



HAMAMATSU

HAMAMATSU PHOTONICS K.K.

ANNUAL REPORT 2008

For the year ended September 30, 2008

Creating new fields of industry



H-SPIRAL

Through the application of photonics we are now beginning to develop the New Industry that will lead to the cycle illustrated in the figure at the left. In this cycle, mankind is constantly improving its status by using new technologies to discover new knowledge. The application of this new knowledge leads first to new industries. New industries, in turn, give rise to a new style of life and a new standard of values,

which lead to New Science. This ongoing circle is what we call the “H-SPIRAL”. All of these “new” aspects come within the range of our consciousness for the first time, bringing with them an emphasis on paving the way into the unknown.

I believe that this is done, not by breaking the actuality into parts and trying to find answers by setting up 1-to-1 correspondences, which is the conventional concept of technology, but rather by embracing all of the elements involved as a “whole”, based on a harmonic way of thinking, originating from the east, to gain an understanding of the overall entity. To me, this would represent a breakthrough in modern-day science, caught as it is in its own limitations. Starting from a new sense of values that embraces dynamic one-to-field, or field-to-field relationships, we have the freedom to move forward into new fields of scientific technology.

Teruo Hiruma
Chairman of the Board and CEO

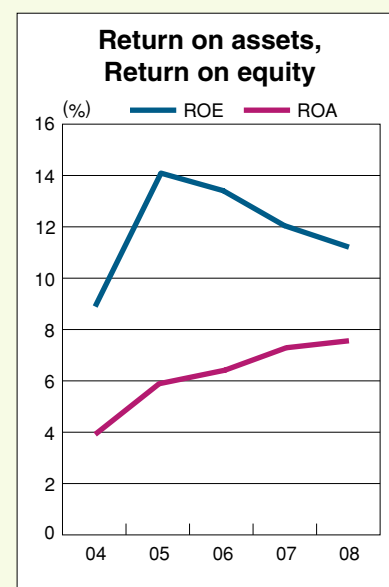
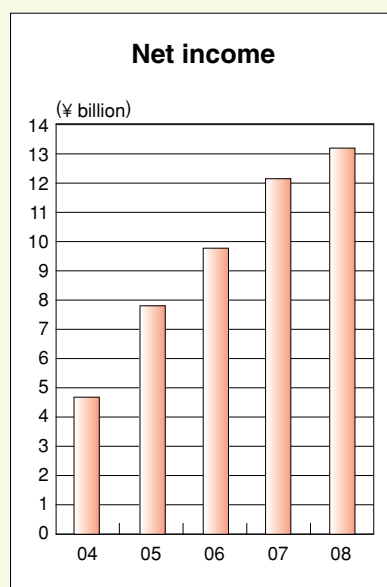
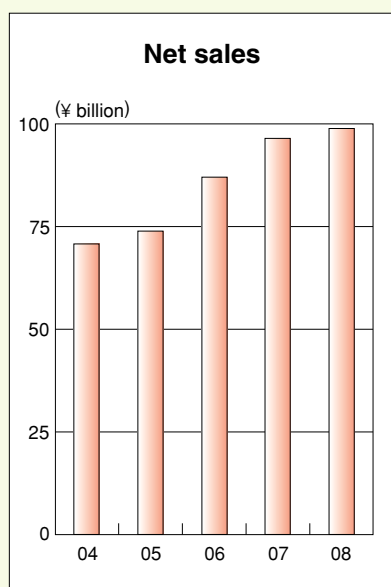
Table of contents

Financial highlights	2
To our shareholders	4
Divisional review	6
Financial review	14
Five-year summary	16
Consolidated subsidiaries	17
Consolidated balance sheets	18
Consolidated statements of income	20
Consolidated statements of changes in net assets	21
Consolidated statements of cash flows	22
Notes to consolidated financial statements	23
Report of Independent Auditors	29
Directors and corporate auditors	30
Corporate data	31
Profile of the Hamamatsu family and sales representatives	32

FINANCIAL HIGHLIGHTS

Consolidated:

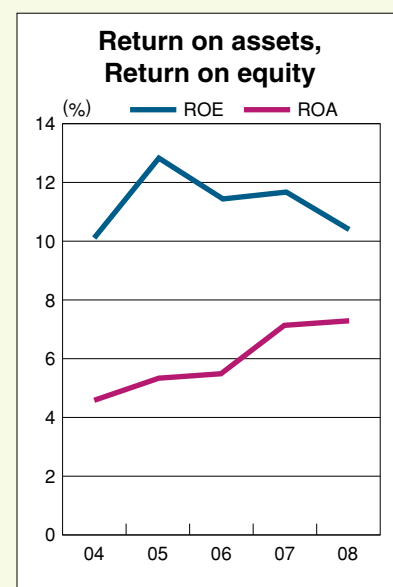
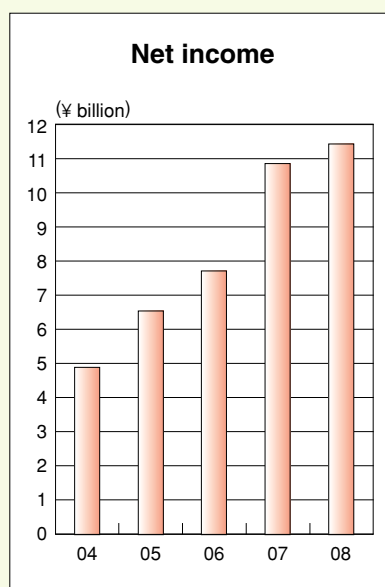
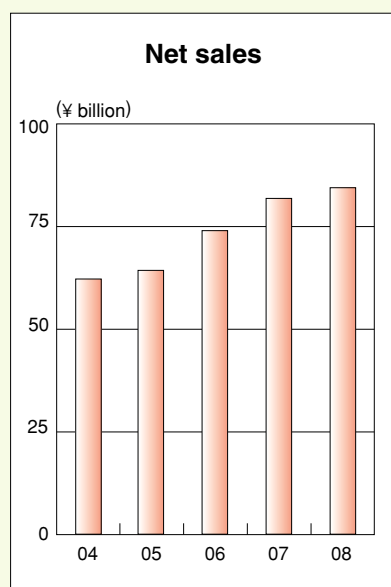
	Millions of Japanese Yen		Thousands of U.S. Dollars (*)	
	2007	2008	2007	2008
Net sales	¥ 96,317	¥ 98,811	\$ 926,125	\$ 950,106
Operating income	19,874	20,053	191,096	192,817
Income before income taxes and minority interests	19,831	20,655	190,683	198,606
Net income	12,036	13,118	115,731	126,135
Total assets	170,144	174,991	1,636,000	1,682,606
Net Assets	113,897	122,363	1,095,164	1,176,567
R & D expenses	9,700	10,161	93,269	97,702
Per share data (in Yen and U.S. Dollars)				
Net income				
- Basic	¥ 159.86	¥ 163.28	\$ 1.54	\$ 1.57
- Diluted	¥ 148.63	¥ 161.94	\$ 1.43	\$ 1.56
Cash dividends	¥ 43.00	¥ 46.00	\$ 0.41	\$ 0.44



(*) The U.S. dollar amounts above and elsewhere in this report represent translations, solely for the convenience of the reader, using the exchange rate of Japanese ¥104 = U.S.\$1.

Non-consolidated:

	Millions of Japanese Yen		Thousands of U.S. Dollars (*)	
	2007	2008	2007	2008
Net sales	¥ 81,490	¥ 84,435	\$ 783,558	\$ 811,875
Operating income	14,905	15,353	143,317	147,625
Income before income taxes	16,724	17,339	160,808	166,721
Net income	10,813	11,382	103,971	109,442
Total assets	155,164	159,445	1,491,962	1,533,125
Net Assets	103,987	111,521	999,875	1,072,317
R & D expenses	9,710	10,092	93,365	97,038
Per share data (in Yen and U.S. Dollars)				
Net income				
- Basic	¥ 143.35	¥ 141.43	\$ 1.38	\$ 1.36
- Diluted	¥ 133.31	¥ 140.27	\$ 1.28	\$ 1.35
Cash dividends	¥ 43.00	¥ 46.00	\$ 0.41	\$ 0.44





I wish to extend my warmest greetings to the many shareholders of Hamamatsu Photonics. With your support, the Company enjoyed another successful period during the fiscal year that ended September 30, 2008. It is my pleasure to now share with you some of the highlights of what was achieved.

During this past fiscal year, we saw that Japan's economy was adversely affected by factors such as increased prices of crude oil and rising costs of raw materials. The Japanese economy also suffered the effects of the worldwide financial crisis that followed the US subprime mortgage crisis. But despite such business conditions, the Company remained steadfast in its commitment to improving the proprietary photonics technology which it has developed over many years. The Company also maintained its focus on increasing both sales and profits, through the combination of proactive sales activities, the development of products that satisfy customer needs, and the implementation of cost-cutting measures.


As a result, in fiscal year 2008 the Company posted new records in sales and profits for the fifth consecutive year. Solid growth was seen in both domestic sales and export sales. The Company's total revenue for the fiscal year was ¥98.811 billion, an increase of 2.6% over the previous fiscal period. In terms of pretax profit, profit grew by 3.5% over the previous fiscal year to ¥20.882 billion in fiscal year 2008. And in terms of net profit, profits rose by 9.0% over the previous fiscal year to ¥13.117 billion in fiscal year 2008. Based on these record sales and profits, the annual dividend was increased to ¥46 per share from ¥43 per share in fiscal year 2007.

Looking ahead, as the world economy continues to slow down, making future financial conditions even less visible to us than they were, I recognize that difficult times await us. However, I believe that opportunity exists for the Company to be a lasting organization that is essential to the world. We continue to make breakthroughs each year in research and new product development; in 2008, notable achievements included the world's shortest wavelength semiconductor laser, the world's first biophoton assay system, and a new MOEMS-based mini-spectrometer. In addition, the Company was recognized by CERN (European Organization for Nuclear Research) for contributions to the development of detectors for the Large Hadron Collider experiment. So there is ample evidence that we can continue to grow as long as we share a common vision of contributing to the betterment of society through photonics technology, and as long as we continue to seek out new knowledge that will enable us to further develop and improve our proprietary technology. Such new technology, when matched to the needs of society, could serve as a stimulus to the growth of new industry and to the expansion of the Company's business operations.

As a society, we have only just begun to understand the nature of light. But even so, it is evident that there are no limits to the possible ways in which light-based technology can be used. Or, stated differently, there are infinite challenges with which the Company could be engaged. To embrace these challenges is the mission of the Company. It is our duty to push vigorously toward a deeper understanding of light; to conduct this work with shared values and high ethical standards; to unwaveringly promote basic research and research into the practical applications of light; and to feed the results of research into the development of new products which will benefit industry and society.

As the Company continues to innovate, we seek to increase our value to shareholders and to society at large. I thank you for your support of our advancement.

Sincerely,



Teruo Hiruma
Chairman of the Board and CEO
December 19, 2008

DIVISIONAL REVIEW

Electron Tube Division

For over 50 years, Hamamatsu Photonics has developed and manufactured photomultiplier tubes. This technology continues to evolve today at the Electron Tube Division, one of the company's primary manufacturing divisions. The Electron Tube Division also develops and manufactures a variety of products for use in medical applications, chemical analysis, measurement, industrial testing, and academic research. These products include photomultiplier tubes, electron multipliers, microchannel plates, image intensifiers, x-ray products (such as scintillators and microfocus x-ray sources), and a wide variety of light sources. In fiscal year 2008, sales of these products accounted for 40.3% of the company's total revenue.

Sales of photomultiplier tubes

In fiscal year 2008, a reduction in medical spending by the U.S. government led to a decline in capital spending on medical equipment, which resulted in lower sales of PMTs for PET (positron emission tomography) equipment as compared to the previous fiscal year. Similarly, sales of PMTs in the industrial application of oil well logging, in which PMTs are used as part of equipment to drill down thousands of meters underground in search of oil deposits, were also down due to inventory reduction by our main customers for this application.

By contrast, higher demand for PMTs in laboratory equipment, such as instruments for DNA analysis and for blood analysis, helped grow PMT sales in this area. The high performance of our PMTs was well received by the manufacturers of equipment for these applications. In addition, there was strong growth in sales of PMTs for analytical instrumentation and for academic research. As a result, overall sales of PMTs in fiscal year 2008 increased by 1.6% over the previous fiscal year.



Photomultiplier tubes



Image intensifiers



Light sources

Sales of imaging devices and light sources

In the medical field, there is now greater competition in the market among suppliers of x-ray scintillators for applications such as intraoral dental imaging and chest x-ray imaging. But our scintillators continue to be highly evaluated by customers, and thus sales of this product line continued to grow in fiscal year 2008. In industrial areas, there was less demand for microfocus x-ray sources for non-destructive inspection due to a reduction in capital spending by manufacturers of semiconductors; however, sales grew steadily for UV spot light sources, which are used for high-precision bonding of precision components. For analytical instrumentation, sales of deuterium lamps grew significantly thanks to the key characteristics of our lamps (long life, high stability, and high output) that make them very well suited for obtaining measurements with high precision. As a result, overall sales of imaging devices and light sources in fiscal year 2008 increased by 1.4% over the previous fiscal year.

New building for manufacturing scintillator plates and light sources

In December 2008, the Company announced the construction of a new building at the main site of the Electron Tube Division in Toyooka, as part of a plan to expand the operations of the division. The new building is aimed at strengthening the division's research and development of scintillator plates and light sources. It is also intended to significantly increase the division's manufacturing capacity of these products.

The New Building #2 will be constructed on the site of the original Building #2 (built in 1979, expanded in 1984) and on an adjacent lot. Construction is scheduled for completion by January 2010. Once completed, the New Building #2 will have approximately four times the total floor space of the original facility. The New Building #2 will enable the Electron Tube Division to grow its annual sales by 10 billion yen.



Proposed exterior of the new facility

DIVISIONAL REVIEW

Solid State Division

Solid State Division develops and manufactures opto-semiconductors for demanding applications in medical imaging, high-energy physics, and scientific measurement. Products from this division include silicon photodiodes, photo IC components, position sensitive detectors, infrared detectors, image sensors for low-light-level imaging and x-ray imaging, mini-spectrometers, and light emitting devices. In fiscal year 2008, sales of these products accounted for 42.9% of the company's total revenue.

Sales of opto-semiconductors

Solid State Division has continued to improve the performance of its core product, silicon photodiodes, through the application of MEMS (micro-electro-mechanical systems) technology. These improvements have been well received by manufacturers of medical equipment, and have contributed to increased sales of photodiodes to these customers. As for image sensors, which enable the capture of highly detailed digital images, demand has grown due to an expansion in the market for dental x-ray imaging equipment. This led to an increase in sales of image sensor in fiscal year 2008, particularly in Europe. Sales growth was also recorded for photo ICs for in-vehicle information systems (such as car navigation systems), as the division's products have been designed to reliably maintain high performance in a wide range of temperatures. Overall, Solid State Division sales increased by 7.8% over the previous fiscal year.

MOEMS mini-spectrometer

Spectroscopy is a method of chemical analysis in which the constituents of a substance are determined by illuminating a sample of the substance with light and then measuring the affected light. Spectroscopy is essential to our daily life because it is used in manufacturing, medical equipment, environmental analysis, food inspection, and many other fields.

In recent years, there has been a growing demand in some applications for a compact, low-cost spectrometer as an alternative to conventional spectrometers, which can be large and expensive. Ideally, the mini-spectrometer can be fitted within various types of equipment. Hamamatsu Photonics, as the only company in the world that manufactures its own sensors and optics for mini-spectrometers, has responded by developing a new product based on its MOEMS (MEMS plus "O" for "opto") technology. It is expected that this new product will be used in portable measuring instruments, in printers and displays for color management, and for many other applications in the future.



MOEMS mini-spectrometer



Mini-spectrometer lineup

Systems Division

Systems Division develops and manufactures a wide variety of cameras for scientific and industrial applications, as well as specialized instruments for use in fields such as pharmaceutical development, semiconductor manufacturing, x-ray nondestructive inspection, spectrophotometry, and optical communications. In fiscal year 2008, sales of these products accounted for 14.5% of the company's total revenue.

Sales of imaging and measurement systems

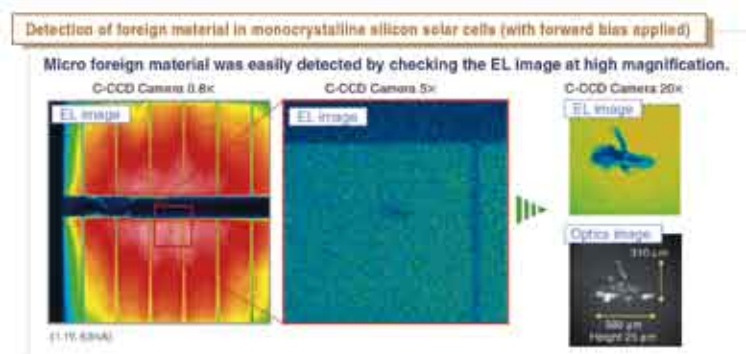
Thanks to the introduction of a new FDSS drug discovery system, which is a research tool for the development of new medicines, sales of this product line to Japanese and international pharmaceutical companies grew steadily in fiscal year 2008. In the semiconductor field, however, sales of failure analysis systems to overseas markets dropped sharply due to the postponement of new capital investment by semiconductor manufacturers, who were hit by the falling price of flash memory and other factors. Another product, the NanoZoomer Digital Pathology slide scanning system, also had slower sales despite the role it may play in the advancement of community healthcare, as many large-quantity orders had been fulfilled during the previous fiscal period. As a result, sales of imaging and measurement systems in fiscal year 2008 decreased by 5.0% compared to the previous fiscal year.

Product line for solar cell evaluation

Driven by demand for alternative energy supplies, the worldwide industry for photovoltaic (PV) solar cell manufacturing industry is growing rapidly. New, more efficient solar cells are continuously being developed, and such efforts require the use of high-precision photonics tools. In response to these needs, System Division offers high-sensitivity digital CCD cameras and infrared (InGaAs) cameras for evaluating PV cells by electroluminescence detection; a multichannel analyzer that simultaneously measures peak wavelengths of electroluminescence and photoluminescence spectra; a photoluminescence-based measurement system that measures the absolute quantum yield of organic solar cell materials; for compound thin film PV cells, systems that either evaluate the films formed on these cells or measure their film thickness distribution; and systems for identifying failure points in photovoltaic panels either by emission analysis or temperature analysis.



PV panel emission microscope system



DIVISIONAL REVIEW

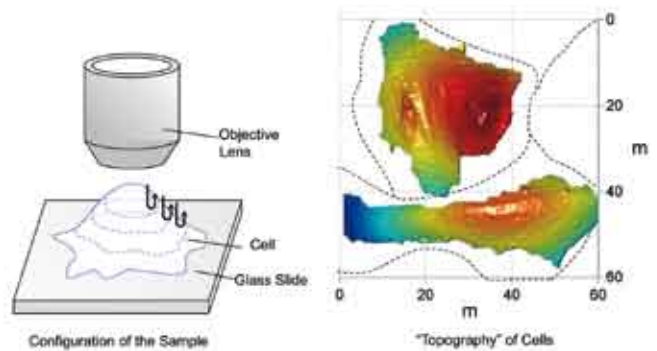
Central Research Laboratory

At the Central Research Laboratory (CRL), basic research and applied research on light is conducted by leveraging the company's many years of experience in photonics technology. The primary objective of this research center is to discover new knowledge that could serve as the basis for new industries in biotechnology, medicine, information technology, communications, energy, materials, and astronomy.

Quantitative phase microscopy

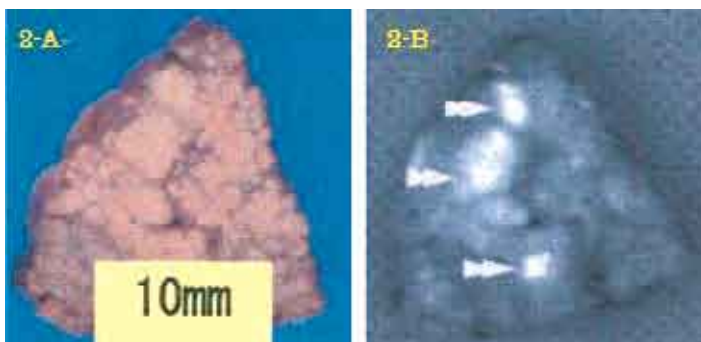
CRL researchers and their collaborators at the Massachusetts Institute of Technology have developed an innovative microscopy technique to measure the surface dynamics of living cells. This new technique, called quantitative phase microscopy, measures very faint light reflected from a cell's surface to create a computerized 3D image of the surface. The image is resolved down to one nanometer.

Quantitative phase microscopy does not use fluorescent dyes or reflectance boosters which can weaken cells, thus no harm is caused to living cells. This makes the technique especially useful in applications such as cytology and evaluations of drug effectiveness, where it is important to measure the appearance of a living cell. In the future, the technique could also prove useful in regenerative medicine (tissue engineering).



New medical application of infrared fluorescence imaging

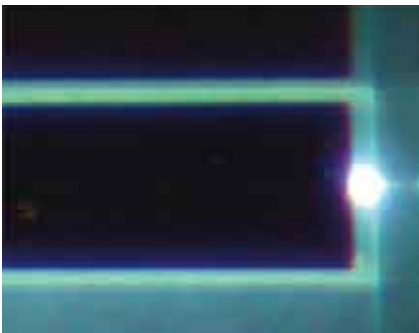
ICG (indocyanine green) dye is commonly used to monitor blood flow, as a non-radioactive contrast agent for observing lymph vessels and blood vessels, to examine sentinel nodes for breast cancer, and for diagnosis during vascular bypass surgery. Recently, researchers at CRL and the Osaka Medical Center for Cancer and Cardiovascular Diseases have obtained data which suggests that fluorescence imaging with ICG dye could also be used to detect microcellular liver cancer. This type of cancer is difficult to detect with the current standard method of x-ray computed tomography. It is hoped that this new fluorescence-based method can be further developed as an effective technique to detect cancer.



At left is a visible image of the liver tissue after excision. Prior to excision, x-ray CT scans did not reveal the presence of cancer cells. However, ICG fluorescence imaging revealed sites within the sample which were later confirmed by cytodiagnosis to be well-differentiated forms of liver cancer. (Photos courtesy of OMCCD, Dr. Terumasa Yamada and Dr. Kunihiro Gotoh.)

World's shortest-wavelength semiconductor laser

Traditionally, ultraviolet (UV) light of 200 to 350 nanometers is generated by using mercury lamps or gas laser equipment. However, CRL researchers have successfully developed a semiconductor laser that emits UV light at 342 nanometers, the shortest wavelength to be emitted by a semiconductor laser. The semiconductor laser is made from a proprietary AlGaN (aluminum gallium nitride) compound. In general, semiconductor lasers are convenient, compact devices which are environmentally friendly, have low power consumption, and have long lifetimes. An easy-to-use UV semiconductor laser can be beneficial in a variety of fields including biotechnology, environmental science, and communications. CRL will continue development to secure the reliability and lifetime of this laser, as Hamamatsu Photonics seeks to commercialize this UV semiconductor laser.



Close-up of the 342 nm semiconductor laser.

New facility for integral optics

In 2009, a new Integral Optics Building will be constructed at the CRL. Once completed, the new facility will serve as a research center for the development of ultra-compact products which combine optical systems with photonic devices. The new facility will house equipment for the development of integral optics-based products, and will be the new office for R&D groups that have been working on companywide integral optics projects during the past several years. Furthermore, the new facility will enable Hamamatsu Photonics to consolidate its expertise on various technologies related to integral optics, which until now has been distributed among various divisions of the company. These technologies include those for optical systems design, optical thin film manufacturing, and MOEMS device fabrication. Through this consolidation, the company will be better positioned to accumulate new know-how in integral optics. It will also improve efficiency in new product development.



Proposed exterior of the new facility.

DIVISIONAL REVIEW

Contributions to high-energy physics

In October 2008, CERN (European Organization for Nuclear Research) presented Hamamatsu Photonics with a commemorative plaque placed in front of CERN Building 40 for the company's contribution to the development of detectors for the Large Hadron Collider (LHC), the world's largest particle accelerator.

The LHC was built to find answers to fundamental questions about the nature of the universe. It lies in a tunnel that is approximately 27 km in circumference and 100 meters underground. In the LHC, two beams of protons are accelerated in opposite directions at the speed of light. When they collide, these extremely high energy collisions produce subatomic particles which could shed light on conditions that existed soon after the Big Bang.

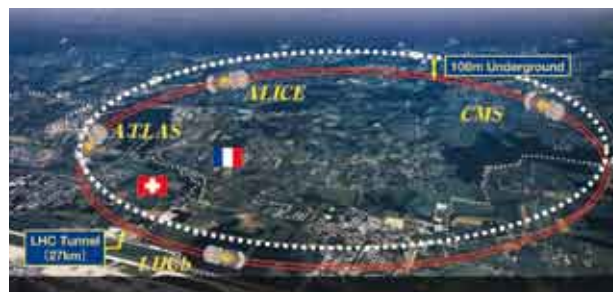
Located at four points around the LHC are giant detectors used to record and analyze these collisions: ATLAS, ALICE, CMS, and LHCb. These detectors are the “eyes” of the LHC, with which new discoveries in physics will be made. Hamamatsu Photonics manufactured tens of thousands of photonic components for use within these detectors over a 10-year period. During this time, the company's product development and manufacturing capabilities were highly evaluated by CERN, to the extent that nearly all of the opto-semiconductors used in the LHC are made by Hamamatsu Photonics.

In addition to the commemorative plaque, Hamamatsu Photonics has received four supplier awards from CERN in recent years. Criteria for the awards included the ability to push the boundaries of sensor technology, the delivery of uniformly high-quality products which exceeded the technical specifications of the contract, and the ability to meet strict delivery schedules and costs. The awards were:

- **CMS 200 m² Silicon Tracker Crystal Award** for delivery of more than 20,000 large-area silicon strip sensors for use in the CMS Silicon Tracker, the largest silicon detector ever built.
- **ATLAS Silicon Tracker Supplier Award** for delivery of over 15,000 silicon microstrip sensors for the ATLAS Semiconductor Tracker subdetector.
- **Alcazar/LHCb Award for Hamamatsu Photomultiplier Tubes** in recognition of the R7600-M64 multichannel photomultiplier, which was developed specifically to meet CERN requirements for the LHCb pre-shower detector.
- **CMS ECAL Award** for delivery of 140,000 large-surface, radiation-hard APDs (avalanche photodiodes) for use in the electromagnetic calorimeter of the CMS detector.



Commemorative plaque



Aerial view of the LHC



Interior of the CMS detector

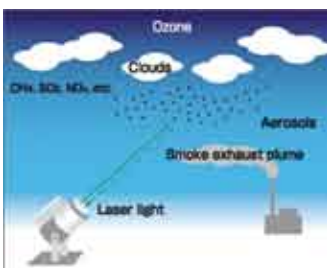
Contributions to environmental protection

Concerns over the state of the global environment have prompted greater activity at all levels of society to protect the environment. Hamamatsu Photonics has joined the efforts of governments, industries, and individuals all over the world to find solutions to the environmental challenges that we face. Shown here are some specific examples of the company's contributions.



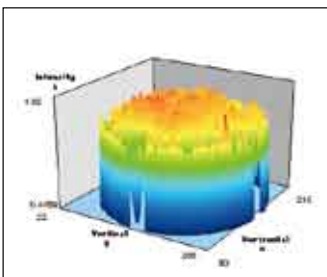
Biophoton assay system

Hamamatsu Photonics has developed the world's first "biophoton assay system," which provides a quick, easy, and low-cost way to measure the toxicity of chemical substances by measuring light emissions from plants. The weaker the emitted light, the greater the toxic effect of the chemical. This system will facilitate the measurement of thousands of chemical compounds whose ecotoxicity has yet to be determined.



Environmental analysis

High-sensitivity detectors such as photomultiplier tubes are found in equipment for analyzing various conditions of the atmosphere, such as the change in the ozone layer over time. Also, quantum cascade lasers have a strong potential to be used as a light source in next-generation environmental monitoring systems.

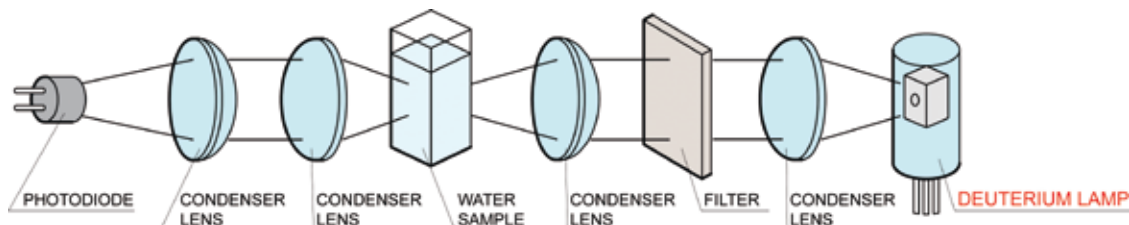


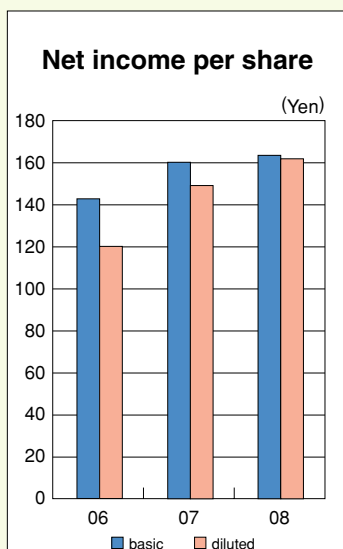
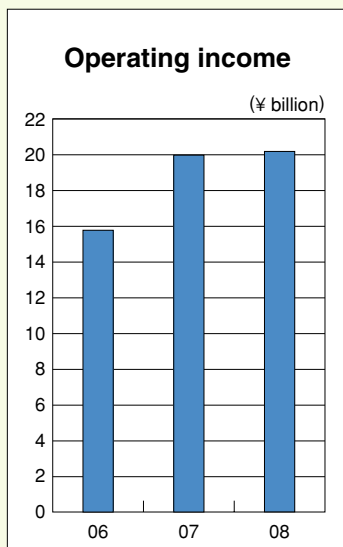
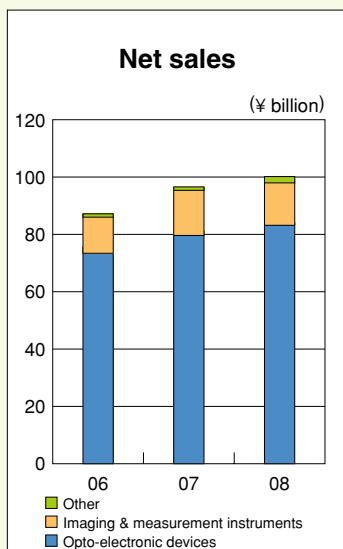
Combustion studies

The company's ICCD (intensified CCD) cameras are used by researchers and engineers to conduct combustion studies of the interiors of engines. This information can be applied towards the development of more efficient engines which are less harmful to the environment.

Analysis of air and water quality

Photonic devices are found in many types of instruments for analyzing pollutants in air or water. For these applications, Hamamatsu Photonics provides light sources such as deuterium lamps and hollow cathode lamps to illuminate the sample. To detect the light from a sample, devices such as photomultiplier tubes, infrared detectors, photodiodes, and CCD image sensors can be used.





Net sales

Consolidated net sales for the fiscal year ended September 30, 2008 were JPY 98,811 million (US\$950,106 thousand), up by 2.6% or JPY 2,494 million (US\$23,981 thousand) over the previous year. Sales in the Opto-electronic Devices segment amounted JPY 83,473 million (US\$802,625 thousand), 4.4% increase from JPY 3,506 million (US\$33,711 thousand) the previous year. Sales of Photomultiplier Tubes (PMTs) continued to increase steadily, driven by PMTs used in the field of blood and DNA analysis. The success of these sales can be attributed to their high performance and our satisfaction of customers' volume demand for tubes. PMTs for analytical and academic research also grew steadily. However, sales of PMTs for Positron Emission Tomography (PET) decreased due to a reduction in capital investment for medical equipment traceable to the effect of Medicare reimbursement in the U.S. In addition, PMTs used in oil well logging were down. In the Light Sources and Imaging Devices sector, the sale of X-ray Scintillators, which converts X-rays into Optical images for dental and breast imaging, continued to increase due to their high sensitivity and resolution, despite tough competition. In the industrial field, sales of UV Spot Light Source for UV cure bonding grew steadily, while sales of Microfocus X-ray sources for non-destructive inspection systems were down. In the field of analytical instrument, sales of deuterium (D2) lamps that feature higher stability, output, and longer life increased steadily. In the Opto-semiconductor sector, sales of Silicon Photodiodes for the medical field continued to command good results due to increased performance as a result of utilizing our own Micro-Electro-Mechanical Systems (MEMS) technology in their design and operation. Sales of Image Sensors for dental rose substantially mainly in Europe. Photo ICs for communication network applications in the automotive industry in Europe contributed to a sales increase in this sector. They exhibit high-reliability over a wide temperature range. Sales of the Imaging and Measurement Instruments segment fell 6.3% to JPY 14,699 million (US\$141,337 thousand). Sales of the Functional Drug Screening System (FDSS) for research associated with drug discovery grew, due to release of new products that meet user's needs. This increase was fueled by drug manufactures in Japan and overseas. However, sales of Semiconductor Failure Analysis Systems were down due to delays in capital investment in the semiconductor industry attributed to a drop in the price of flash memories. In the field of medical pathology, sales of our high speed and high resolution, network capable, digital slide observation system were also down due to a rebound from good results last year.

Net sales from other business, mainly hotel operations, were down by 3.9% to JPY 639 million (US\$6,144 thousand).

Domestic sales were slightly up by 0.6% to JPY 35,361 million (US\$340,010 thousand) and overseas sales were up by 3.7% to JPY 63,450 million (US\$610,096 thousand). Overseas sales to the U.S. were 0.1% up to JPY 25,124 million (US\$241,577 thousand) and to Europe were 3.6% up to JPY 23,502 million (US\$225,981). Sales in Asia was also up by 11.9% to JPY 14,352 million (US\$138,000 thousand) from last fiscal year.

Operating income

Cost of sales increased 4.5% or JPY 2,005 million (US\$19,279 thousand) over the previous year to JPY 46,361 million (US\$445,779 thousand) due to an increase in materials and depreciation. The cost of sales ratio got worse 0.9 points to 46.9% this year. Selling, general and administrative expenses were JPY 22,236 million (US\$213,808 thousand), down by 0.7%, JPY 151 million (US\$1,452 thousand). Research and development expenses were JPY 10,161 million (US\$97,702 thousand), up by 4.8% from previous year. As a result, operating income was JPY 20,053 million (US\$192,817 thousand), up by 0.9%. Operating income for Opto-electronic devices and Imaging and measurement instruments business segment was JPY 28,009 million (US\$269,317 thousand), up by 2.5% and JPY 2,526 million (US\$24,289 thousand), down by 6.0%, respectively. Other business recorded an operating loss of JPY 133 million (US\$1,279 thousand).

Net income

Other income, on net basis, was JPY 602 million (US\$5,789 thousand), compared with JPY 43 million (US\$413 thousand) net of other expenses. Reflecting the sales growth and previously cited factors, net income for the fiscal year ended September 30, 2008 was up by 9.0% to JPY 13,118 million (US\$126,135 thousand) from JPY 12,036 million (US\$115,731 thousand). Consequently, basic and diluted net income per share increased from JPY 159.86 (US\$1.54) and JPY 148.63 (US\$1.43) to JPY 163.28 (US\$1.57) and JPY 161.94 (US\$1.56), respectively. Dividend per share applicable to the fiscal year was JPY 46 (US\$0.44).

Financial position

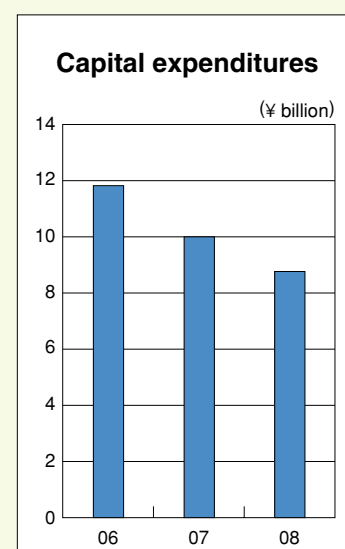
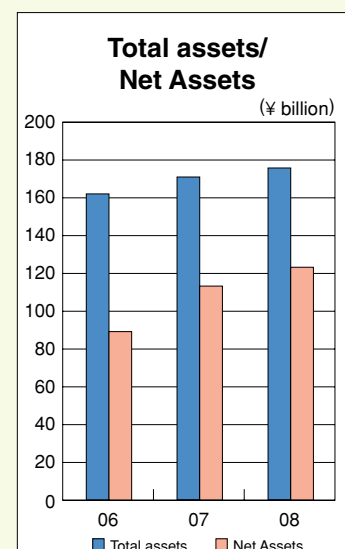
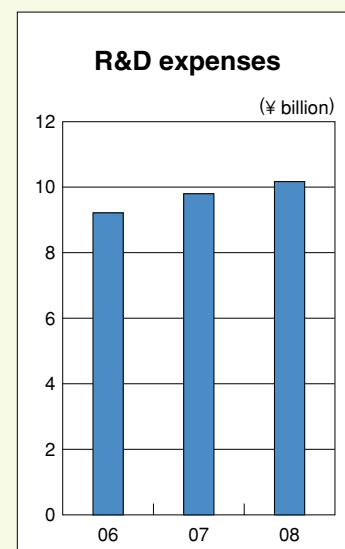
Current assets rose 6.8% to JPY 108,055 million (US\$1,038,991 thousand), mainly due to increased cash on hand and in banks and inventories, while other accounts receivable was decreased. Property, plant and equipment decreased from JPY 57,335 million (US\$551,298 thousand) to JPY 55,689 million (US\$535,471 thousand) due to a decrease in capital investment and an increase in depreciation. Investments and other assets were JPY 11,247 million (US\$108,144 thousand), down by 3.5% or JPY 404 million (US\$3,885 thousand). Total Assets at the end of fiscal year 2008 were JPY 174,991 million (US\$1,682,606 thousand), up by JPY 4,847 million (US\$46,606 thousand). Current liabilities dropped from JPY 32,408 million (US\$311,615 thousand) to JPY 31,420 million (US\$302,116 thousand). This decrease was mainly the result of decreases in debt repayments and allowance for bonus to employees. Fixed liabilities decreased from JPY 23,839 million (US\$229,221 thousand) to JPY 21,208 million (US\$203,923 thousand) due to decreased long-term debts. Total liabilities for the fiscal year ended September 30, 2008 were JPY 52,628 million (US\$506,039 thousand), down by 6.4%. Net Assets were JPY 122,363 million (US\$1,176,567 thousand), up by 7.4% or JPY 8,466 million (US\$81,403 thousand) over previous year. The net assets ratio was 69.0%, compared to 66.4% at a year before. The current ratio was up from 312.1% to 343.9%.

Cash flows

Cash flow created from operations for the period was JPY 20,226 million (US\$194,481 thousand), up by JPY 2,038 million (US\$19,596 thousand) over last year. This is mainly from an increase in account payable and depreciation, while there were increases in inventories. Investment activity required a cash flow of JPY 14,044 million (US\$135,039 thousand), decreased in JPY 4,199 million (US\$40,374 thousand) from previous year due mainly to a decrease in acquisition of tangible assets and time deposits over three months. Financial activity created a cash flow of JPY 4,247 million (US\$40,836 thousand), due mainly to reimbursement of redemption of convertible debentures. At the end of this fiscal year, cash and cash equivalent stood at JPY 44,805 million (US\$430,817 thousand), up by JPY 9,738 million (US\$93,634 thousand) from the end of the previous fiscal year.

Capital expenditures

Capital expenditures including intangible assets during fiscal year 2008 totaled JPY 8,738 million (US\$84,019 thousand), 11.8% or JPY 1,174 million (US\$11,289 thousand) lower than previous fiscal year. In the Opto-electronic device segment, major investments were made to expand and improve the manufacturing building and research and development facilities. Total investment for this segment amounted to JPY 5,689 million (US\$54,702 thousand) for the fiscal year. Capital expenditures for Imaging and Measurement Instrument segment were JPY 702 million (US\$6,750 thousand), mainly for expanding and improving the manufacturing building and research and development facilities. Investments in other business and corporate areas were JPY 2 million (US\$19 thousand) and JPY 2,345 million (US\$22,548 thousand), respectively. There was no sale or disposal of material fixed assets during this fiscal year.



FIVE-YEAR SUMMARY

Hamamatsu Photonics K.K. and Consolidated Subsidiaries

Years ended September 30

	Millions of Japanese Yen				
	2004	2005	2006	2007	2008
For the year :					
Net sales	¥ 70,467	¥ 73,909	¥ 86,989	¥ 96,317	¥ 98,811
Operating income	9,689	11,692	15,726	19,874	20,053
Income before income taxes and minority interests	8,095	11,864	15,764	19,831	20,655
Net income	4,653	7,726	9,742	12,036	13,118
Capital expenditures	6,026	9,989	11,838	9,912	8,738
Depreciation	7,010	6,615	7,007	7,995	9,116
R&D expenses	8,771	8,847	9,181	9,700	10,161
At year-end:					
Working capital	¥ 31,325	¥ 56,739	¥ 40,866	¥ 68,750	¥ 76,635
Total assets	119,046	144,438	161,192	170,144	174,991
Common stock	16,077	16,084	26,487	34,770	34,927
Net Assets	50,966	58,400	88,144	113,897	122,363
Number of shares issued (thousands)	68,346	68,353	77,356	83,622	83,763
Number of employees	3,131	3,274	3,468	3,600	3,762
Japanese Yen					
Per share data:					
Net income					
Basic	¥ 69.86	¥ 117.98	¥ 142.39	¥ 159.86	¥ 163.28
Diluted	63.25	97.21	120.47	148.63	161.94
Cash dividends	20.00	25.00	35.00	43.00	46.00
Net Assets	783.30	897.63	1,179.86	1,407.96	1,501.62
Percent					
Ratios:					
Equity ratio	42.8	40.4	54.2	66.4	69.0
Return on net sales	6.6	10.5	11.2	12.5	13.3
Return on assets	4.0	5.9	6.4	7.3	7.6
Return on equity	9.1	14.1	13.4	12.0	11.2

Japan

- Takaoka Electronics Co., Ltd.**
Hamamatsu City, Shizuoka Pref., Japan
- Koso Corporation**
Iwata City, Shizuoka Pref., Japan
- Hamamatsu Electronic Press Co., Ltd.**
Iwata City, Shizuoka Pref., Japan
- Photochemical Co., Ltd.**
Okayama City, Okayama Pref., Japan
- Iwata Grand Hotel Inc.**
Iwata City, Shizuoka Pref., Japan
- China Healthcare K.K.**
Hamamatsu City, Shizuoka Pref., Japan

China

- Beijing Hamamatsu Photon Techniques, Inc.**
Beijing, China
- Hangzhou Zheda Hamamatsu Photonics Science and Technology Co., Ltd.**
Hangzhou, Zhejiang, China

U.S.A.

- Photonics Management Corp.**
Bridgewater, New Jersey, U.S.A.
- Hamamatsu Corporation**
Bridgewater, New Jersey, U.S.A.
- Universal Spectrum Corporation**
Middlesex, New Jersey, U.S.A.
- Photonics Hawaii Corporation**
Honolulu, Hawaii, U.S.A.

Europe

- Hamamatsu Photonics Deutschland GmbH**
Herrsching, Germany
- Hamamatsu Photonics France S.A.R.L.**
Massy Cedex, France
- Hamamatsu Photonics UK Limited**
Welwyn Garden City, United Kingdom
- Hamamatsu Photonics Norden AB**
Solna, Sweden
- Hamamatsu Photonics Italia S.R.L.**
Arese, Italy
- Spectro solutions AG**
Zurich, Switzerland

CONSOLIDATED BALANCE SHEETS

Hamamatsu Photonics K.K. and Consolidated Subsidiaries

As of September 30, 2007 and 2008

ASSETS	Millions of Japanese Yen		Thousands of U.S. Dollars (Note 1)	
	2007	2008	2007	2008
Current assets:				
Cash on hand and in banks	¥ 44,324	¥ 59,007	\$ 426,192	\$ 567,375
Receivables:				
Trade notes and accounts receivable	24,109	23,489	231,817	225,856
Less allowance for doubtful receivables	(176)	(179)	(1,692)	(1,721)
Inventories (Note 3)	17,810	20,239	171,250	194,606
Prepaid expenses and other	11,829	2,840	113,740	27,308
Deferred income taxes	3,262	2,659	31,366	25,567
	<u>101,158</u>	<u>108,055</u>	<u>972,673</u>	<u>1,038,991</u>
Property, plant and equipment, at cost (Notes 4 and 5):				
Land	13,628	13,645	131,039	131,202
Buildings	47,488	47,575	456,615	457,452
Machinery and equipment	70,908	74,781	681,808	719,048
Construction in progress	2,501	2,987	24,048	28,721
	<u>134,525</u>	<u>138,988</u>	<u>1,293,510</u>	<u>1,336,423</u>
Less accumulated depreciation	(77,190)	(83,299)	(742,212)	(800,952)
	<u>57,335</u>	<u>55,689</u>	<u>551,298</u>	<u>535,471</u>
Investments and other assets:				
Investment securities (Note 6)	2,822	1,868	27,135	17,961
Investments in and advances to non-consolidated subsidiaries and affiliates	1,152	1,071	11,077	10,298
Other assets	2,062	2,190	19,827	21,058
Deferred income taxes	5,615	6,118	53,990	58,827
	<u>11,651</u>	<u>11,247</u>	<u>112,029</u>	<u>108,144</u>
	<u>¥ 170,144</u>	<u>¥ 174,991</u>	<u>\$ 1,636,000</u>	<u>\$ 1,682,606</u>

See Notes to Consolidated Financial Statements.

LIABILITIES AND NET ASSETS	Millions of Japanese Yen		Thousands of U.S. Dollars (Note 1)	
	2007	2008	2007	2008
Current liabilities:				
Short-term bank loans (Note 4)	¥ 1,423	¥ 1,401	\$ 13,683	\$ 13,471
Current portion of long-term debt (Note 4)	2,303	2,810	22,144	27,019
Payables:				
Trade notes and accounts	11,526	12,595	110,827	121,106
Construction and other	5,325	4,736	51,202	45,538
Income taxes	3,458	3,090	33,250	29,712
Accrued expenses	5,682	3,984	54,634	38,308
Other	2,691	2,804	25,875	26,962
	<u>32,408</u>	<u>31,420</u>	<u>311,615</u>	<u>302,116</u>
Long-term liabilities:				
Long-term debt (Note 4)	10,072	6,980	96,846	67,115
Allowance for retirement and severance benefits (Note 7) ...	13,538	14,113	130,173	135,702
Other	73	4	702	39
Deferred income taxes	156	111	1,500	1,067
	<u>23,839</u>	<u>21,208</u>	<u>229,221</u>	<u>203,923</u>
Net assets:				
Shareholders' equity				
Common stock, no par value:				
Authorized - 250,000,000 shares				
Issued - 83,622,327 shares in 2007				
- 83,763,184 shares in 2008	34,770	34,927	334,327	335,837
Additional paid-in capital	34,514	34,671	331,865	333,375
Retained earnings (Note 9)	47,836	57,542	459,962	553,288
Less treasury stock, at cost	(6,040)	(6,046)	(58,077)	(58,135)
Unrealized gains and adjustments				
Unrealized gains on securities, net of tax	1,104	408	10,615	3,923
Deferred hedge gain	-	27	-	260
Foreign currency translation adjustments	812	(807)	7,808	(7,760)
Minority interests in consolidated subsidiaries	901	1,641	8,664	15,779
	<u>113,897</u>	<u>122,363</u>	<u>1,095,164</u>	<u>1,176,567</u>
	<u>¥ 170,144</u>	<u>¥ 174,991</u>	<u>\$1,636,000</u>	<u>\$1,682,606</u>

CONSOLIDATED STATEMENTS OF INCOME

Hamamatsu Photonics K.K. and Consolidated Subsidiaries

Years ended September 30, 2007 and 2008

	Millions of Japanese Yen		Thousands of U.S. Dollars (Note 1)	
	2007	2008	2007	2008
Net sales	¥ 96,317	¥ 98,811	\$ 926,125	\$ 950,106
Operating costs and expenses:				
Cost of sales	44,356	46,361	426,500	445,779
Selling, general and administrative expenses	22,387	22,236	215,260	213,808
Research and development	9,700	10,161	93,269	97,702
Operating income	19,874	20,053	191,096	192,817
Other income (expenses):				
Interest and dividend income	389	498	3,740	4,788
Interest expense	(148)	(179)	(1,423)	(1,721)
Other, net	(284)	283	(2,730)	2,722
Income before income taxes and minority interests	19,831	20,655	190,683	198,606
Income taxes				
Current	7,308	7,198	70,269	69,211
Deferred	381	214	(3,664)	2,058
	7,689	7,412	73,933	71,269
Income before minority interests	12,142	13,243	116,750	127,337
Minority interests in consolidated subsidiaries	(106)	(125)	(1,019)	(1,202)
Net income	¥ 12,036	¥ 13,118	\$ 115,731	\$ 126,135

	Japanese Yen		U.S. Dollars (Note 1)	
	2007	2008	2007	2008
Per share of common stock:				
Net income -Basic	¥ 159.86	¥ 163.28	\$ 1.54	\$ 1.57
-Diluted	148.63	161.94	1.43	1.56
Cash dividends applicable to the year	43.00	46.00	0.41	0.44

See Notes to Consolidated Financial Statements.

Hamamatsu Photonics K.K. and Consolidated Subsidiaries

Years ended September 30, 2007 and 2008

	Millions of Japanese Yen		Thousands of U.S. Dollars (Note 1)	
	2007	2008	2007	2008
Common stock:				
Beginning balance	¥ 26,487	¥ 34,770	\$ 254,683	\$ 334,327
Conversion of convertible debentures	7,309	-	70,279	-
Exercise of Stock Subscription Rights-increase in capital	974	157	9,365	1,510
Ending balance	<u>34,770</u>	<u>34,927</u>	<u>334,327</u>	<u>335,837</u>
Additional paid-in capital:				
Beginning balance	26,236	34,514	252,269	331,865
Proceeds in excess of common stock issued upon conversion of convertible debentures	7,304	-	70,231	-
Exercise of Stock Subscription Rights increase in additional paid in capital.....	974	157	9,365	1,510
Ending balance	<u>¥ 34,514</u>	<u>34,671</u>	<u>331,865</u>	<u>333,375</u>
Retained earnings:				
Beginning balance	38,803	47,836	373,106	459,962
Net income	12,036	13,118	115,731	126,135
Cash dividends	(2,990)	(3,459)	(28,750)	(33,260)
Effect of change in interest in subsidiary	-	64	-	615
Other	(13)	(17)	(125)	(164)
Ending balance	<u>47,836</u>	<u>57,542</u>	<u>459,962</u>	<u>553,288</u>
Treasury stock, at cost:				
Beginning balance	(6,017)	(6,040)	(57,856)	(58,077)
Acquired, net	(23)	(6)	(221)	(58)
Ending balance	<u>(6,040)</u>	<u>(6,046)</u>	<u>(58,077)</u>	<u>(58,135)</u>
Unrealized gain on securities, net of tax:				
Beginning balance	1,712	1,104	16,461	10,615
Net change during the year	(608)	(696)	(5,846)	(6,692)
Ending balance	<u>1,104</u>	<u>408</u>	<u>10,615</u>	<u>3,923</u>
Deferred hedge gain:				
Beginning balance	(53)	-	(510)	-
Net change during the year	53	27	510	260
Ending balance	<u>-</u>	<u>27</u>	<u>-</u>	<u>260</u>
Foreign currency translation adjustments:				
Beginning balance	136	812	1,308	7,808
Net change during the year	676	(1,619)	6,500	(15,568)
Ending balance	<u>812</u>	<u>(807)</u>	<u>7,808</u>	<u>(7,760)</u>
Minority interests in consolidated subsidiaries:				
Beginning balance	840	901	8,077	8,664
Net change during the year	61	740	587	7,115
Ending balance	<u>901</u>	<u>1,641</u>	<u>8,664</u>	<u>15,779</u>
Total Net Assets	<u>¥ 113,897</u>	<u>¥ 122,363</u>	<u>\$1,095,164</u>	<u>\$1,176,567</u>

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Hamamatsu Photonics K.K. and Consolidated Subsidiaries

Years ended September 30, 2007 and 2008

	Millions of Japanese Yen		Thousands of U.S. Dollars (Note 1)	
	2007	2008	2007	2008
Cash flows from operating activities:				
Income before income taxes and minority interests	¥ 19,831	¥ 20,655	\$ 190,683	\$ 198,606
Depreciation	8,032	9,214	77,231	88,596
Increase in allowance for doubtful accounts	26	19	250	183
Decrease in allowance for bonuses	(1,004)	(1,241)	(9,654)	(11,933)
Increase in allowance for retirement and severance benefit	676	575	6,500	5,529
Interest and dividend income	(389)	(498)	(3,740)	(4,788)
Interest expense	148	179	1,423	1,721
Foreign exchange (gain) loss	(55)	1	(529)	10
Gain on investments accounted for by the equity method	(96)	(89)	(923)	(856)
Loss on disposal of property	234	194	2,250	1,865
Gain on property sold	(9)	(40)	(86)	(385)
Loss on revaluation of marketable securities	33	13	317	125
Increase in receivables, trade	(839)	(237)	(8,067)	(2,279)
Increase in inventories	(2,231)	(2,976)	(21,452)	(28,615)
Increase in payables, trade	72	1,852	692	17,808
Payment of bonuses to directors and corporate auditors	(60)	-	(577)	-
Other	2,022	(159)	19,442	(1,529)
Subtotal	26,391	27,462	253,760	264,058
Interest and dividend received	395	498	3,798	4,788
Interest expense paid	(148)	(179)	(1,423)	(1,721)
Income taxes paid	(8,450)	(7,555)	(81,250)	(72,644)
Net cash provided by operating activities	18,188	20,226	174,885	194,481
Cash flows from investing activities:				
Increase in time deposits	(6,143)	(4,950)	(59,067)	(47,596)
Payments for acquisition of securities	(76)	(1,891)	(731)	(18,183)
Proceeds from sales of securities	-	1,374	-	13,211
Payments for acquisition of property, plant and equipment	(11,890)	(8,600)	(114,327)	(82,692)
Proceeds from sales of property, plant and equipment	33	124	317	1,192
Payments for acquisition of intangible fixed assets	(164)	(159)	(1,577)	(1,529)
Proceeds from sales of investment securities	9	35	87	337
Other	(12)	23	(115)	221
Net cash used in investing activities	(18,243)	(14,044)	(175,413)	(135,039)
Cash flows from financing activities:				
Decrease in short-term debt	(785)	(22)	(7,548)	(212)
Proceeds from long-term debt	6,677	42	64,202	404
Payment of long-term debt	(5,008)	(2,313)	(48,154)	(22,240)
Payments for redemption of convertible debenture	(9,430)	-	(90,673)	-
Proceeds from reversal of reserve for convertible debenture	-	9,373	-	90,125
Payments for acquisition of treasury stock	(23)	(6)	(221)	(58)
Dividends paid by the Company	(2,988)	(3,462)	(28,731)	(33,289)
Other	(40)	635	(385)	6,106
Net cash provided by (used in) financing activities	(11,597)	4,247	(111,510)	40,836
Effect of exchange rate changes on cash and cash equivalents	286	(691)	2,750	(6,644)
Net increase (decrease) in cash and cash equivalents	(11,366)	9,738	(109,288)	93,634
Cash and cash equivalents at beginning of year	46,433	35,067	446,471	337,183
Cash and cash equivalents at end of year	¥ 35,067	¥ 44,805	\$ 337,183	\$ 430,817

See Notes to Consolidated Financial Statements.

1. Basis of Presenting Consolidated Financial Statements

The accompanying consolidated financial statements of Hamamatsu Photonics K.K. (the "Company") and consolidated subsidiaries are prepared on the basis of accounting principles generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards, and are compiled from the consolidated financial statements prepared by the Company as required by the Financial Instruments and Exchange

Law of Japan. For convenience, the accompanying consolidated financial statements have been presented in U.S. dollars by arithmetically translating all Japanese yen amounts at ¥ 104 = US\$1, the exchange rate prevailing on September 30, 2008. The translations should not be construed as a representation that Japanese yen have been, could have been, or could in the future be, converted into U.S. dollars at that or any other rate.

2. Summary of Significant Accounting Policies

(a) Principles of Consolidation

The consolidated financial statements as of and for the year ended September 30, 2007 included the accounts of the Company, six domestic subsidiaries and thirteen foreign subsidiaries in the United States of America, EU and People's Republic of China, and those as of and for the year ended September 30, 2008 included the accounts of the Company, six domestic subsidiaries and twelve foreign subsidiaries. The Company has adopted the equity method of accounting for its investment in four affiliates for the years ended September 30, 2007 and 2008. Investment in other affiliates is carried at cost due to its immateriality. All significant intercompany balances and transactions have been eliminated in consolidation.

(b) Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, readily available deposits and highly liquid investments with insignificant risk of changes in value, which have original maturities of three months or less.

(c) Investment Securities

Marketable securities are valued by market price method based on the fair market price at the balance sheet date (unrealized gain or loss, net of applicable income taxes, included directly in net assets) and non-marketable securities are stated at cost determined by the total average method.

(d) Inventories

Finished goods, work in process and raw materials are stated at cost determined by the total average method, and supplies are stated at cost determined by the most recent purchase price method for the Company. Inventories of consolidated subsidiaries are principally stated at the lower of cost or market, with cost determined by the first-in and first-out method.

(e) Property, Plant and Equipment, and Depreciation

Property, plant and equipment are stated at cost. Significant renewals and additions are capitalized. Maintenance and repairs, including minor renewals and improvements, are charged to income as incurred. Interest expense relating to the construction of plant and equipment is not capitalized.

Depreciation of plant and equipment is determined by the declining-balance method over the estimated useful lives of the individual assets for the Company and its domestic subsidiaries. The straight-line method over the estimated useful lives of the individual assets is primarily applied to the plant and equipment of foreign subsidiaries.

Depreciation of property, plant and equipment of the Company acquired on or before March 31, 2007 and for which accumulated depreciation has reached 95% of the acquisition cost is computed by the

revised declining-balance method under the revised Japanese Corporate Tax Law effective April 1, 2007. The difference between the 5% of the acquisition cost and the nominal value will be allocated to the period of 5 years. As a result, operating income decreased by ¥ 241 million (US\$2,317 thousand), ordinary income decreased by ¥ 246 million (US\$2,365 thousand) and net income decreased by ¥ 141 million (US\$1,356 thousand), respectively.

(f) Research and Development

Research and development expenses are charged to income as incurred.

(g) Retirement and Severance Benefits

The allowance for retirement and severance benefits represent the projected benefit obligations in excess of the plan asset at the balance sheet date. Actuarial gain or loss is amortized by the straight-line method over 10 years from the following fiscal year.

The Company provides the allowance for retirement benefits for directors and corporate auditors based on the internal corporate policy.

(h) Provision for Product Warranty

As warranty expenses for certain products sold by consolidated subsidiaries are subsequently realized, a provision for product warranty has been recorded in order to reflect the results of their operations more accurately.

(i) Foreign Currency Translation

Monetary assets and liabilities denominated in foreign currencies are translated into yen at the exchange rates in effect on the respective balance sheet dates or at the rate of each forward exchange contract.

Assets and liabilities accounts of foreign consolidated subsidiaries are translated into yen amounts at the exchange rates in effect at the each balance sheet date. Revenue and expense accounts of foreign consolidated subsidiaries were translated into yen amounts at average rates for the period for each fiscal year. Any resulting translation differences are included in Minority interests in consolidated subsidiaries and adjustments arising from translation of accounts of foreign consolidated subsidiaries as a separate component of net assets.

(j) Lease

Finance leases other than those that are deemed to transfer the ownership of the leased assets to the lessee are accounted for as operating leases.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(k) Hedging Account

The Companies have entered into foreign forward contracts in order to manage the exposures to risk arising from fluctuations in foreign currency exchange rates. All derivative financial instruments are recognized as either assets or liabilities and measured at fair value with any changes in unrealized gain or loss recognized in the statements of income, except for those which meet the criteria for deferral hedge accounting under which unrealized loss or gain is deferred as an asset or liability until maturity of the hedged transactions.

(l) Income Taxes

Deferred income taxes are provided on the asset and liability method by which deferred tax assets and liabilities are recognized based on the temporary differences between the assets and liabilities for finan-

cial reporting and those for tax purpose, and are measured by applying currently enacted tax laws.

(m) Per share information

Net income per share is computed based on the net income available for distribution to the shareholders of common stock and the weighted average number of shares outstanding during the year. Diluted net income per share assumes full conversion of outstanding convertible debentures at the beginning of the fiscal year or at the time of issuance with an applicable adjustment for related interest expense, net of tax. Cash dividends per share shown for each year in the consolidated statements of income represent dividends declared as applicable to the respective periods.

3. Inventories

Inventories at September 30, 2007 and 2008 were summarised as follows:

	Millions of Japanese Yen		Thousands of U.S. Dollars	
	2007	2008	2007	2008
Finished goods	¥ 3,883	¥ 4,503	\$ 37,337	\$ 43,298
Work in process	9,483	10,841	91,183	104,240
Raw materials and supplies	4,444	4,895	42,731	47,067
	¥17,810	¥20,239	\$171,250	\$194,606

4. Short-Term Bank Loans and Long-Term Debt

Short-term bank loans represent notes maturing generally within six months. The average annual interest rate applicable to the short-term bank loans at September 30, 2008 was 1.4%.

Long-term debt at September 30, 2007 and 2008 was as follows:

	Millions of Japanese Yen		Thousands of U.S. Dollars	
	2007	2008	2007	2008
0.00% unsecured convertible debentures due in 2009	¥ 1,673	¥ 1,360	\$ 16,087	\$ 13,077
Loans principally from banks due serially through 2012	10,702	8,430	102,904	81,058
Less current portion	(2,303)	(2,810)	(22,144)	(27,019)
	¥ 10,072	¥ 6,980	\$ 96,846	\$ 67,115

At September 30, 2007 and 2008, property, plant and equipment which had a carrying amount of ¥ 7,437 million (US\$71,510 thousand) and ¥ 7,339 million (US\$70,567 thousand) were pledged as collateral for short-term bank loans and long-term debt, respectively.

5. Leases

The Company and the consolidated subsidiaries lease certain machinery, equipments and other assets. The information of leased property which do not transfer ownership to lessees as of September 30, 2007 and 2008 was as follows. Assumed depreciation expenses are calculated by the straight-line method over the lease term assuming no residual value.

	Millions of Japanese Yen		Thousands of U.S. Dollars	
	2007	2008	2007	2008
Cost, depreciation and balance:				
Acquisition cost	¥ 1,033	¥ 1,192	\$ 9,933	\$ 11,461
Accumulated depreciation	729	894	7,010	8,596
	¥ 304	¥ 298	\$ 2,923	\$ 2,865
Future minimum payments:				
Within one year	¥ 164	¥ 148	\$ 1,577	\$ 1,423
Over one year	140	150	1,346	1,442
	¥ 304	¥ 298	\$ 2,923	\$ 2,865

6. Investment Securities

Information regarding the marketable securities classified as other securities as of September 30, 2007 and 2008 was as follows.

	Millions of Japanese Yen							
	2007				2008			
	Cost	Carrying amount	Unrealized gain	Unrealized loss	Cost	Carrying amount	Unrealized gain	Unrealized loss
Equity securities	¥ 1,291	¥ 2,567	¥ 1,276	¥ 0	¥ 1,280	¥ 1,706	¥ 426	¥ 0

	Thousands of U.S. Dollars							
	2007				2008			
	Cost	Carrying amount	Unrealized gain	Unrealized loss	Cost	Carrying amount	Unrealized gain	Unrealized loss
Equity securities	\$ 12,413	\$ 24,683	\$ 12,269	\$ 0	\$ 12,308	\$ 16,404	\$ 4,096	\$ 0

Proceeds from securities sold in the year ended September 30, 2008 were ¥ 1,409 million (US\$13,548 thousand).

Securities recorded at cost at September 30, 2007 and 2008 were as follows.

	Millions of Japanese Yen		Thousands of U.S. Dollars	
	2007	2008	2007	2008
	Equity securities	¥ 253	¥ 785	\$ 2,433

7. Retirement and severance benefits

The Company and certain domestic subsidiaries have retirement and severance benefit plans for employees who are entitled to annuity and lump-sum payments, the amounts of which are determined based on basic rate of pay, length of service and other conditions. Certain of the overseas subsidiaries have their own retirement and severance benefit plans for covering substantially all employees who meet the eligibility requirements. The Company has retirement benefit plan for directors and corporate auditors, the liability for which at September 30, 2007 and 2008 were ¥ 1,453 million (US\$13,971 thousand) and ¥ 1,522 million (US\$14,635 thousand), respectively.

The liability for employees' retirement and severance benefits at September 30, 2007 and 2008 consisted of the following:

	Millions of Japanese Yen		Thousands of U.S. Dollars	
	2007	2008	2007	2008
	Projected benefit obligation	¥ (18,845)	¥ (19,838)	\$ (181,202)
Fair value of plan assets	6,538	5,787	62,865	55,644
Unrecognized actuarial gain	222	1,460	2,135	14,039
	¥ (12,085)	¥ (12,591)	\$ (116,202)	\$ (121,067)

The components of net periodic benefit cost for the year ended September 30, 2007 and 2008 were as follows:

	Millions of Japanese Yen		Thousands of U.S. Dollars	
	2007	2008	2007	2008
	Service cost	¥ 976	¥ 1,002	\$ 9,385
Interest cost	345	361	3,317	3,471
Expected return on plan assets	(114)	(193)	(1,096)	(1,856)
Amortization of actuarial gain or loss	115	89	1,106	856
	¥ 1,322	¥ 1,259	\$ 12,712	\$ 12,106

Assumptions used in calculation for the year ended September 30, 2007 and 2008 were as follows:

	2007	2008
Discount rate	2.0%	2.0%
Expected rate of return on plan assets	2.0%	3.0%
Allocation method of projected benefit to service periods	Straight-line	Straight-line
Amortization period of unrecognized actuarial differences	10years	10years

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

8. Segment Information

Business segment

Millions of Japanese Yen

Year ended or as of September 30, 2008	Opto-electronic devices	Imaging and measurement instruments	Other	Segment total	Elimination or corporate	Consolidated total
Net sales						
Outside customers	¥ 83,473	¥ 14,699	¥ 639	¥ 98,811	¥ –	¥ 98,811
Intersegment	730	53	–	783	(783)	–
	84,203	14,752	639	99,594	(783)	98,811
Operating expenses	56,194	12,226	772	69,192	9,566	78,758
Operating income	¥ 28,009	¥ 2,526	¥ (133)	¥ 30,402	¥ (10,349)	¥ 20,053
Assets	¥ 94,506	¥ 16,818	¥ 1,948	¥ 113,272	¥ 67,719	¥ 174,991
Depreciation	¥ 6,849	¥ 898	¥ 61	¥ 7,808	¥ 1,308	¥ 9,116
Capital expenditures	¥ 5,689	¥ 702	¥ 2	¥ 6,393	¥ 2,345	¥ 8,738

Year ended or as of September 30, 2007

Net sales						
Outside customers	¥ 79,967	¥ 15,685	¥ 665	¥ 96,317	¥ –	¥ 96,317
Intersegment	542	10	–	552	(552)	–
	80,509	15,695	665	96,869	(552)	96,317
Operating expenses	53,173	13,008	789	66,970	9,473	76,443
Operating income	¥ 27,336	¥ 2,687	¥ (124)	¥ 29,899	¥ (10,025)	¥ 19,874
Assets	¥ 93,839	¥ 18,594	¥ 2,050	¥ 114,483	¥ 55,661	¥ 170,144
Depreciation	¥ 6,083	¥ 807	¥ 73	¥ 6,963	¥ 1,032	¥ 7,995
Capital expenditures	¥ 7,113	¥ 1,589	¥ 22	¥ 8,724	¥ 1,188	¥ 9,912

Thousands of U.S. Dollars

Year ended or as of September 30, 2008	Opto-electronic devices	Imaging and measurement instruments	Other	Segment total	Elimination or corporate	Consolidated total
Net sales						
Outside customers	\$ 802,625	\$ 141,337	\$ 6,144	\$ 950,106	\$ –	\$ 950,106
Intersegment	7,019	510	–	7,529	(7,529)	–
	809,644	141,847	6,144	957,635	(7,529)	950,106
Operating expenses	540,327	117,558	7,423	665,308	91,981	757,289
Operating income	\$ 269,317	\$ 24,289	\$ (1,279)	\$ 292,327	\$ (99,510)	\$ 192,817
Assets	\$ 908,712	\$ 161,711	\$ 18,731	\$ 1,089,154	\$ 593,452	\$ 1,682,606
Depreciation	\$ 65,856	\$ 8,635	\$ 586	\$ 75,077	\$ 12,577	\$ 87,654
Capital expenditures	\$ 54,702	\$ 6,750	\$ 19	\$ 61,471	\$ 22,548	\$ 84,019

Year ended or as of September 30, 2007

Net sales						
Outside customers	\$ 768,913	\$ 150,818	\$ 6,394	\$ 926,125	\$ –	\$ 926,125
Intersegment	5,212	96	–	5,308	(5,308)	–
	774,125	150,914	6,394	931,433	(5,308)	926,125
Operating expenses	511,279	125,077	7,587	643,943	91,086	735,029
Operating income	\$ 262,846	\$ 25,837	\$ (1,193)	\$ 287,490	\$ (96,394)	\$ 191,096
Assets	\$ 902,298	\$ 178,788	\$ 19,712	\$ 1,100,798	\$ 535,202	\$ 1,636,000
Depreciation	\$ 58,490	\$ 7,760	\$ 702	\$ 66,952	\$ 9,923	\$ 76,875
Capital expenditures	\$ 68,394	\$ 15,279	\$ 212	\$ 83,885	\$ 11,423	\$ 95,308

Geographic areas

Year ended or as of September 30, 2008	Millions of Japanese Yen						Consolidated total
	Japan	North America	Europe	Other	Segment total	Elimination or corporate	
Net sales							
Outside customers	¥ 48,019	¥ 25,609	¥ 23,703	¥ 1,480	¥ 98,811	¥ -	¥ 98,811
Intersegment	37,211	625	538	1,012	39,386	(39,386)	-
	85,230	26,234	24,241	2,492	138,197	(39,386)	98,811
Operating expenses	60,297	25,467	21,018	1,933	108,715	(29,957)	78,758
Operating income	¥ 24,933	¥ 767	¥ 3,223	¥ 559	¥ 29,482	¥ (9,429)	¥ 20,053
Assets	¥ 88,856	¥ 8,903	¥ 10,231	¥ 5,282	¥ 113,272	¥ 61,719	¥ 174,991
Year ended or as of September 30, 2007							
Net sales							
Outside customers	¥ 46,717	¥ 25,695	¥ 22,925	¥ 980	¥ 96,317	¥ -	¥ 96,317
Intersegment	35,701	543	461	873	37,578	(37,578)	-
	82,418	26,238	23,386	1,853	133,895	(37,578)	96,317
Operating expenses	57,993	24,539	19,944	1,604	104,080	(27,637)	76,443
Operating income	¥ 24,425	¥ 1,699	¥ 3,442	¥ 249	¥ 29,815	¥ (9,941)	¥ 19,874
Assets	¥ 90,984	¥ 7,662	¥ 11,758	¥ 4,079	¥ 114,483	¥ 55,661	¥ 170,144

Year ended or as of September 30, 2008	Thousands of U.S. Dollars						Consolidated total
	Japan	North America	Europe	Other	Segment total	Elimination or corporate	
Net sales							
Outside customers	\$ 461,721	\$ 246,240	\$ 227,914	\$ 14,231	\$ 950,106	\$ -	\$ 950,106
Intersegment	357,798	6,010	5,173	9,731	378,712	(378,712)	-
	819,519	252,250	233,087	23,962	1,328,818	(378,712)	950,106
Operating expenses	579,779	244,875	202,096	18,587	1,045,337	(288,048)	757,289
Operating income	\$ 239,740	\$ 7,375	\$ 30,991	\$ 5,375	\$ 283,481	\$ (90,664)	\$ 192,817
Assets	\$ 854,385	\$ 85,606	\$ 98,375	\$ 50,788	\$ 1,089,154	\$ 593,452	\$ 1,682,606
Year ended or as of September 30, 2007							
Net sales							
Outside customers	\$ 449,202	\$ 247,068	\$ 220,432	\$ 9,423	\$ 926,125	\$ -	\$ 926,125
Intersegment	343,279	5,221	4,433	8,394	361,327	(361,327)	-
	792,481	252,289	224,865	17,817	1,287,452	(361,327)	926,125
Operating expenses	557,625	235,952	191,769	15,423	1,000,769	(265,740)	735,029
Operating income	\$ 234,856	\$ 16,337	\$ 33,096	\$ 2,394	\$ 286,683	\$ (95,587)	\$ 191,096
Assets	\$ 874,846	\$ 73,673	\$ 113,058	\$ 39,221	\$ 1,100,798	\$ 535,202	\$ 1,636,000

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

8. Segment Information (continued)

Overseas sales

Year ended September 30, 2008	Millions of Japanese Yen				Consolidated total
	North America	Europe	Asia	Other	
Overseas sales	¥ 25,124	¥ 23,502	¥ 14,352	¥ 472	¥ 63,450
Consolidated net sales					¥ 98,811
Ratio of overseas sales to consolidated net sales	25.43%	23.78%	14.52%	0.48%	64.21%

Year ended September 30, 2007

Overseas sales	¥ 25,108	¥ 22,691	¥ 12,826	¥ 534	¥ 61,159
Consolidated net sales					¥ 96,317
Ratio of overseas sales to consolidated net sales	26.07%	23.56%	13.32%	0.55%	63.50%

Year ended September 30, 2008	Thousand of U.S. Dollars				Consolidated total
	North America	Europe	Asia	Other	
Overseas sales	\$ 241,577	\$ 225,981	\$ 138,000	\$ 4,538	\$ 610,096
Consolidated net sales					\$ 950,106
Ratio of overseas sales to consolidated net sales	25.43%	23.78%	14.52%	0.48%	64.21%

Year ended September 30, 2007

Overseas sales	\$ 241,423	\$ 218,183	\$ 123,327	\$ 5,134	\$ 588,067
Consolidated net sales					\$ 926,125
Ratio of overseas sales to consolidated net sales	26.07%	23.56%	13.32%	0.55%	63.50%

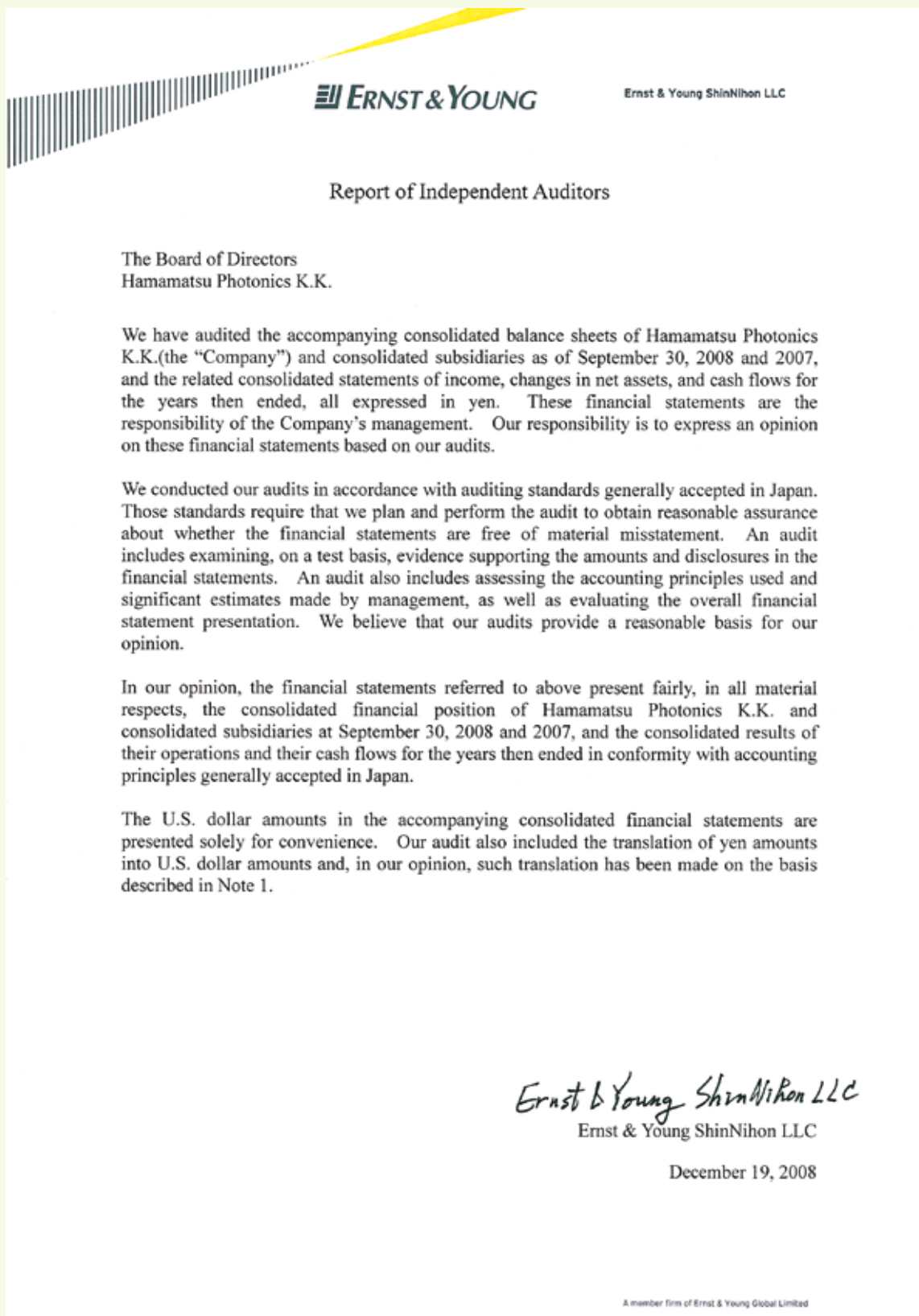
9. Subsequent Events

Appropriations of retained earnings

Under the Corporation law of Japan, a plan for the appropriation of retained earnings (primarily for cash dividend payments) proposed by the board of directors is to be approved at a shareholders' meeting held within three months from the end of the fiscal year.

On December 19, 2008, the shareholders of the Company approved the plan for the appropriation of retained earnings, which resulted in the following deductions from retained earnings at September 30, 2008:

	Millions of Japanese Yen	Thousands of U.S. Dollars
Cash dividends	¥ 2,094	\$ 20,135



Board of Directors and Corporate Auditors

Chairman of the Board and CEO

Teruo Hiruma, Representative Director

Vice Chairman

Haruji Ohtsuka

Senior Managing Director

Koei Yamamoto, Representative Director

Managing Directors

Junichi Takeuchi

Yoshiji Suzuki

Directors

Hirofumi Uchiyama

Takashi Koike

Shinzo Kobuki

Hitoshi Iida

Tadahiko Shimazu

Corporate Auditors

Masanori Matsui (Standing)

Yukiaki Suzuki (Standing)

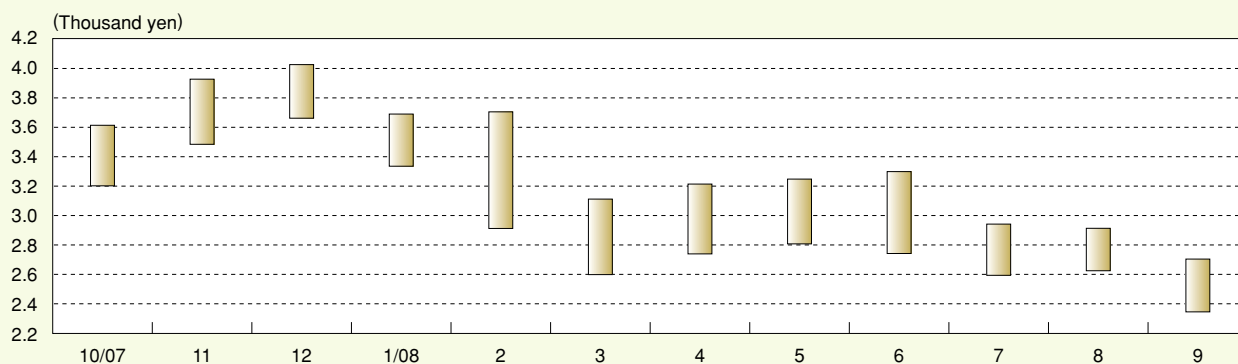
Hajime Shibatani

Takahiko Ijichi

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Shizuoka Prefecture 435-8558, Japan
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Established:	September 29, 1953
Paid-in Capital:	34,926,648,525 yen
Common Stock Authorized:	250,000,000 shares
Issued:	83,763,184 shares
Stock Listing:	Tokyo Stock Exchange (1st Section) ID number 6965 Trading Unit 100 shares
Number of Shareholders:	36,180
Number of Employees:	3,762
Independent Auditors:	Ernst & Young ShinNihon LLC Hamamatsu City, Shizuoka Prefecture
Transfer Agent and Registrar:	The Chuo Mitsui Trust and Banking Company Ltd. Minato-ku, Tokyo
Annual Meeting:	The annual meeting of shareholders is held in December of each year in Hamamatsu City, Japan

Price range of stock traded



Major shareholders

As of September 30, 2008	Percentage to total shares outstanding(%)
Toyota Motor Corporation	5.01
Hamamatsu Photonics K.K. employees	5.00
Japan Trustee Services Bank, Ltd. (Trust Account)	3.97
The Master Trust Bank of Japan, Ltd. (Trust Account)	3.86
The Chase Manhattan Bank, N.A. London S.L. Omnibus Account	2.72
Japan Trustee Services Bank, Ltd. (Trust Account 4G).....	2.59
Teruo Hiruma	2.50
Taiyo Cypress Fund, L.P.	2.14
Sony Life Insurance Co., Ltd.	2.13
OM04 SSB Client Omnibus	1.58

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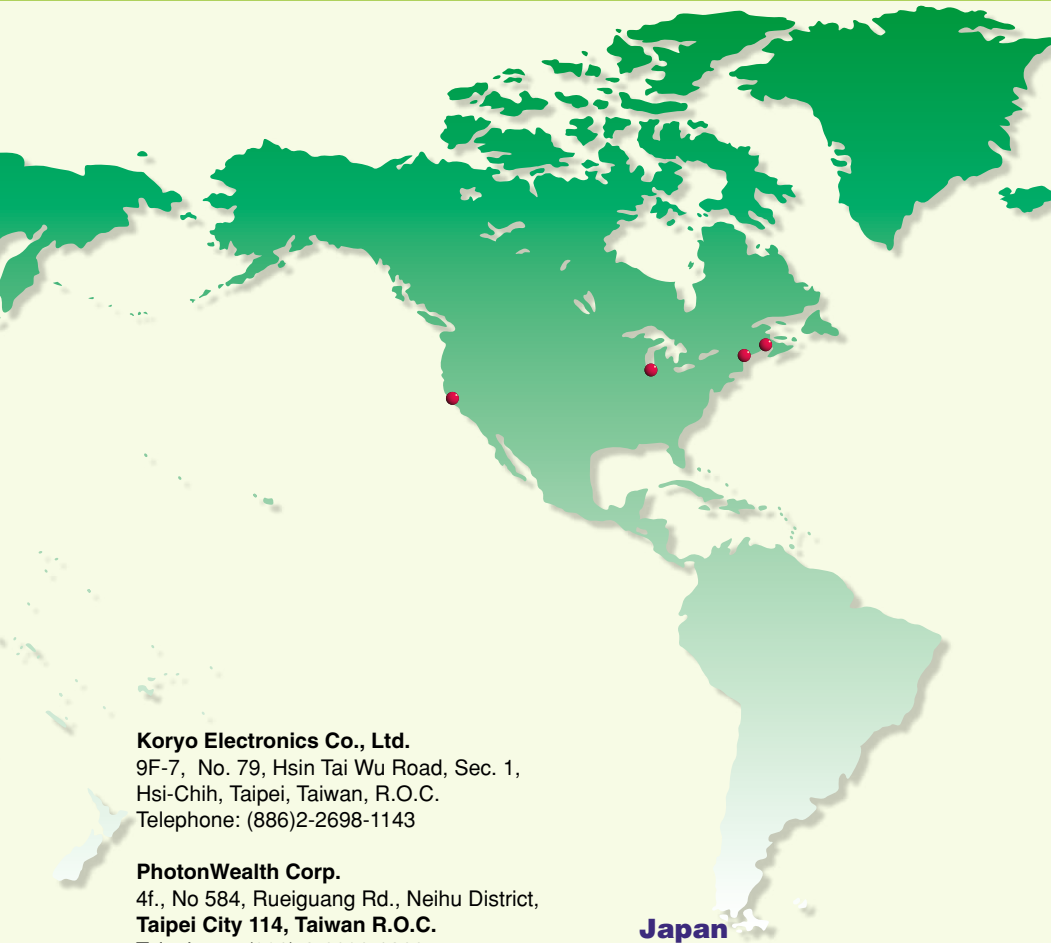
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