
Loss on impairment of goodwill	237	0.2	–	–	237
Other	0	0.0	270	0.3	(270)
Income Before Income Taxes	10,588	9.1	10,747	10.2	(159)
Income taxes (Current)	4,050	3.5	4,424	4.2	(373)
Income taxes (Deferred)	(23)	(0.0)	(210)	(0.2)	187
Minority interest in earnings of consolidated subsidiaries	50	0.0	60	0.1	(10)
Net Income	6,510	5.6	6,473	6.1	36

Consolidated Statements of Changes in Shareholders' Equity

Year ended December 31, 2006 (March 21, 2006 – December 31, 2006)

	Shareholders' Equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total Shareholders' Equity
	¥ million	¥ million	¥ million	¥ million	¥ million
Balance at March 20, 2006	11,569	18,275	32,904	(73)	62,676
Changes during the fiscal period					
Issuance of new shares (Exercise of stock aquisition rights)	169	168			337
Cash dividends *			(926)		(926)
Cash dividends (Interim dividend)			(338)		(338)
Bonus to directors *			(271)		(271)
Net income			6,510		6,510
Acquisition of treasury stocks				(0)	(0)
Disposal of treasury stocks			(14)	56	41
Others					
Total changes during the fiscal period	169	168	4,959	55	5,353
Balance at December 31, 2006	11,738	18,444	37,864	(18)	68,029

	Valuation and Translation Adjustments			Minority interests	Total Net Assets
	Net unrealized holding gains on securities	Foreign currency translation adjustments	Total Valuation and Translation Adjustments		
	¥ million	¥ million	¥ million	¥ million	¥ million
Balance at March 20, 2006	1,919	849	2,769	160	65,606
Changes during the fiscal period					
Issuance of new shares (Exercise of stock aquisition rights)					337
Cash dividends *					(926)
Cash dividends (Interim dividend)					(338)
Bonus to directors *					(271)
Net income					6,510
Acquisition of treasury stocks					(0)
Disposal of treasury stocks					41
Others	170	1,401	1,572	(156)	1,415
Total changes during the fiscal period	170	1,401	1,572	(156)	6,769
Balance at December 31, 2006	2,090	2,251	4,341	3	72,375

* The figures are based on profit distribution by the Company and certain subsidiaries for the previous fiscal year decided at the general meetings of shareholders.

Consolidated Statements of Surplus

Accounts	Year ended March 20, 2006
	¥ million
Capital surplus	
Balance of capital surplus at beginning of period	13,932
Increase in capital surplus	4,343
Conversion of convertible bonds	1,925
Increase through a stock-for-stock exchange	2,418
Balance of capital surplus at end of period	18,275
Retained earnings	
Balance of retained earnings at beginning of period	27,422
Increase in retained earnings	6,473
Net income	6,473
Decrease in retained earnings	990
Cash dividends	722
Bonus to directors and statutory auditors	176
Decrease on disposal of treasury stock	14
Effect of accounting change in an overseas subsidiary	77
Balance of retained earnings at end of period	32,904

Consolidated Statements of Cash Flows

Accounts	Year ended December 31, 2006	Year ended March 20, 2006	Increase (Decrease)
	¥ million	¥ million	¥ million
Cash Flows from Operating Activities:			
Income before income taxes	10,588	10,747	(159)
Depreciation (excludes amortization of goodwill)	2,797	2,720	77
Loss on impairment of goodwill	237	–	237
Amortization of consolidation difference	–	391	(391)
Amortization of goodwill	449	60	388
Loss on disposal of property, plant and equipment	33	115	(81)
Loss on valuation of investment securities	–	12	(12)
Increase (decrease) in allowance for doubtful receivables	(45)	219	(264)
Increase in directors' and corporate auditors' retirement benefits	53	74	(20)
Increase in employees' retirement benefits	2	81	(78)
Interest and dividend income	(247)	(120)	(126)
Interest expense	504	333	171
Foreign exchange losses	45	15	29
Gain on sale of property, plant and equipment	(75)	(46)	(28)
Loss on sale of property, plant and equipment	2	16	(14)
Retirement benefits to directors	1	770	(768)
Gain on sale of investment securities	(19)	(394)	375
Increase in trade notes and accounts receivable	(3,023)	(4,692)	1,669
Increase in inventories	(2,208)	(673)	(1,534)
Increase in trade notes and accounts payable	985	313	671
Bonuses to directors and statutory auditors	(271)	(176)	(95)
Other, net	(685)	3,447	(4,132)
Subtotal	9,126	13,216	(4,090)
Interest and dividends received	235	116	118
Interest paid	(449)	(324)	(125)
Payment of retirement benefits to directors	(13)	(1,341)	1,327
Income taxes paid	(5,128)	(2,994)	(2,133)
Net cash provided by operating activities	3,769	8,672	(4,903)
Cash Flows from Investing Activities:			
Increase in time deposits	–	(1,615)	1,615
Decrease in time deposits	122	22	100
Payments for purchase of investment securities	(23)	(349)	325
Proceeds from sale or redemption of investment securities	168	507	(338)
Payments for purchase of property, plant and equipment	(3,559)	(4,019)	460
Proceeds from sale of property, plant and equipment	438	133	305
Payments for purchase of intangibles	(1,452)	(1,765)	313
Proceeds from sale of intangibles	–	2	(2)
Payments for purchase of investments in a consolidated subsidiary	(202)	–	(202)
Payments for purchase of investments in a newly consolidated subsidiary	(103)	(3,269)	3,166
Increase in loans receivable	(22)	(10)	(12)
Decrease in loans receivable	204	12	192
Other, net	(88)	(7)	(80)
Net cash used in investing activities	(4,519)	(10,361)	5,842
Cash Flows from Financing Activities:			
Net increase in short-term borrowings	689	1,253	(563)
Increase in long-term debt	1,396	684	711
Repayment of long-term debt	(630)	(283)	(347)
Proceeds from exercise of stock aquisition rights	337	–	337
Payments for purchase of treasury stock	(0)	(119)	118
Proceeds from sale of treasury stock	41	185	(143)
Cash dividends paid	(1,252)	(722)	(530)
Cash dividends paid to minority interests	(30)	(31)	0
Reimbursement of funds for redemption of convertible bonds	777	–	777
Payments for redemption of convertible bonds	–	(786)	786
Other, net	(13)	(50)	37
Net cash provided by financing activities	1,315	129	1,185
Cash and Cash Equivalents Foreign Currency Translation Adjustments	222	335	(112)
Net Increase (Decrease) in Cash and Cash Equivalents	788	(1,223)	2,012
Cash and Cash Equivalents at Beginning of Period	14,884	16,108	(1,223)
Cash and Cash Equivalents at End of Period	15,672	14,884	788

Important Items That Form the Basis for Preparation of Interim Consolidated Financial Statements

1. Scope of consolidation

(1) Consolidated subsidiaries: 42 companies

Overseas subsidiaries (37 companies)

HORIBA International Corporation (U.S.A.); HORIBA Instruments Incorporated (U.S.A.); HORIBA/STEC Incorporated (U.S.A.); HORIBA Automotive Test Systems, Corp. (U.S.A); HORIBA Automotive Test Systems, Inc. (Canada); HORIBA Europe GmbH (Germany); HORIBA GmbH (Austria); HORIBA France Holding S.a.r.l. (France); HORIBA France S.a.r.l. (France); HORIBA Europe Automation Division GmbH (Germany); HORIBA Instruments Limited (U.K.); HORIBA Automotive Test Systems GmbH (Germany); HORIBA ABX International S.A.S. (France); HORIBA ABX S.A.S. (France); HORIBA ABX Inc. (U.S.A.); HORIBA ABX Hematologia Ltda. (Brazil); HORIBA ABX Diagnostics Polska Sp. zo. o. (Poland); HORIBA Jobin Yvon International S.A.S. (France); HORIBA Jobin Yvon S.A.S. (France); HORIBA Jobin Yvon Inc. (U.S.A.); AD LAB Inc. (U.S.A.); HORIBA Jobin Yvon GmbH (Germany); HORIBA Jobin Yvon Ltd. (U.K.); HORIBA Jobin Yvon S.r.l. (Italy); HORIBA Instruments (Singapore) Pte. Ltd. (Singapore); HORIBA Korea Ltd. (Korea); HORIBA STEC Korea Ltd. (Korea); HORIBA Automotive Test Systems Ltd. (Korea); HORIBA Instruments (Shanghai) Co., Ltd. (China); BioPep S.A.S. (France); HORIBA Jobin Yvon IBH Ltd. (U.K.); SRH Systems Ltd. (U.K.); HORIBA Trading (Shanghai) Co., Ltd. (China); HORIBA ABX (Thailand) Ltd. (Thailand); HORIBA ABX Diagnostics (Thailand) Ltd. (Thailand); HORIBA India Private Limited (India); HORIBA Korea Co., Ltd. (Korea)

Domestic subsidiaries (5 companies)

HORIBA STEC Co., Ltd.; HORIBA ITEC Co., Ltd.; HORIBA Advanced Techno Co., Ltd.; HORIBA TECHNO SERVICE Co., Ltd.; ASEC Inc.;

In the year ended December 31, 2006, HORIBA India Private Limited (India) was newly established and HORIBA Korea Co., Ltd. (Korea) was newly included in the scope of consolidation with the acquisition of its shares. Only the balance sheet of HORIBA Korea Co., Ltd. (Korea) was consolidated in the consolidated financial statements for the year ended December 31, 2006 since the deemed acquisition date was at the end of this year. Also, Schenck Canada Inc. (Canada) merged with HORIBA Automotive Test Systems, Inc. (Canada), HORIBA Biotechnology Co., Ltd. and Schenck-TKS Test Systems Ltd. merged with the Company, and Jobin Yvon International Inc. (U.S.A.) was liquidated. The four subsidiaries were all excluded from the scope of consolidation.

(2) Unconsolidated subsidiary companies: 1 company

HORIBA Community Corporation (Japan)

This unconsolidated subsidiary, either small in scale or having immaterial effects on total assets, net sales, net income and retained earnings (proportionate amount of ownership), is not included in the consolidated financial statements.

2. Application of the equity method

(1) Affiliated companies for which the equity method has been applied: 1 company

TCA/HORIBA SISTEMAS DE TESTES AUTOMOTIVOS (Brazil)

The equity method was applied to this affiliated company due to increased materiality.

(2) Unconsolidated companies for which the equity method has not been applied: 1 company

HORIBA Community Corporation (Japan)

(3) Affiliated companies for which the equity method has not been applied: 6 companies

Chiyoda Assy Inc.; Mec Co., Ltd.; SSERC Co., Ltd.; LABCRAFT S.a.r.l. (France); KORE Technology Inc. (U.K.); YUNO Ltd. (U.K.)

Since the companies for which the equity method has not been applied have insignificant effects upon consolidated net income and retained earnings and are immaterial as a whole, they are excluded from the application of the equity method.

3. The end of the accounting period for consolidated subsidiaries

The end of the accounting period for consolidated subsidiaries is correspondent with that for the consolidated financial statements. At the June 17, 2006 annual meeting, the Company's shareholders approved the change of the accounting term from March 20 to December 31. The consolidated accounting term ended December 31, 2006 was only 9 months and 11 days (from March 21, 2006 to December 31, 2006). Due to the change of the accounting term for HORIBA Ltd., certain subsidiaries also changed their accounting terms. The accounting term for HORIBA Advanced Techno Co., Ltd. was only 9 months and 11 days (from March 21, 2006 to December 31, 2006) and that for HORIBA STEC Co., Ltd. was only 9 months (from April 1, 2006 to December 31, 2006). The accounting term for the other consolidated subsidiaries was 12 months and unchanged.

4. Accounting policies

(1) Valuation of marketable securities

Available-for-sale securities

・ With available fair market values: Fair market value based on market prices, etc. at the balance sheet date

(Unrealized gains and losses, net of tax are reported as a separate component of net assets. Cost of sales is calculated using the moving-average method.)

・ Without available fair market values: Primarily at cost using the moving-average method

(2) Derivatives

Market value method

(3) Valuation of inventories

a. Finished goods and goods in process: Estimated primarily at cost using the weighted-average method

b. Materials: Valued primarily at cost using the moving-average method

(4) Depreciation methods of depreciable assets

a. Property, plant and equipment

・ The Company and its domestic subsidiaries use the declining balance method. (However, buildings, excluding the accompanying facilities, acquired on or after April 1, 1998 are depreciated using the straight-line method.) Overseas subsidiaries use the straight-line method.

・ Estimated useful lives of the assets are mainly as follows:

Buildings and structures: 5-60 years

Machinery, equipment and vehicles: 2-12 years

b. Intangible assets

・ The straight-line method is used.

・ With respect to internal use software, depreciation is computed on the straight-line method over the estimated useful life of 5 years.

(5) Allowance and accruals

a. Allowance for doubtful receivables

・ The Company and its domestic subsidiaries

In order to provide for losses from uncollectible trade notes, accounts receivable and loans, the Company and its domestic subsidiaries provide for doubtful accounts principally at an amount computed based on the ratio of actual bad debts in the past plus the estimated uncollectible amounts based on the analysis of certain individual receivables.

・ Overseas subsidiaries

In order to provide for losses from uncollectible accounts receivable and so on, the overseas subsidiaries provide for doubtful accounts based on estimates by management.

b. Accrued bonuses to employees

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

c. Accrued bonuses to directors

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

(Change in accounting standards)

Effective from the year ended December 31, 2006, the Company and its domestic subsidiaries adopted "Accounting Standard for Directors' Bonuses" (Accounting Standards Board of Japan Statement No. 4 issued on November 29, 2005). The effect of the adoption of this new accounting standard on operating income, ordinary income and income before income taxes is ¥300 million. The effect by segment is described in the accompanying segment information.

d. Reserve for product warranty

A reserve for product warranty is provided for warranty expenses for products of the Company and certain subsidiaries.

e. Employees' retirement benefits

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

f. Retirement benefits for directors and corporate auditors

To cover payment of retirement benefits for directors and corporate auditors, the Company and certain domestic subsidiaries provide for the amount to be required at the balance sheet date based upon internal rules.

(6) Foreign currency translation

Assets and liabilities in foreign currencies are converted to Japanese yen using the market rate at the balance sheet date, and differences in the translation are recorded in the interim consolidated statements of income. In addition, the assets and liabilities of overseas subsidiaries are converted to Japanese yen on the basis of the exchange rate at the balance sheet date, while income and expenses are converted to Japanese yen based on the average exchange rate during the period. Differences in translation are included in the consolidated financial statements under foreign currency translation adjustments and minority interest in net assets.

(7) Lease transactions

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.

(8) Hedge accounting

a. Hedge accounting method

Foreign exchange contracts that fulfill certain requirements are accounted for as hedges.

b. Hedge instruments and hedged items

Hedge instruments	Hedged items
Foreign exchange contracts	Foreign currency trade receivables

c. Hedge policy

With respect to such things as foreign currency trade receivables, the Company enters into foreign exchange contracts within the limits of the balance for foreign currency trade receivables and payables. The execution and management of these transactions are carried out by the Corporate Strategy Office, and the results of the transactions are reported to the members of the Board of Directors that are responsible for accounting.

d. Methods for evaluating hedge effectiveness

Hedge effectiveness is evaluated by verifying the currency type, term, and identity of the hedged item and the hedging instrument.

(9) Accounting for consumption tax

The net of tax method is used.

5. Valuation of assets and liabilities of consolidated subsidiaries

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.

6. Amortization of goodwill

Goodwill is amortized on the straight-line basis over five years. Some of the foreign subsidiaries amortize goodwill on the straight-line basis over four to twenty years in accordance with the generally accepted accounting principles in the country of their incorporation.

7. Cash and cash equivalents

Cash and cash equivalents in the consolidated cash flow statements include cash on hand, readily available bank deposits and short-term highly liquid investments, with maturity periods of three months or less from the date of acquisition, that are readily convertible into cash and present insignificant risk of change in value.

Changes in Accounting Standards:

(Accounting standard for presentation of net assets in the balance sheet)

Effective from the year ended December 31, 2006, the Company adopted "Accounting Standard for Presentation of Net Assets in the Balance Sheet" (Accounting Standards Board of Japan Statement No. 5 issued on December 9, 2005) and "Guidance on Accounting Standard for Presentation of Net Assets in the Balance Sheet" (Accounting Standards Board of Japan Guidance No. 8 issued on December 9, 2005). The amount corresponding to conventional "Shareholders' equity" in the balance sheet was ¥72,371 million. "Net assets" in the balance sheet as of December 31, 2006 was on the basis of revised consolidated financial statement regulations.

(Accounting standard for business combinations)

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

Changes in Presentations:

(Consolidated balance sheet at December 31, 2006)

Effective from the year ended December 31, 2006, the Company adopted early the revision of "Regulations Concerning the Terminology, Forms and Preparation Methods of Financial Statements" (Cabinet Office Ordinance No. 56 issued on April 26, 2006) and presented consolidation differences and goodwill as "Goodwill."

(Consolidated statement of cash flows for the fiscal term ended December 31, 2006)

Effective from the year ended December 31, 2006, amortization of consolidation differences and amortization of goodwill were presented as "Amortization of Goodwill" of cash flows from operating activities due to the change in presentation in the consolidated balance sheet.

Notes:

(Consolidated balance sheet)

	As of December 31, 2006	As of March 20, 2006
	¥ million	¥ million
1. Accumulated depreciation for tangible assets	26,560	24,167
2. Pledged assets		
Buildings and structures	65	140
3. Secured liabilities		
Current portion of long-term debt	11	4
Long-term debt	35	94
4. Contingent liabilities for guarantees	322	330
5. Notes receivable discounted	4	34

(Consolidated statement of income)

	Year ended December 31, 2006	Year ended March 20, 2006
	¥ million	¥ million
1. Research and development expenses	6,135	6,552

2. Loss on impairment of goodwill

HORIBA recognized a special loss on impairment of goodwill for the year ended December 31, 2006.

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

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

(Consolidated statement of changes in shareholders' equity)

1. Type and number of shares outstanding and treasury stock

(Number of shares)

	As of March 20, 2006	Increase	Decrease	As of December 31, 2006
Number of shares issued				
Common stock (note 1)	42,144,752	170,000	–	42,314,752
Total	42,144,752	170,000	–	42,314,752
Treasury Stock				
Common stock (note 2 and 3)	44,699	237	34,000	10,936
Total	44,699	237	34,000	10,936

(Note 1) The increase in the number of shares of common stock is due to the exercise of stock acquisition rights.

(Note 2) The increase in the number of shares of treasury stock is due to the acquisition of shares of less than one unit.

(Note 3) The increase in the number of shares of treasury stock is due to the exercise of stock acquisition rights.

2. Dividends

(1) Dividend payment

Resolution	Type of stock	Total amount of dividends (millions of yen)	Dividend per share (yen)	Record date	Effective date
Ordinary General Meeting of Shareholders held on June 27, 2006	Common stock	926	22	March 20, 2006	June 17, 2006
Board of Directors meeting held on November 14, 2006	Common stock	338	8	September 20, 2006	November 28, 2006

(2) Dividend with record date attributable to the end of the current fiscal term but to be effective after the current fiscal term

Resolution	Type of stock	Total amount of dividends (millions of yen)	Source of dividends	Dividend per share (yen)	Record date	Effective date
Board of Directors meeting held on February 21, 2007	Common stock	761	Retained earnings	18	December 31, 2006	March 8, 2007

(Consolidated statement of cash flows)

Reconciliation between cash and bank deposits in consolidated balance sheets and cash and cash equivalents at the end of period in consolidated statements of cash flows:

	As of December 31, 2006	As of March 20, 2006
	¥ million	¥ million
Cash and bank deposits	14,807	14,612
Time deposits with maturities exceeding 3 months	(1)	(122)
Short-term investments whose expiration or redemption date is within 3 months	866	394
Cash and cash equivalents at end of period	15,672	14,884

Securities

As of December 31, 2006

1. Available–for–sale securities with available fair values at December 31, 2006 ¥ million

	Acquisition cost	Book (fair) value	Difference
Securities with book values exceeding acquisition costs:			
Equity securities	1,638	5,161	3,522
Bonds:			
Government bonds	–	–	–
Corporate bonds	–	–	–
Other	–	–	–
Other	–	–	–
Subtotal	1,638	5,161	3,522
Securities with book values not exceeding acquisition costs:			
Equity securities	17	14	(2)
Bonds:			
Government bonds	–	–	–
Corporate bonds	–	–	–
Other	–	–	–
Other	12	12	(0)
Subtotal	29	26	(3)
Total	1,668	5,187	3,519

2. Available–for–sale securities sold for the year ended December 31, 2006 ¥ million

Total sales of available–for–sale securities	Related gains	Related losses
166	19	–

3. Securities with no available fair values ¥ million

	Book value
Available–for–sale securities	
Non–listed foreign investment trusts	866
Non–listed equity securities	215
Limited partnerships for investment	29

4. Available–for–sale securities with maturities at December 31, 2006 ¥ million

	Within 1 year	Over 1 year but within 5 years	Over 5 years but within 10 years	Over 10 years
Bonds:				
Government bonds	1	2	3	–
Corporate bonds	–	–	–	–
Other	–	–	–	–
Total	1	2	3	–

As of March 20, 2006

1. Available-for-sale securities with available fair values at March 20, 2006

¥ million

	Acquisition cost	Book (fair) value	Difference
Securities with book values exceeding acquisition costs:			
Equity securities	1,630	4,865	3,234
Bonds:			
Government bonds	–	–	–
Corporate bonds	–	–	–
Other	–	–	–
Other	119	141	21
Subtotal	1,750	5,006	3,255
Securities with book values not exceeding acquisition costs:			
Equity securities	17	15	(2)
Bonds:			
Government bonds	–	–	–
Corporate bonds	–	–	–
Other	–	–	–
Other	11	10	(0)
Subtotal	28	26	(2)
Total	1,778	5,032	3,253

2. Available-for-sale securities sold for the year ended March 20, 2006

¥ million

Total sales of available-for-sale securities	Related gains	Related losses
501	394	–

3. Securities with no available fair values

¥ million

	Book value
Available-for-sale securities	
Non-listed foreign investment trusts	394
Non-listed equity securities	207
Limited partnerships for investment	32

4. Available-for-sale securities with maturities at March 20, 2006

¥ million

	Within 1 year	Over 1 year but within 5 years	Over 5 years but within 10 years	Over 10 years
Bonds:				
Government bonds	0	2	0	–
Corporate bonds	–	–	–	–
Other	–	–	–	–
Total	0	2	0	–

Lease Transactions

Omitted due to disclosure on EDINET.

Derivative Transactions

Omitted due to disclosure on EDINET.

Stock Options

Omitted due to disclosure on EDINET.

Related Party Transactions

Year ended December 31, 2006 (March 21, 2006 – December 31, 2006)

Category	Name	Address	Capital/equity ¥ million	Business/occupation	Percentage of voting rights held
Directors	Atsushi Horiba	Otsu City, Shiga Prefecture	–	Chairman, President and CEO	1.4% (directly)
	Kozo Ishida	Kyoto City, Kyoto Prefecture	–	Executive Vice President	0.1% (directly)
Relationship		Transactions	Amount of transactions ¥ million	Account	Year-end balance ¥ million
Concurrent post	Business Relations				
–	–	rental on real-estate	1	–	–
–	–	rental on real-estate	1	–	–

Condition of transactions and its policy
Rental transactions on real estate are decided based on actual transactions that have taken place in the neighborhood where the real estate is located.

Retirement Benefits and Pension Plans

(Year ended December 31, 2006)

1. Retirement benefit plans
As of December 31, 2006, in HORIBA, Ltd. and its consolidated subsidiaries, 4 companies have lump-sum severance payment plans, 3 companies have contributory funded retirement plans, 4 companies have defined contribution plans, and 4 companies have new defined-benefit corporate pension plans. The Company and certain consolidated subsidiaries use these plans together.

2. Projected benefit obligation

	As of December 31, 2006
	¥ million
1) Projected benefit obligation	(3,725)
2) Pension assets	1,187
3) Unfunded projected benefit obligation (1+2)	(2,537)
4) Unrecognized differences on change of accounting standard	–
5) Unrecognized actuarial differences	96
6) Unrecognized prior service costs on change of employees' retirement plan	810
7) Balance sheet amount (3+4+5+6)	(1,631)
8) Prepaid retirement benefit expenses	–
9) Liability for employees' retirement benefits (7–8)	(1,631)

Notes: 1. Certain domestic subsidiaries use a simplified method for calculating projected benefit obligation.
2. Pension assets of the contributory funded retirement plan are not included in pension assets in the amount of ¥11,212 million (a proforma portion calculated by the ratio of accumulated pension premiums paid by the Company and certain subsidiaries).

3. Retirement benefits expenses

	Year ended December 31, 2006
	¥ million
1) Service cost	1,240
2) Interest cost on projected benefit obligation	39
3) Expected return on plan assets	(12)
4) Amortization of actuarial differences	34
5) Amortization of prior service costs on change of employees' retirement plan	95
6) Amortization of effect of changing the accounting standard	–
7) Retirement benefits expenses (1+2+3+4+5+6)	1,397

Notes: 1. Retirement benefits expenses of consolidated subsidiaries which use the simplified method are included in service cost.
2. Premiums on contributory funded retirement plan (¥558 million) are also included.

4. Basis of calculation of projected benefit obligation

	As of December 31, 2006
1) Discount rate	2.0%
2) Expected rate of return on plan assets	2.0%
3) Allocation method for retirement benefits expected to be paid at retirement dates	Straight-line method based on years of service
4) Amortization period for unrecognized prior service costs of change of employees' retirement plan	10 years (HORIBA, Ltd.), Time of occurrence (consolidated subsidiaries)
5) Amortization period for differences from change in the accounting standard	No differences
6) Amortization period for actuarial differences	5 years

Retirement Benefits and Pension Plans

(Year ended March 20, 2006)

1. Retirement benefit plans
As of March 20, 2006, in HORIBA, Ltd. and its consolidated subsidiaries, 4 companies have lump-sum severance payment plans, 3 companies have contributory funded retirement plans, 4 companies have defined contribution plans, and 4 companies have new defined-benefit corporate pension plans. The Company and certain consolidated subsidiaries use these plans together.

2. Projected benefit obligation

	As of March 20, 2006
	¥ million
1) Projected benefit obligation	(3,294)
2) Pension assets	790
3) Unfunded projected benefit obligation (1+2)	(2,503)
4) Unrecognized differences on change of accounting standard	–
5) Unrecognized actuarial differences	136
6) Unrecognized prior service costs on change of employees' retirement plan	905
7) Balance sheet amount (3+4+5+6)	(1,461)
8) Prepaid retirement benefit expenses	–
9) Liability for employees' retirement benefits (7–8)	(1,461)

Notes: 1. Certain domestic consolidated subsidiaries use a simplified method for calculating projected benefit obligation.
2. Pension assets of the contributory funded retirement plan are not included in pension assets in the amount of ¥7,685 million (a proforma portion calculated by the ratio of accumulated pension premiums paid by the Company and certain subsidiaries).

3. Retirement benefits expenses

	Year ended March 20, 2006
	¥ million
1) Service cost	1,254
2) Interest cost on projected benefit obligation	44
3) Expected return on plan assets	(7)
4) Amortization of actuarial differences	29
5) Amortization of prior service costs on change of employees' retirement plan	114
6) Amortization of effect of changing the accounting standard	–
7) Retirement benefits expenses (1+2+3+4+5+6)	1,435

Notes: 1. Retirement benefits expenses of consolidated subsidiaries which use the simplified method are included in service cost.
2. Premiums on contributory funded retirement plan (¥695 million) are also included.

4. Basis of calculation of projected benefit obligation

	As of March 20, 2006
1) Discount rate	2.0%
2) Expected rate of return on plan assets	2.0%
3) Allocation method for retirement benefits expected to be paid at retirement dates	Straight-line method based on years of service
4) Amortization period for unrecognized prior service costs of change of employees' retirement plan	10 years (HORIBA, Ltd.), Time of occurrence (consolidated subsidiaries)
5) Amortization period for differences from change in the accounting standard	No differences
6) Amortization period for actuarial differences	5 years

Deferred Tax Assets and Liabilities

1. Significant components of deferred tax assets and liabilities

	As of December 31, 2006	As of March 20, 2006
	¥ million	¥ million
Deferred tax assets		
Accrued enterprise tax	163	304
Loss on write-down of inventories	318	163
Allowance for doubtful receivables	66	188
Accrued bonuses	673	949
Loss carryforwards	1,755	2,089
Unrealized gains	1,116	839
Employees' retirement benefits	364	315
Retirement benefits	–	245
Depreciation	614	337
Loss on valuation of investment securities	109	281
Retirement benefits to directors and corporate auditors	265	254
Offset to deferred tax liabilities	(1,180)	(783)
Other	1,409	1,135
Total deferred tax assets	5,677	6,321
Valuation allowance	(2,349)	(2,908)
Net deferred tax assets	3,327	3,413
Deferred tax liabilities		
Reserve for deferred gains on property, plant, and equipment	(32)	(50)
Net unrealized holding gains on securities	(1,443)	(1,315)
Offset to deferred tax assets	1,180	783
Other	(410)	(55)
Total deferred tax liabilities	(705)	(637)
Net deferred tax assets	2,622	2,775

2. Significant differences between statutory tax rates and effective tax rates

	As of December 31, 2006	As of March 20, 2006
	%	%
Statutory tax rate	40.6	40.6
Adjustments:		(note)
Expenses like entertainment expenses not qualifying for deduction permanently	4.08	
Non-taxable dividend income	(0.45)	
Per capita inhabitants tax	0.30	
Valuation allowance for deferred tax assets	1.68	
Amortization of goodwill	1.64	
Consolidated elimination of dividend income from consolidated subsidiaries	2.16	
Differences in tax rates between foreign subsidiaries and the Company	(2.06)	
Tax credits	(5.19)	
Other	(4.72)	
Effective tax rate	38.04	39.21

Note: The difference between the statutory tax rate and the effective tax rate for the year ended March 20, 2006 is less 5% and the explanatory note is omitted above.

Business Segment Information

1. Business Segment Information

Results for the Year ended December 31, 2006 (March 21, 2006 - December 31, 2006)

	Automotive Test Systems	Analytical Instruments & Systems	Medical/Diagnostic Instruments & Systems	Semiconductor Instruments & Systems	Total	Unallocated	Consolidated
	¥ million	¥ million	¥ million	¥ million	¥ million	¥ million	¥ million
Net Sales							
(1) Sales to outside customers	37,945	35,053	22,988	20,111	116,099	—	116,099
(2) Intersegment sales and transfers	—	—	—	—	—	—	—
Operating expenses	34,265	32,385	21,584	16,156	104,392	—	104,392
Operating income	3,679	2,668	1,404	3,954	11,706	—	11,706
Assets, Depreciation, and Capital Expenditures							
Assets	34,677	30,105	18,634	21,959	105,376	23,859	129,236
Depreciation	887	706	1,100	551	3,246	—	3,246
Capital expenditures	1,450	1,321	1,764	522	5,059	—	5,059

Results for the Year ended March 20, 2006 (March 21, 2005 - March 20, 2006)

	Automotive Test Systems	Analytical Instruments & Systems	Medical/Diagnostic Instruments & Systems	Semiconductor Instruments & Systems	Total	Unallocated	Consolidated
	¥ million	¥ million	¥ million	¥ million	¥ million	¥ million	¥ million
Net Sales							
(1) Sales to outside customers	34,446	32,671	20,508	18,038	105,664	—	105,664
(2) Intersegment sales and transfers	—	—	—	—	—	—	—
Operating expenses	27,936	31,349	19,555	15,547	94,389	—	94,389
Operating income	6,509	1,322	952	2,490	11,275	—	11,275
Assets, Depreciation, and Capital Expenditures							
Assets	33,412	28,558	16,438	18,513	96,923	23,052	119,976
Depreciation	746	726	1,156	543	3,172	—	3,172
Capital expenditures	1,174	1,451	1,073	1,964	5,663	—	5,663

Main products in each business segment

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

Notes:

1. The segment name for Engine Measurement Instruments & Systems was changed to Automotive Test Systems effective March 21, 2006.
2. Unallocated assets of ¥23,052 million and ¥23,859 million for the years ended March 20, 2006 and December 31, 2006, respectively, mainly include cash and cash equivalents and marketable and investment securities.
3. (Change in Accounting Standards)
   As shown in 4. (5) c. of "Important Items That Form the Basis for Preparation of Consolidated Financial Statements," the Company and its domestic subsidiaries adopted "Accounting Standard for Directors' Bonuses" (Accounting Standards Board of Japan Statement No. 4 issued on November 29, 2005) effective from the year ended Dec. 31, 2006. As a result, operating expenses increased by ¥81 million in Automotive Test Systems, ¥97 million in Analytical Instruments & Systems, ¥26 million in Medical/Diagnostic Instruments & Systems and ¥94 million in Semiconductor Instruments & Systems. Operating income decreased by the same amounts accordingly.

Geographical Segment Information

2. Geographical Segment Information

Results for the Year ended December 31, 2006 (March 21, 2006 – December 31, 2006)

	Japan	America	Europe	Asia	Total	Elimination and/or unallocated	Consolidated
	¥ million	¥ million	¥ million	¥ million	¥ million	¥ million	¥ million
Net sales							
(1) Sales to outside customers	44,829	16,746	51,044	3,479	116,099	–	116,099
(2) Intersegment sales and transfers	10,347	870	2,907	1,838	15,963	(15,963)	–
Total	55,176	17,616	53,952	5,317	132,062	(15,963)	116,099
Operating expenses	46,352	16,415	52,768	4,733	120,269	(15,876)	104,392
Operating income	8,823	1,201	1,184	584	11,793	(86)	11,706
Assets	55,987	9,283	37,879	2,226	105,376	23,859	129,236

Results for the Year ended March 20, 2006 (March 21, 2005 – March 20, 2006)

	Japan	America	Europe	Asia	Total	Elimination and/or unallocated	Consolidated
	¥ million	¥ million	¥ million	¥ million	¥ million	¥ million	¥ million
Net sales							
(1) Sales to outside customers	50,502	13,395	39,684	2,081	105,664	–	105,664
(2) Intersegment sales and transfers	11,139	485	2,885	1,028	15,539	(15,539)	–
Total	61,642	13,880	42,570	3,110	121,204	(15,539)	105,664
Operating expenses	52,719	13,122	41,274	2,768	109,884	(15,495)	94,389
Operating income	8,923	758	1,296	341	11,319	(44)	11,275
Assets	52,370	9,459	33,432	1,661	96,923	23,052	119,976

Notes:

1. Unallocated assets of ¥23,052 million and ¥23,859 million for the years ended March 20, 2006 and December 31, 2006, respectively, mainly include cash and cash equivalents and marketable and investment securities.
2. As shown in 4. (5) c. of "Important Items That Form the Basis for Preparation of Consolidated Financial Statements," the Company and its domestic subsidiaries adopted "Accounting Standard for Directors' Bonuses" (Accounting Standards Board of Japan Statement No. 4 issued on November 29, 2005) effective from the the year ended Dec. 31, 2006. As a result, operating expenses increased by ¥300 million in the Japan segment, and operating income decreased by the same amount accordingly.

3. Overseas Sales

Results for the Year ended December 31, 2006 (March 21, 2006 – December 31, 2006) ¥ million

	America	Europe	Asia	Total
Overseas sales	26,381	35,834	16,551	78,767
Consolidated sales	—	—	—	116,099
Ratio of overseas sales to consolidated sales (%)	22.7	30.9	14.2	67.8

Results for the Year ended March 20, 2006 (March 21, 2005 – March 20, 2006) ¥ million

	America	Europe	Asia	Total
Overseas sales	22,555	27,061	13,002	62,619
Consolidated sales	—	—	—	105,664
Ratio of overseas sales to consolidated sales (%)	21.4	25.6	12.3	59.3

Note: Overseas sales comprise sales of the Company and its subsidiaries in countries or regions other than Japan.

Orders, Backlog

Segment		Year ended December 31, 2006		Year ended March 20, 2006	
		Amount	%	Amount	%
		¥ million		¥ million	
Orders	Automotive Test Systems	38,804	33.0	35,212	32.3
	Analytical Instruments & Systems	34,816	29.7	34,660	31.7
	Medical/Diagnostic Instruments & Systems	23,320	19.9	21,172	19.4
	Semiconductor Instruments & Systems	20,449	17.4	18,087	16.6
	Total	117,391	100.0	109,133	100.0
Backlog	Automotive Test Systems	20,919	62.3	20,059	62.1
	Analytical Instruments & Systems	8,409	25.0	8,627	26.7
	Medical/Diagnostic Instruments & Systems	2,327	6.9	1,995	6.2
	Semiconductor Instruments & Systems	1,953	5.8	1,615	5.0
	Total	33,609	100.0	32,297	100.0

Notes:

1. The segment name for Engine Measurement Instruments & Systems was changed to Automotive Test Systems effective March 21, 2006.