ANNUAL REPORT Fiscal 2009

HORIBA

Explore the future

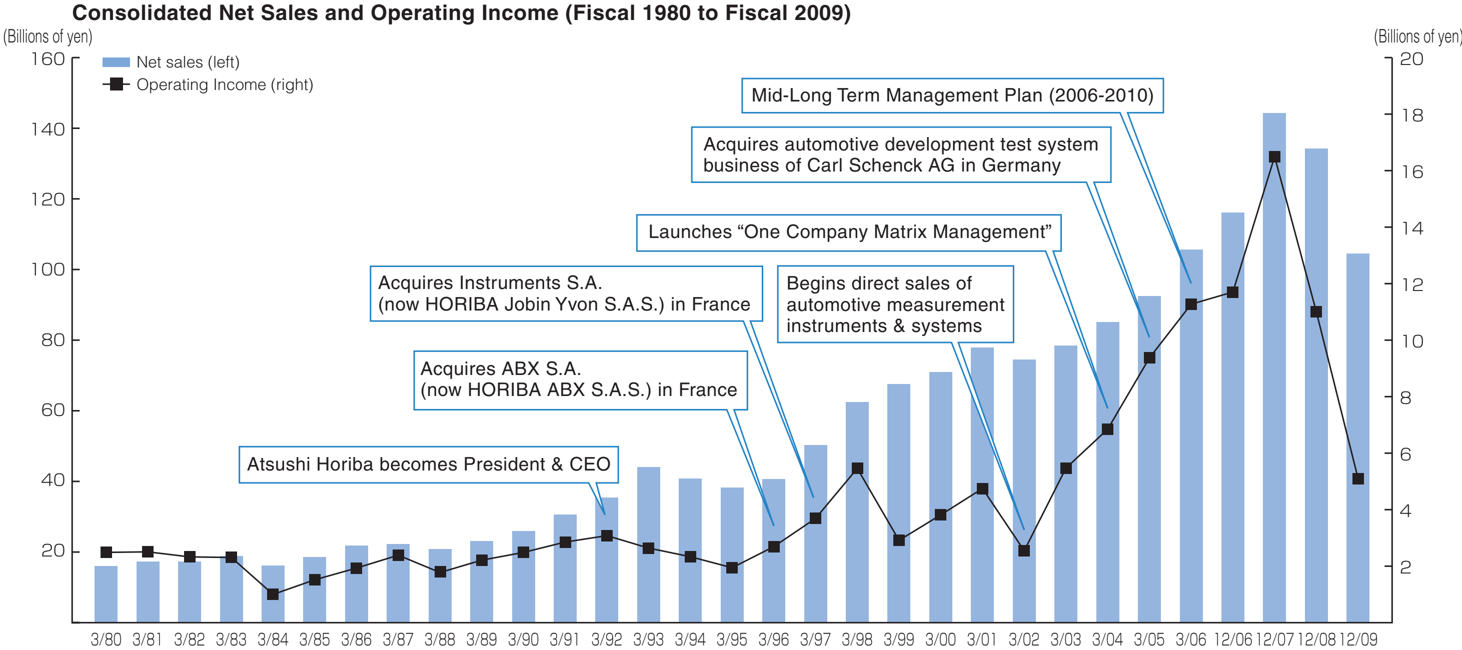
おもしろおかしく

JOY and FUN

The HORIBA Motto: "Joy and Fun"

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

Consolidated Net Sales and Operating Income (Fiscal 1980 to Fiscal 2009)



About change of fiscal year end, please refer to page 4.

Everything begins with measurement

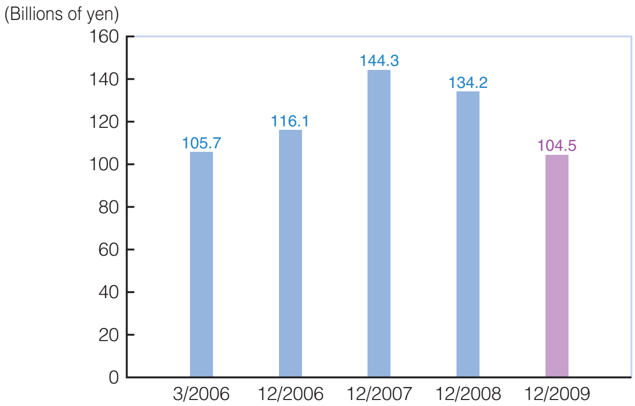
To realize a sustainable society necessarily starts with analysis. We also contribute, in a variety of ways, toward advancements in next-gen energy.

[The quest for better second generation batteries and clean energy]

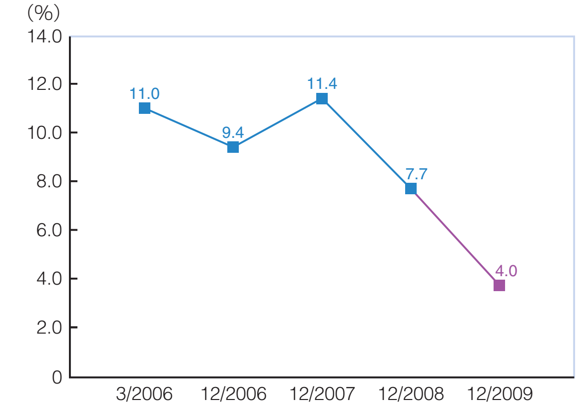
Significant R&D in new materials is required to develop high performance lithium ion batteries for electric automobiles and improve photovoltaic cells for harnessing clean energy. HORIBA's exhaust emissions and test systems, from the Automotive Test Systems segment, are widely used to develop advanced automotive power trains, while its leading-edge scientific analyzers, from the Analytical Instruments & Systems segment, aid the quest for better battery materials.

Fiscal 2009 Earnings Results

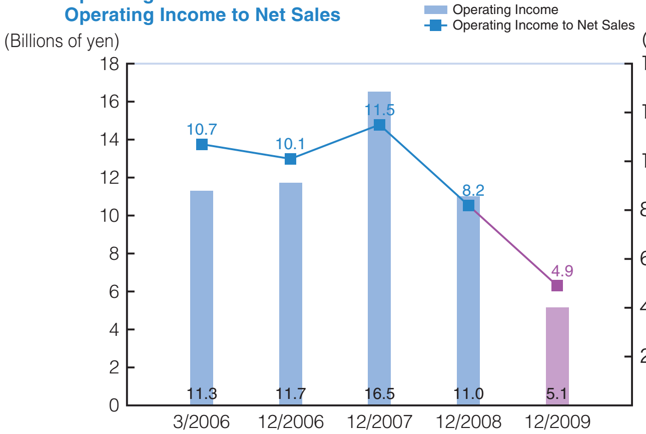
Net sales



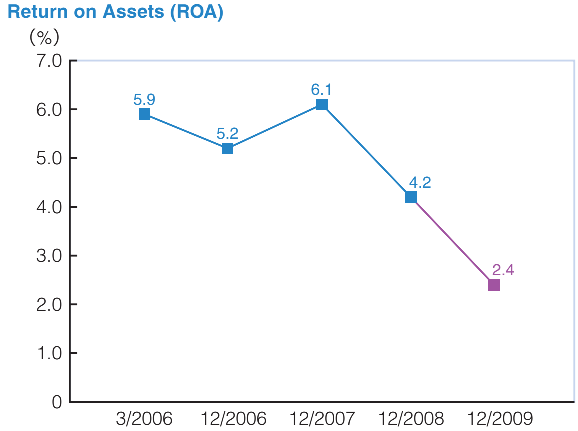
Return on Equity (ROE)



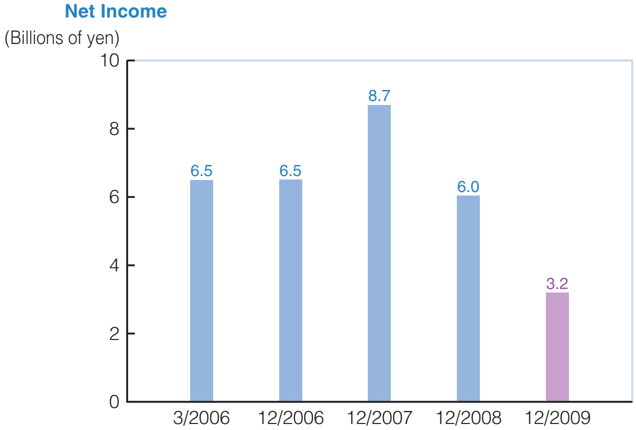
Operating Income and Operating Income to Net Sales



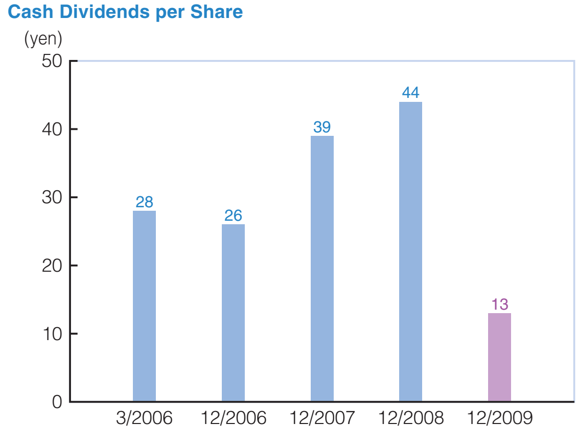
Return on Assets (ROA)



Net Income



Cash Dividends per Share



Note: For 11-year summary, please refer to page 37.

Net sales

In fiscal 2009, HORIBA's net sales decreased by 22.1% year-on-year to ¥104.5 billion, mainly due to two factors; a reduction in capital spending by the private sector and the appreciation of the yen.

Operating Income Ratio

The operating income ratio shrank by 3.3 percentage points from the previous year to 4.9%, although HORIBA exerted strong efforts to improve profitability thorough cost reductions and higher efficiency in administrative operations.

Cash dividends

In addition to HORIBA, Ltd.'s decline in operating income on a non-consolidated basis, dividend income was decreased due to lower profits of group companies in fiscal 2008. As a result, we reduced the annual dividend to ¥13 per share (compared to ¥44 in fiscal 2008) in accordance with our basic policy of maintaining a standard 30% payout of the company's non-consolidated net income.

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Change of Fiscal Year-End

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

Disclaimer Regarding Future Plans and Forecasts

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

To Our Stakeholders

HORIBA is Working Hard to Achieve an Earnings Recovery

For fiscal 2009, ended December 31, 2009, HORIBA posted lower sales and profits for the second consecutive year. Consolidated net sales totaled ¥104.5 billion, operating income ¥5.1 billion, and net income ¥3.2 billion. Owing to the deterioration of worldwide economic conditions, earnings were adversely impacted by a sales decline in the Automotive Test Systems segment, a profit growth driver in fiscal 2002–2007, and weak sales performance of the Semiconductor Instruments & Systems segment. The global economic downturn substantially affected earnings during the first half of the year, but a recovery emerged in the second half of the year. At any rate, HORIBA posted a numerically weak performance for the fiscal year, so both management and employees are devoting maximum efforts toward achieving a full recovery.

A Harsh Current Reality and a Bright Future

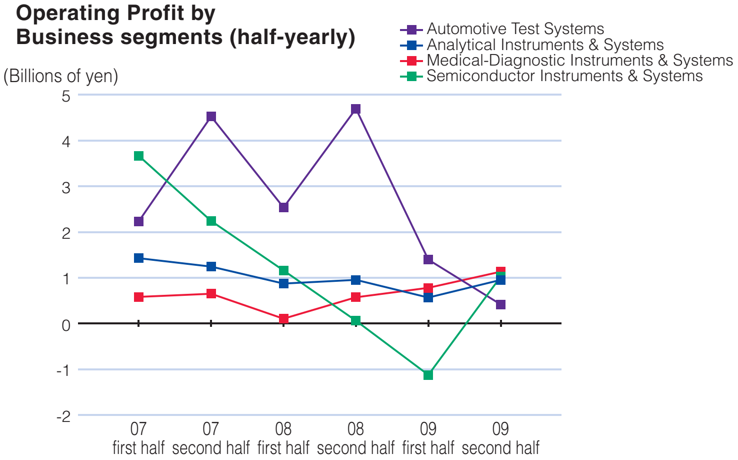
Initially we faced a harsh reality in the midst of this economic crisis, but we did not panic. Although we are not optimistic about an earnings recovery in the near term, we are optimistic about the potential for substantial growth in the future. We are promoting management that clarifies “what we will change” and “what we will not change”, which we learned by overcoming several economic crises in the past. “What we will change” includes our management balance and globalization. “What we will not change” is our continued investment in “Invisible Values” (assets that do not appear in the financial statements), such as human resources and technology. Even in this challenging environment, our endeavors to create value have steadily borne fruit.

Promoting “One Company” Management

Well-Balanced Management

In fiscal 2009, during a period in which the Automotive Test Systems segment recorded lower profits, the Medical-Diagnostic Instruments & Systems segment posted higher profits and the Semiconductor Instruments & Systems segment earnings recovered in the second half. In the face of the challenging 2009 business environment, HORIBA benefited from the effects of new products generated by R&D investment over many years. I feel that our well-balanced management, which we previously conveyed to shareholders and investors, is contributing to our steady progress.

Operating Profit by Business segments (half-yearly)



Globalization

In fiscal 2009, we were able to observe progress in "One Company" management in several regions. In the U.S., positive effects have emerged in various business segments as a result of the advancement of shared services. Non-Japanese employees in the HORIBA Group account for 55% of total employment and some have become top executives in their business segments.

Continued Investment in Technology and Human Resources

While cycles of recession and economic boom have repeatedly occurred, our continued investment has, without fail, been the driving force behind substantial growth in subsequent recovery phases. On this occasion our earnings are under pressure, so we have been reducing costs, but we have not cut back our R&D investment. Moreover, The HORIBA COLLEGE, which began offering educational opportunities to our human resources last year, has steadily increased the number of available courses. We will continue to invest in technology and human resources as we prepare for future growth.

What we have changed

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

What we will never change

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

Quality Growth

The theme of the Mid-Long Term Management Plan, which we announced in 2006, is to realize "One Company" management and aim to be a first-class, global company. In fiscal 2007, three years ahead of plan, we achieved the plan's fiscal 2010 (final year) operating income target of ¥15 billion, and were very close to the net sales target of ¥150 billion. However, owing partly to the dramatic change in the economic environment, sales and profits fell sharply in 2008 and 2009.

Nonetheless, we are steadily making progress toward building a platform for ¥200 billion in sales, a well-balanced business portfolio, and our "Invisible Values," the three core elements in the Mid-Long Term Management Plan. HORIBA also has on-going measures that include M&A and primarily overseas corporate alliances, establishment of new factories and sales bases in emerging countries, direct sales in our marketing activities, and integration of regional operations (sharing business infrastructure in "One Company Matrix Management"). These are all solidly bearing fruit.

In these challenging economic times, I believe we need to sow seeds that will bear fruit in ten years. This fiscal year, when we will formulate the next Mid-Long Term Management Plan, we will place high priority on achieving further growth in HORIBA's diverse "qualities." Besides product quality, I believe it is also vital to enhance the specialized scope of operations in each division by using shared services, for example, to lay solid foundations for the next Mid-Long Term Management Plan.

Mid-Long Term Management Plan (2006–2010)

Achieving "One Company" Management and Becoming a First-Class, Global Company	
Numerical targets for fiscal 2010	Net sales ¥150.0 billion (¥104.5 billion and ¥134.2 billion in fiscal 2009 and 2008)
	Operating income ratio 10.0 % or more (4.9% and 8.2% in fiscal 2009 and 2008)
	ROE (Return on equity) 11.0% or more (4.0% and 7.7% in fiscal 2009 and 2008)

Core Elements of Mid-Long Term Management Plan

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

Initiatives to Date

- ◆ Improved the sales balance by region and segment
- ◆ Reorganized group companies and built a base for development in the Americas and Europe
- ◆ Promoted shared services in Japan
- ◆ Accelerated implementation of global Blackjack Projects and opened the HORIBA COLLEGE

Creating Long-Term Corporate Value

Since its founding 57 years ago, HORIBA has consistently focused on a unique corporate culture symbolized by the company motto “Joy and Fun.” This corporate culture cultivates “Invisible Values,” such as human resources and unique technologies that are valued worldwide. We ultimately deliver these “Invisible Values” to customers in the form of real “products” that create corporate value and earnings. Through economic booms and recessions, we will continue to pursue management objectives aimed at the enhancement of our “Invisible Values.”

Our headquarters are located in Japan, but HORIBA is not simply another Japanese entity that conducts business around the world. Rather, our objective is to be a first-class, global company that understands the culture, customs, and values of the countries and regions where we do business, and conducts business in harmony with the local area and its employees. In April 2009, we took specific measures to implement this policy by appointing three non-Japanese employees from our foreign operations to be corporate officers of HORIBA, Ltd. And, in 2010, we welcomed a person with management experience in a global blue chip company as an excecutive corporate officer who brings very valuable strengths to HORIBA. By implementing management based on this corporate philosophy, I firmly believe that, as a global company, our actions will ensure sustained growth and receive a fair market valuation from investors around the world.

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

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

April 2010

Atsushi Horiba
Chairman, President & CEO

Growth through M&A Activities

Since the mid-1990's, HORIBA has sought overseas M&A opportunities to create value. A core objective of acquisitions is not to expand the size of business but to acquire globally competent human resources. In 2009, HORIBA promoted three non-Japanese employees of acquired companies to corporate officers. Two of them also hold positions as leaders of business segments. These non-Japanese leaders, based in Europe and the U.S., met together and talked about HORIBA.

Q: Have you found HORIBA really different compared to what you imagined it to be from the outside?

Michel I knew that HORIBA's management had strong business philosophies but after I joined HORIBA and worked together with colleagues worldwide, I learned that their visions are deeply shared within the organization. I also realized that HORIBA's core value is its accumulated knowledge as a team.

Bertrand HORIBA's approach of "thinking long-term, working quickly" is exactly as I had imagined. However, its corporate culture based on "Joy and Fun" is much more unique than I had expected. I am proud of being in a position to inherit this tradition and hand it over to the next generation.

Q: What have you learned by joining HORIBA?

Rex Implementing the two ideals of thinking globally and acting locally, in a balanced manner, requires people to overcome various difficulties. I learned that having creativity is one solution to overcoming such difficulties.

Michel I have changed the way I make decisions at work. HORIBA excels at building consensus and drawing up detailed action plans. I have come to appreciate that the bottom-up approach and sustainable improvement are effective in achieving objectives.

Q: What do you find most exciting at HORIBA?

Bertrand It's quite exciting to work as a team to tackle diverse challenges. HORIBA has a flexible organization and a corporate culture based on working together.

Rex Being a member of HORIBA's global management team to create the future is most exciting to me. Our technologies have great growth potential. I am extremely motivated when thinking about how to deal with such opportunities.

Q: What do you think are HORIBA's challenges in today's environment?

Michel I find it important to accelerate decision-making in order to cope with the speed of change in the environment, while leveraging the good aspects of consensus-driven management. In order to achieve that, we have to promote our "One Company" policy and further develop our human resources.

Bertrand We need to utilize HORIBA's assets including technologies, human resources, passion, organization, and principles to overcome present difficulties. I am confident that HORIBA can do it.

Rex As I believe HORIBA has great growth potential, the most important challenge is to keep developing human resources. Various programs have already been established but further efforts are needed to sustain our growth.

Q: How would you describe HORIBA in one phrase?

Bertrand A unique company!

Michel A great company! It contributes to the solution of global environment, energy, and food problems.

Rex A company that is creating a bright future! It has a mission to solve global problems through its technologies and products.

Dr. Michel Mariton
Segment Leader of
Analytical Instruments & Systems
(Scientific) segment
President & CEO of HORIBA
Jobin Yvon S.A.S. (France)

Rex Tapp
U.S. Region Leader of
Automotive Test Systems segment
Vice President and General Manager
of HORIBA Instruments Inc. (USA)

Bertrand de Castelnau
Segment Leader of
Medical-Diagnostic Instruments
& Systems segment
President & CEO of HORIBA
ABX S.A.S. (France)

HORIBA’s Policies on M&A

Acquisition of some overseas companies and operations since the mid-1990’s has enabled HORIBA to reduce dependence on its sales and profit from the Japanese market and emission measurement systems. The result has achieved a better balance. We find that the current strong yen and difficult economic conditions are presenting good M&A opportunities. In particular, we think that there are great opportunities in the medical-diagnostic area and in new energy or materials technologies areas, where we wish to grow in the medium to long-term. By region, the U.S. market is where HORIBA’s market share remains low despite its large size as a maker of analytical instruments & systems.

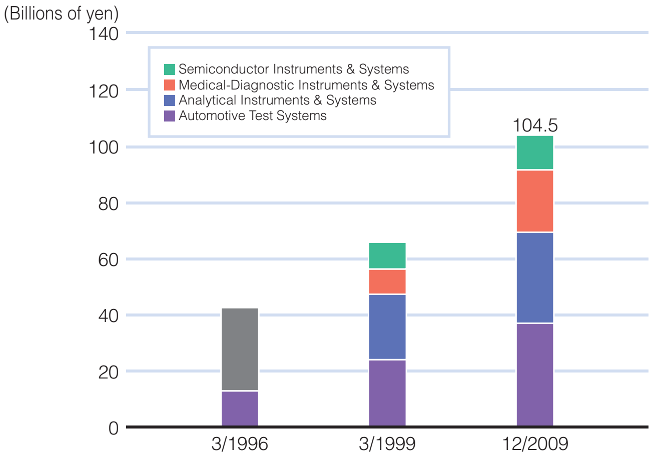
M&A Targets

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

M&A Characteristics

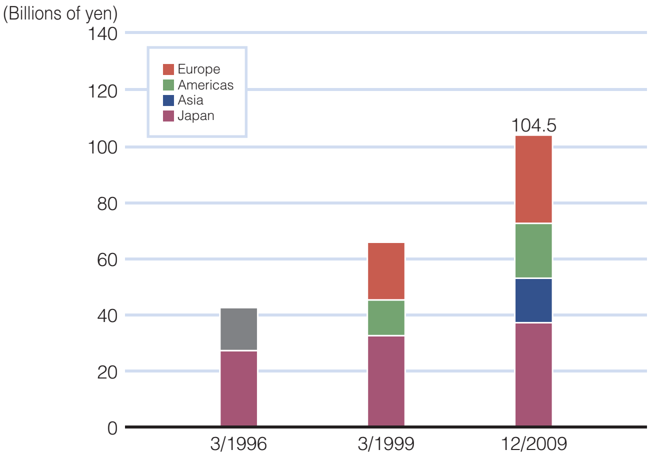
- Acquire companies that HORIBA is familiar with through business relationships or other contexts and with which HORIBA is on friendly terms.
- Focus on acquisitions that are most likely to bring synergies in business strategy. Do not seek better economies of scale or improved efficiency through restructuring.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

Sales by business segment



Acquisitions of HORIBA ABX S.A.S. in 1996 and HORIBA Jobin Yvon S.A.S. in 1997 and their subsequent business expansion have enabled HORIBA to attain its present structure comprising four business segments. We aim to become less sensitive to shifting economic conditions by not relying so heavily on any single business.

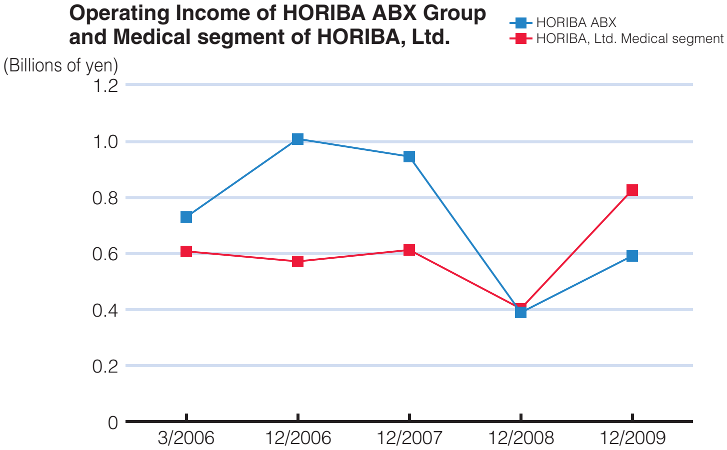
Sales by region



HORIBA established a base in France and has expanded business into other European countries and the Americas. Expansion of development and production activities in eurozone countries has improved our balance in currency exposure, hence making us more resilient to changing economic conditions and currency fluctuations.

Post-Acquisition Development by Business Segment

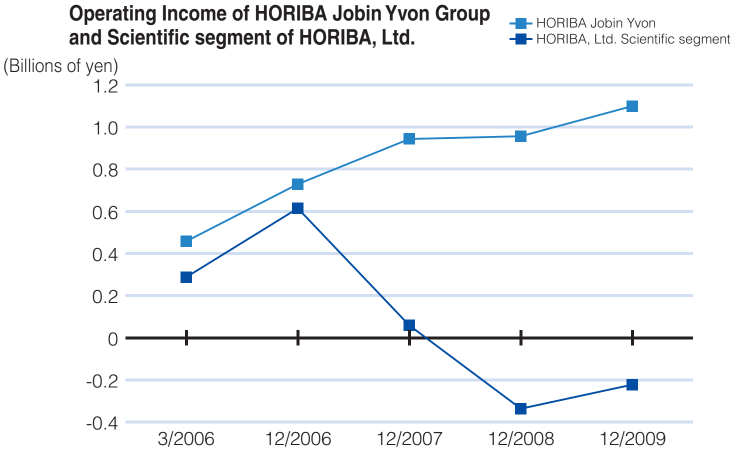
Operating Income of HORIBA ABX Group and Medical segment of HORIBA, Ltd.



Medical-Diagnostic Instruments & Systems

HORIBA accomplished a full-scale entry into the medical business by acquiring HORIBA ABX S.A.S. (France) in 1996. Sales have steadily expanded, which has enabled the synergy effects between HORIBA ABX and HORIBA, Ltd. to emerge as increased profits. We posted a profit decline in 2008 when the appreciation of the euro was such a negative cost factor for our medical operation which manufactured 80% of its products in France. From 2009, however, this segment has become a profit contributor for the HORIBA Group, now being supported by new high-margin products from Japan.

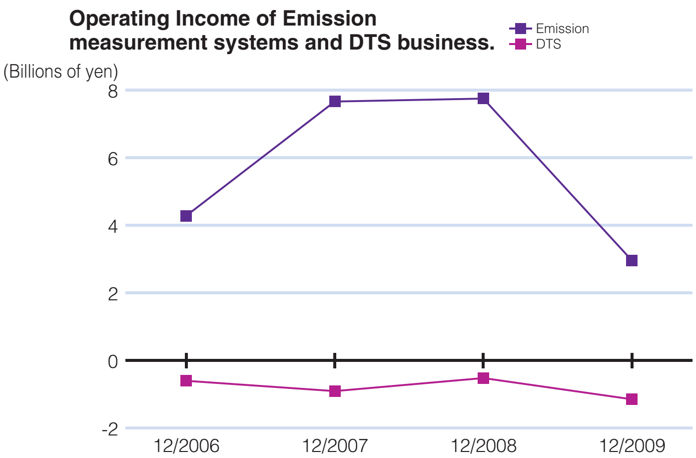
Operating Income of HORIBA Jobin Yvon Group and Scientific segment of HORIBA, Ltd.



Analytical Instruments & Systems (Scientific)

HORIBA Jobin Yvon, S.A.S. (France), acquired in 1997, has increased income with its competitive products, even while the economy deteriorated. While the strong yen and the deteriorated economy caused a significant drop in profits for the scientific segment of HORIBA, Ltd., we aim to improve profitability for the group by both companies complementing each other with their unique technologies. (The amount of HORIBA Jobin Yvon in 2008 and 2009 are the total of HORIBA Jobin Yvon S.A.S. and HORIBA Jobin Yvon Inc.(USA))

Operating Income of Emission measurement systems and DTS business.



Automotive Test Systems

The automotive development test system (DTS) business, acquired in 2005, has been recording operating losses. However, we aim to take advantage of our competitiveness in emission measurement systems, where we command a high market share, so the DTS business can gain a larger market share and become profitable. For the medium- to long-term, we have introduced a test system that enables us to supply the analytical instruments necessary for developing electric cars.

HORIBA at a Glance

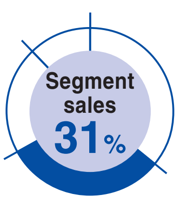
Automotive Test Systems

Strong support for automotive development

HORIBA's automotive emission measurement systems have set the global standard and command an 80% global market share. Business acquisitions in 2005 have expanded our product line-up into complete turn-key systems for automotive development. These test systems are used at the forefront of research and development and quality control. Our systems are indispensable for developing new types of engines, such as gas, hybrid electric and diesel powertrains, and alternative fuels. We expect to increase the demands for our instruments for automotive development.

Principal products	Emission measurement systems, automotive emission analyzers, on-board emission measurement systems, driveline test systems, engine test systems, brake test systems, and drive recorders
Major customers	Automobile, truck and motorcycle manufacturers; automotive component manufacturers, multi-purpose motor manufacturers, government regulatory agencies, oil companies, automotive maintenance and repair centers
Product applications	Development of new gas, diesel and hybrid powertrains, vehicle certification and QC, in-use vehicle inspections
Risk factor	The global automotive industry's shifting investments for research and development

Analytical Instruments & Systems



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

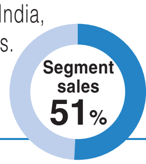
HORIBA manufactures and sells over 500 unique instruments that serve a wide range of markets from leading edge scientific technology, to environmental measurement for atmospheric and water pollution, to many other environmental applications. These products command leading market shares thanks to our high-level of analytical technology know-how and enhanced customer support system. The segment develops basic analytical and measurement technologies and plays a key role in providing new technologies to other business segments.

Principal products	Scientific analysis instruments (particle-size distribution analyzers, X-ray fluorescence analyzers, raman spectrophotometers, diffraction gratings), environmental measuring instruments (pH meters, stack gas analyzers, water quality analysis and air pollution analyzers)
Major customers	Manufacturers, national research institutions, universities, government agencies, electric power companies
Product applications	R&D, product quality testing, measurement of wastewater and gas emissions, environmental pollution monitoring, criminal forensics
Risk factor	Aggressive competition and downward pressure on prices, as well as demand fluctuation following changes in environmental regulations

Business Summary by Region

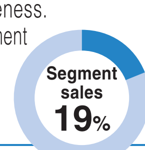
Asia

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



Americas

- High potential for market share expansion in this market that represents 40% of global demand for analytical and measurement instruments.
- Use HORIBA Technology Center as a base for enhancing competitiveness.
- Focus on product development and marketing for the medical and semiconductor fields.



Europe

- Sales growth generated by the effects of several M&As (HORIBA ABX, HORIBA Jobin Yvon, and the DTS business.)
- A new R&D Center, opening in Paris in 2011, will be a core product development center for Europe.

Medical-Diagnostic Instruments & Systems

Proactive product development in a large market with stable growth

In the in-vitro diagnostics market, with over ¥2 trillion in global annual sales, HORIBA products are primarily blood testing (hematology) instruments and reagents. The segment's business model is based on earnings generated from reagents sales. In addition to original, small-sized blood cell testing instruments, new large-sized blood cell testing instruments and clinical chemistry analyzers have been launched with the goal of expanding testing reagent sales.

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

Semiconductor Instruments & Systems

Contribute to improved yields in semiconductor manufacturing processes

The semiconductor industry is cyclical but continues to grow. HORIBA's main products are mass flow controllers, devices that control gas and liquid flows in the semiconductor manufacturing process, but also include many types of monitoring equipment. HORIBA provides customers with high-level solutions that are frequently developed in quick response to technical advances in semiconductor miniaturization and yield enhancement.

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

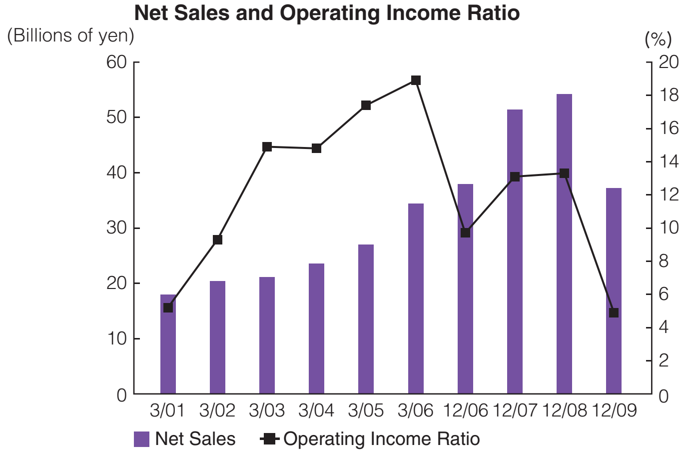
Impact of changes in the external environment

HORIBA's earnings are expected to be primarily affected by the following external factors:

- Declining demand associated with the economic recession that was triggered by the global financial and economic crisis, and/or the appreciation of the yen against the U.S. dollar in the foreign exchange market are expected to impact HORIBA's earnings.
- The automotive industry and the semiconductor manufacturing equipment industry are likely to reduce capital investment.
- We expect relatively stable business conditions in the environmental measurement, advanced science and technology, and medical equipment fields.
- A weaker euro against the U.S. dollar should result in more competitiveness for HORIBA products despite some concerns over deflated sales amounts when stated in a stronger yen.

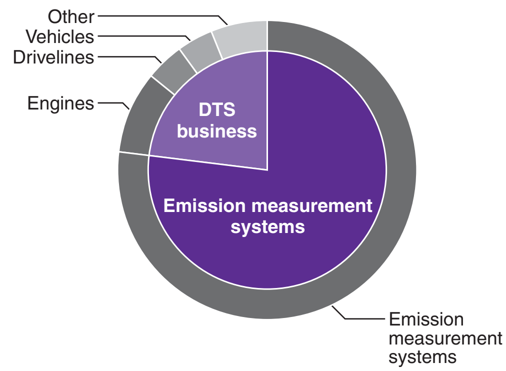
Automotive Test Systems

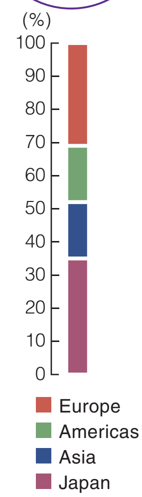
Net Sales and Operating Income Ratio



Note: For the fiscal year ended December 31, 2006, the accounting term for HORIBA was 9 months and 11 days as a result of a change in its fiscal year-end from March 20 to December 31 (see page 4 for details.)

Sales Breakdown





No.1 in the world in emission measurement systems

HORIBA's emission measurement systems command the top position in the industry with an 80%* worldwide market share and have been adopted as the primary standard by many countries' national certification bodies. Responding to rising demand to measure emission characteristics of alternative fuels such as biofuel and more diverse applications such as construction machinery, ships, locomotives and general purpose engines, we have increased sales in this segment. (*HORIBA's estimate)

2010: Renewed investment by the automotive industry

In 2009, HORIBA's sales of emission measurement systems decreased significantly. In 2010, we are expecting new demand, and expanded sales in India, China, and other Asian markets. And, in the latter half of the year, we expect a surge in investment to develop more fuel-efficient cars by Japanese, U.S., and European automakers. We have prepared for the expected surge in demand by enhancing our development and production systems.

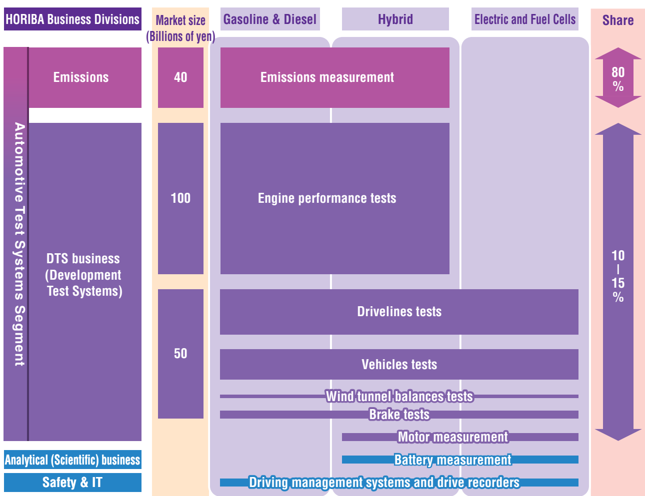
Future development of the DTS business

The acquisition of the DTS business of Carl Schenck AG in Germany, in September 2005, has allowed us to broaden our market that entails supporting the full scope of automotive development, including engines, power trains, wind tunnels, and brakes. This capability is critical for developing all-electric cars that do not require emission measurement. By achieving increased market share in developed markets and enjoying expanded demand in emerging markets, we expect to grow our business and improve profitability.

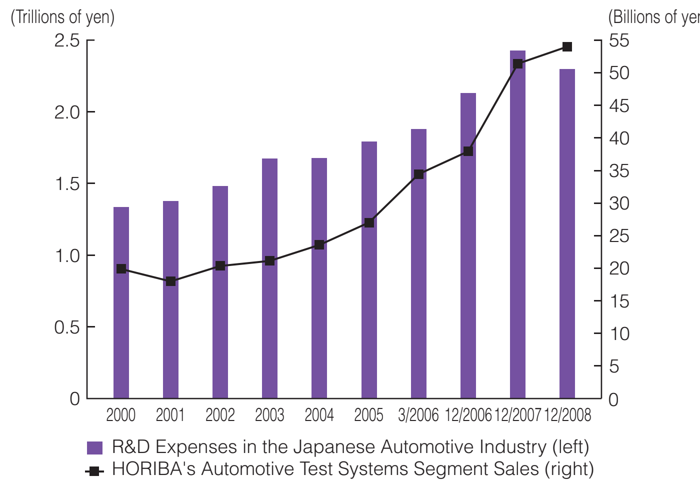
Provide solutions for hybrid and electric car development

In tandem with the accelerating sales of automobiles in emerging markets, an accompanying demand for emission measurement systems is expected. Hybrid or plug-in hybrid cars that use both engines and electric motors require new procedures for emission measurement, making emission measurement even more important. In addition, we expect that automakers will allocate part of their development spending to all-electric cars, for which HORIBA's DTS business provides essential measurement systems to evaluate powertrain efficiency and aerodynamic performance.

HORIBA's Automotive Business Fields



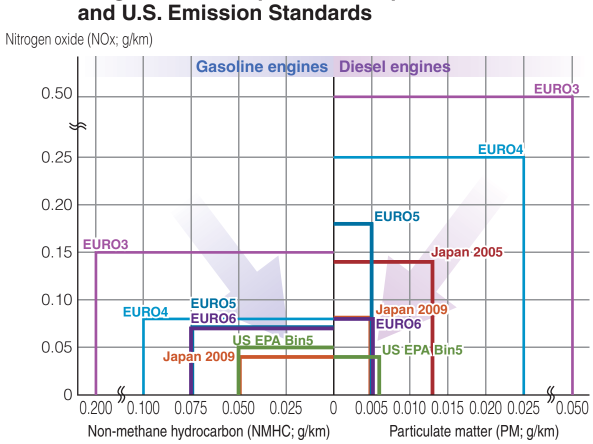
HORIBA's Automotive Test Systems Segment Sales in Comparison to R&D Expenses in Japan's Automotive Industry



Source: 2008 Survey of Research and Development, R&D Expenditures by Industry (Ministry of Internal Affairs and Communications)

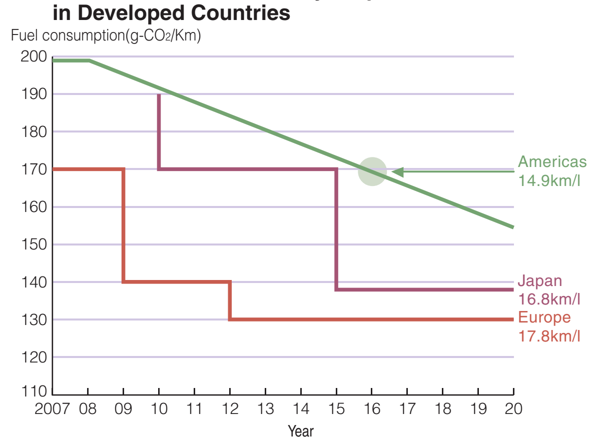
Trend of Automobile-related Regulations

Progression of Japanese, European, and U.S. Emission Standards



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

Automotive Fuel Efficiency Requirements in Developed Countries

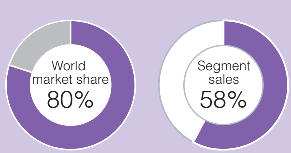


Source: Japan Automobile Manufacturers Association Inc., Report of December 2008; Ministry of Economy, Trade and Industry

Major Products and Market Share

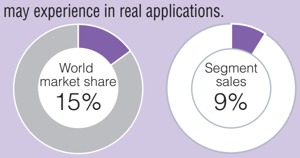
Emission Measurement Systems

These systems continuously measure dynamic concentration of gase and particulate materials in automotive exhaust gas. They are widely used in R&D and product certification in the automotive industry.



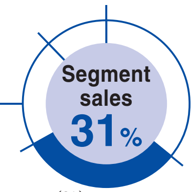
Engine Test Systems

These systems are used for product development tests on engines, including analysis for emission gas measurement and performance assessments. Within the typical small space of an engine test cell, these systems can simulate the dynamic operating conditions that an engine may experience in real applications.

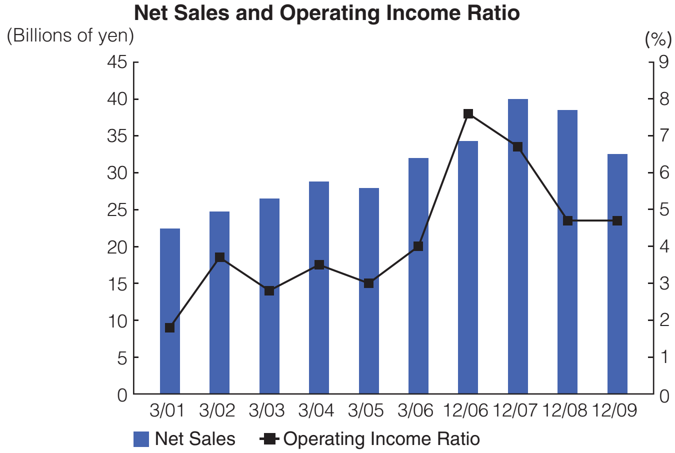


Note: Market shares quoted are estimates by HORIBA, Ltd.

Analytical Instruments & Systems

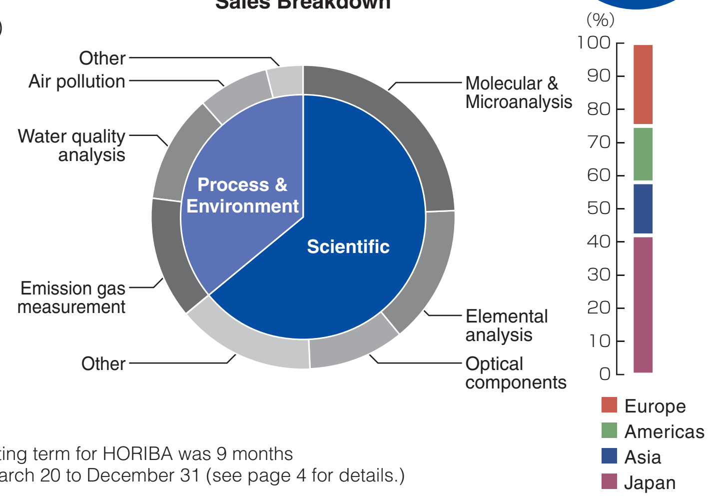


Net Sales and Operating Income Ratio



Note: For the fiscal year ended December 31, 2006, the accounting term for HORIBA was 9 months and 11 days as a result of a change in its fiscal year-end from March 20 to December 31 (see page 4 for details.)

Sales Breakdown



Provide leading-edge analyzers and developing technology that support HORIBA's other businesses

The need to analyze and measure is continuing to grow in today's society, where people are becoming more conscious about, and take appropriate response, to environmental concerns and safety issues, such as global warming caused by greenhouse gases, and food sanitation problems. HORIBA has made effective use of its "measurement" technologies that have been continually developed since its inception and has developed a wide variety of products that respond not only to current environmental issues but also to the future, such as next-generation energy sources.

Scientific business: Support development of energy sources for the next generation

Demand for our scientific products that are primarily manufactured by HORIBA Jobin Yvon S.A.S. (France) is growing in areas such as basic research for advanced lithium ion batteries. These batteries are gaining considerable attention as core energy storage components for next-generation automobiles. Another such area is photovoltaic cells, which are regarded as one of the strongest candidates among next-generation energy sources. We expect to increase our sales and market share in the midst of tighter regulations and more government spending in the BRICs markets.

2010: Growing demand in emerging markets and higher demand from general industries

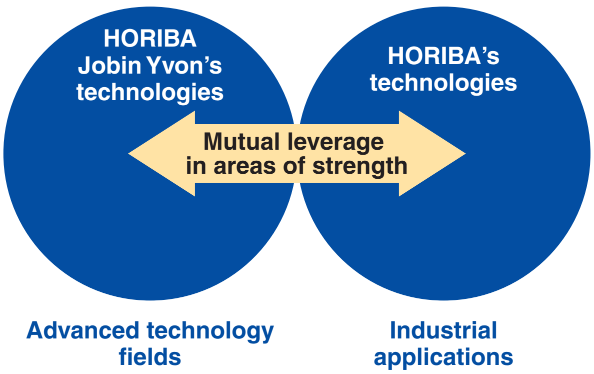
In 2009, thanks to more government spending in many countries, demand from universities, government laboratories, and other institutions for Raman spectrophotometers and related instruments grew nicely. In contrast, sales of environmental measurement instruments decreased, as the global economic recession caused a downturn in demand for general industrial products. The appreciation of the yen also resulted in lower profitability. In 2010, we anticipate a return to solid sales thanks to growing demand for environmental products from emerging markets, despite some concerns over lower profitability, caused by a decrease in government spending.

Environmental business: Business expansion in industrial process measurement and enhanced, on-site response in emerging markets

HORIBA has responded to customers' needs with a broad array of products, including analyzers that measure water quality in the natural environment or industrial processes and instruments for measuring air pollutants. Going forward, we intend to satisfy rising demand in emerging markets facing tighter environmental regulations. At the same time, we plan to accelerate applications serving clients in the industrial process market such as the petrochemical industry. Utilizing the sales networks developed by HORIBA's other businesses, we will establish a local design-manufacturing-sales system to expand sales and earnings.

Synergies between HORIBA, Ltd. and HORIBA Jobin Yvon

Business Model of Scientific Instruments & Systems



Example of Synergies between HORIBA, Ltd. and HORIBA Jobin Yvon

HORIBA satisfies analytical needs in material development such as positive/negative electrodes and separators for lithium ion batteries. A wide range of products has been developed for customers that include corporate research centers and academic institutions and universities.

Analysis of materials
HORIBA Jobin Yvon: Raman microscope, Fuorescent spectrophotometers, etc.
HORIBA, Ltd.: Carbon & sulfur combustion analyzers, X-ray analyzers, etc.

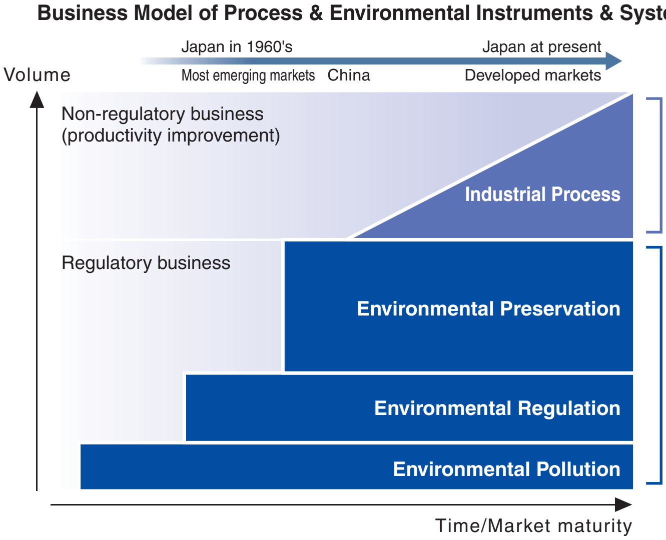
Production management
HORIBA, Ltd.: Particle-size distribution analyzers
X-ray analytical microscope, etc.

In addition to a joint research program with École Polytechnique*1, the acquisition of Genoptics S.A.*2, and other measures to strengthen development in France, HORIBA is enhancing its cooperation with academia in related fields in Japan. HORIBA aims to become a standard for mass production processes as well.

*1 École Polytechnique: It is a state-run, renowned engineering school in France.
*2 Acquisition of Genoptics S.A.: See details on page 31.

From regulation oriented to monitoring of industrial processes

Business Model of Process & Environmental Instruments & Systems



Non-regulatory business: Industrial processes

HORIBA has good growth potential in developed countries for monitoring productivity in petrochemical plants, control measurement in power generation plants, and monitoring processes for clean water.

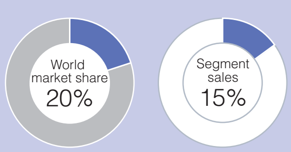
Regulatory business

The growth driver is expected to shift from developed markets to emerging markets. We aim to promote localized development and production and strengthen our branding power in local markets.

Major Products and Market Share

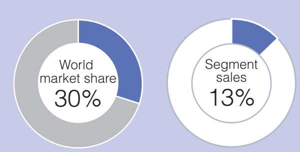
Stack Gas Analyzers

These analyzers provide highly sensitive and precise measurements of the NO_x, SO_2, CO, CO_2, and O_2 content of gases emitted by boilers and furnaces in thermal power stations. This single unit can simultaneously and continuously measure all five gases. HORIBA has a leading market share in this competitive market with over 50 competitors.



Raman Spectrophotometers

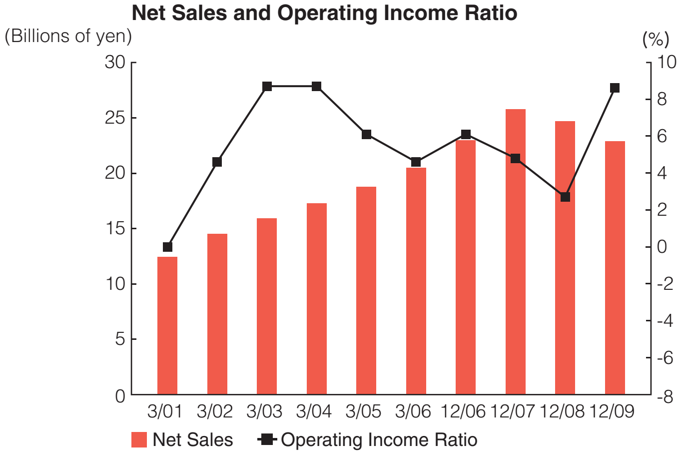
Raman spectroscopy is a spectroscopic technique that effectively identifies the chemical composition of physical materials and analyzes molecular structures. In recent years, it has been attracting attention for applications in cutting-edge research. Raman scattering is typically very weak, so highly-sensitive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



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

Medical-Diagnostic Instruments & Systems

Net Sales and Operating Income Ratio



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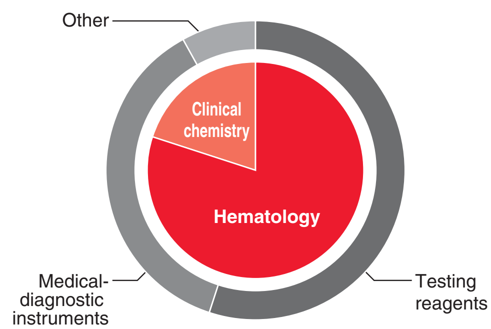
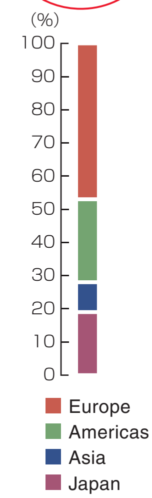
Sales Breakdown





Stable business model supported by sales of reagents

HORIBA generates steady profits from the sale of reagents used by the installed base of HORIBA medical-diagnostic and blood sample analysis instruments. Our products are used in blood testing, biochemical and other areas that are directly linked to assessing the health of people. This makes our products less sensitive to economic downturns, compared to general industrial products. Another characteristic of this segment is that currency risk has been diversified by having two bases for development and production, namely Japan and France.

Market leader in small-size hematology analyzers in the POCT market

Point-of-care testing (POCT), which is defined as immediate, accurate diagnostic testing at the site of patient care, will merit higher demand as it contributes not only to quick and proper medical diagnostics, but also to a reduction in medical expenses with fewer drugs being dispensed. HORIBA is steadily expanding its market share in POCT products with small-size hematology analyzers and blood glucose measurement instruments that are used in familiar medical environments from private practitioner clinics to hospital testing rooms.

2010: Expect firm sales in Japan, with the weaker euro being a positive factor

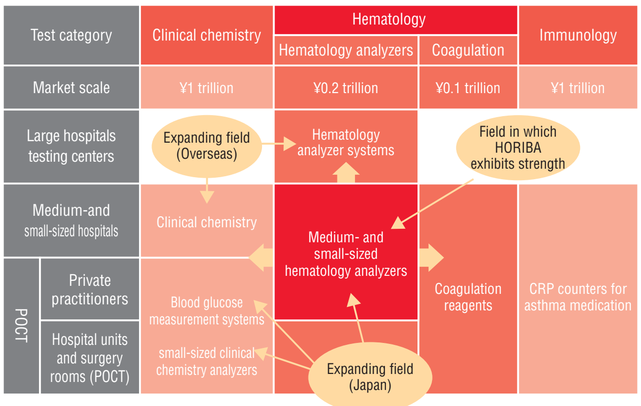
In 2009, HORIBA's medical segment profits increased in tandem with improved profitability thanks to growth in the installed base generated by the introduction of new products in the Japanese market and the weaker euro, which enhanced the competitiveness of HORIBA ABX (France) products. In 2010, we expect to continue expanding our installed base with new products in Japan and sales growth in China and other emerging markets.

Establish business base for expansion

The U.S.A. is the world largest medical equipment market and HORIBA aims to increase its U.S.A. market share through OEM sales to other medical instrument manufacturers by utilizing its technologies for small-size hematology analyzers. We will also consider M&A opportunities that will enable us to expand our business base.

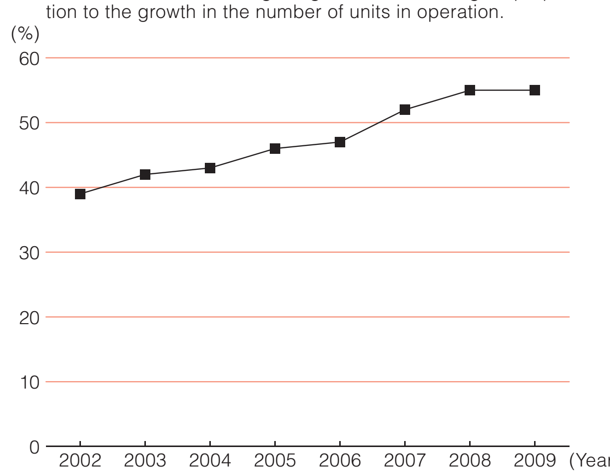
Product Development in the In-Vitro Diagnostics Analysis Market

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

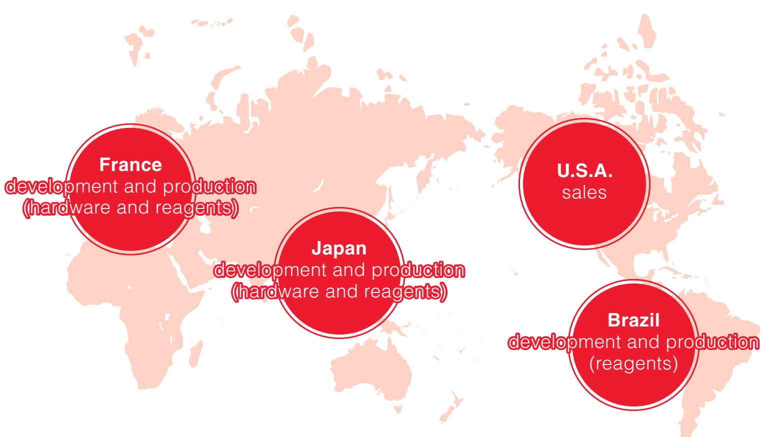


Sales Ratio of Testing Reagents in HORIBA's Medical-Diagnostic Instruments & Systems Segment

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



Global Development of Medical Business



HORIBA's strengths in small-size hematology analyzers

Strong sales network

HORIBA has established a strong relationship of trust with medical sales companies that have their own strong sales network in Japan, Europe, and the Americas.

Originality

HORIBA developed a unique product that measures CRP (C-reactive protein.)
*Please see other strong points on page 28.

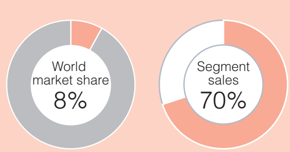
Low operating costs

By reducing the amount of reagents used per test, operating costs can be reduced.

Major Products and Market Share

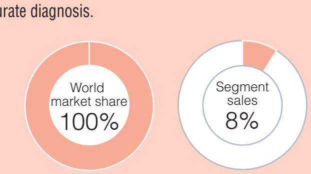
Automatic Hematology Analyzers

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



Automatic Blood Cell Counter plus CRP

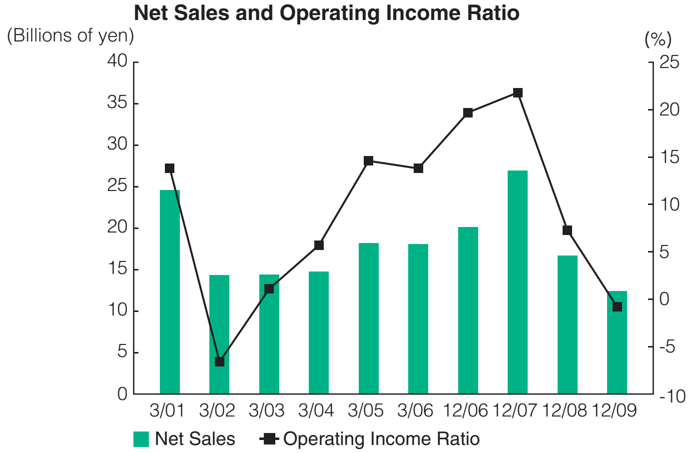
This is the first counter in the world to simultaneously measure blood cell counts and C-Reactive Protein (CRP), which the body produces in response to internal inflammation, thus facilitating fast and accurate diagnosis.



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

Semiconductor Instruments & Systems

Net Sales and Operating Income Ratio



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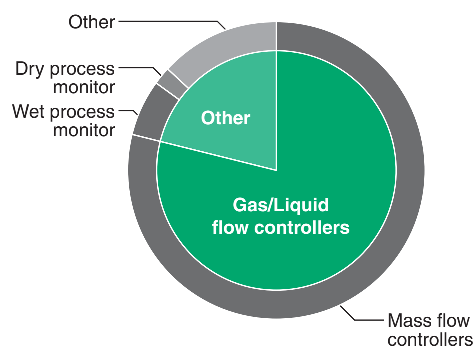
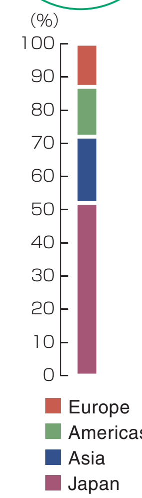
Sales Breakdown





No.1 in the world in mass flow controllers

Mass flow controllers, major components in semiconductor manufacturing equipment, are the mainstay product for HORIBA's Semiconductor Instruments & Systems segment. We have a leading 41%* market share for these products. We will continue to provide highly functional products that respond to ever increasing needs for productivity improvement and higher performance in manufacturing processes that are becoming ever more miniaturized. (*HORIBA's estimate)

New product capabilities to satisfy new markets and new applications

We have developed products for many applications: mass flow controllers regulate gas and liquid flow rates in semiconductor manufacturing equipment; chemical concentration monitors are employed in the semiconductor wafer cleaning process; and thin-film analyzers are used for semiconductor wafer manufacturing and other processes. HORIBA's strength lies in its full line-up of products that respond to the needs of various markets. Recent examples include photovoltaic cells, which are receiving great, worldwide attention as a recyclable energy source, and light-emitting diodes (LED), which are a promising product as a next-generation light source.

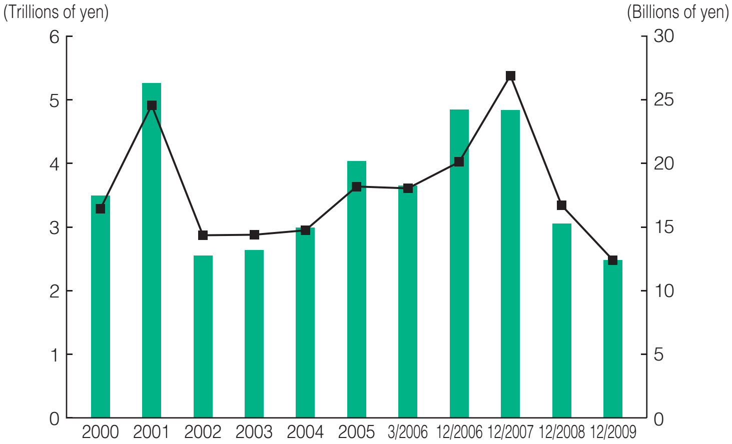
2010: Add production capacity in response to market growth

In the first half of 2009, the worldwide slump in the semiconductor market pushed down our sales of mass flow controllers for semiconductor manufacturing equipment and other products. However, in the second half of 2009, our sales improved thanks to a sharp increase in investment in semiconductor nanofabrication processes and in new markets for LEDs and other products. In 2010, we anticipate a recovery in the semiconductor manufacturing equipment market and continued active investments in new markets. This should lead to improved sales and earnings, primarily in mass flow controllers and chemical concentration monitors.

Expand sales in Asia supported by strong trust of semiconductor makers

Semiconductor manufacturers are aggressively investing in Asia, where demand for electric and electronic home appliances is rising. Our strategy is to utilize our capabilities to support customers in Asia, where we have a strong foothold; gain more credibility from semiconductor manufacturing equipment and device makers; and satisfy rising demand from customers that are making enhanced quality products. This is how HORIBA plans to establish its position in Asia.

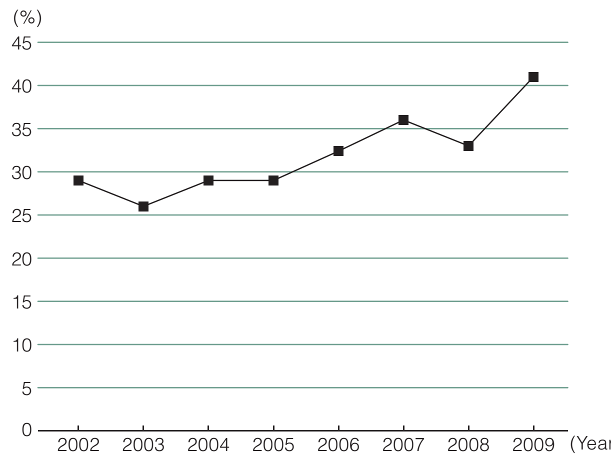
Comparison of Worldwide Sales of Semiconductor Manufacturing Equipment and HORIBA's Semiconductor Instruments & Systems Segment Sales



Worldwide Sales of Semiconductor Manufacturing Equipment (left)
HORIBA's Semiconductor Instruments & Systems Segment Sales (right)

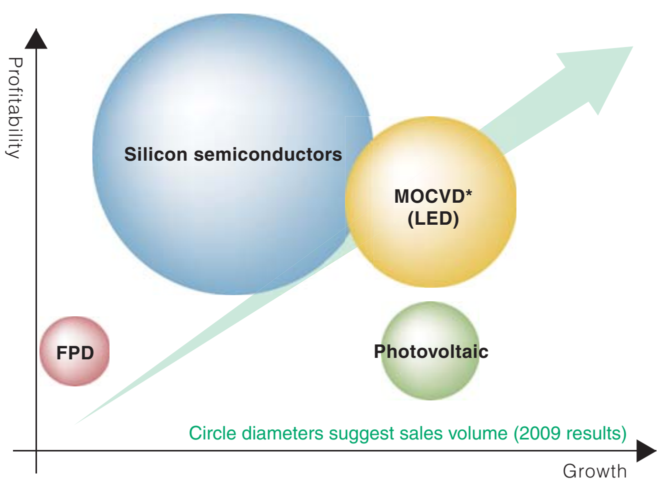
Source: Semiconductor Equipment Association of Japan

HORIBA's Share of Global Market for Mass Flow Controllers



Note: Estimates by HORIBA, Ltd

Future Image of Mass Flow Controllers



* MOCVD (Metal Organic Chemical Vapor Deposition) is a method and type of equipment used to grow crystals by using organic metals or gas as raw materials. The process is used to produce LEDs.

HORIBA's challenge is to apply its products in applications with growth potential

MFC: Mass Flow Controllers

Silicon semiconductors

1. MFC: Achieve higher precision and performance with a flow detecting system using a differential pressure method, for nanofabrication processes
2. MFC: Increase market share in the U.S.
3. Chemical concentration monitors: Expect a recovery in investment in cleaning equipment; respond to needs for single-wafer processors.

Light-emitting diodes (LED)

1. MFC: Growing demand for compound semiconductor manufacturing equipment
2. MFC: Gain a high share in Asia with a superior maintenance system

Photovoltaic cells

1. MFC: Growing demand for specialized products, thanks to a recovery in investment
2. Thin-Film Analyzers: Momentum in demand growth related to higher conversion efficiency

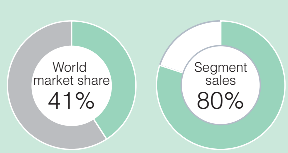
General

- Increase market share in sales to emerging local manufacturing equipment makers in Asia
- Expand sales to manufacturing equipment makers in South Korea and China, through HORIBA's global network

Major Products and Market Share

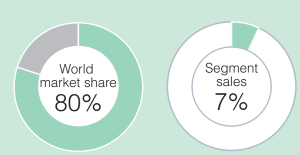
Mass Flow Controllers

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



Chemical Concentration Monitors

These compact units are used in semiconductor manufacturing to monitor concentrations of chemical cleaners. They ensure that no cleansing fluids are wasted, by optimizing the cleaning process and helping to boost production yields.



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

HORIBA Group is One Company

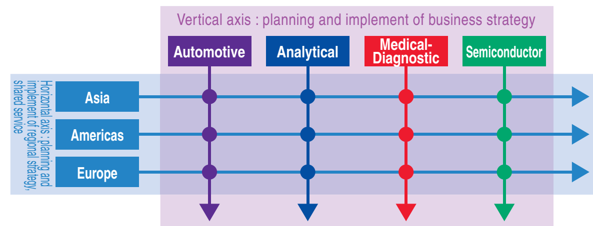
HORIBA uses matrix management by business segment and by region.
Every employee has a sense of ownership, is united within a common corporate culture expressed by principles such as the HORIBA motto "Joy and Fun," and "multipliers" and shares their strengths in order to increase corporate value.

Evolution in “One Company” Management

“One Company” Matrix Management

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

“One Company” Matrix Management



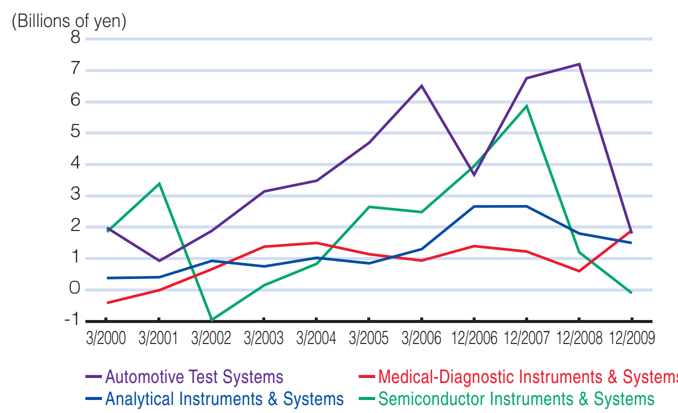
HORIBA and its group companies are “One Company,” sharing common resources in the pursuit of management efficiency and globalization. The Group is shifting from an independent corporate entity management to a “One Company” matrix management based on four business segments forming the vertical axis and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

Progress in Well-Balanced Management

Balance Among Business Segments

From the mid-1990’s, strategic M&A activities improved the sales and profit balance among business segments. However, in 2009, when the global crisis hit us, we were unable to grow earnings. Our challenge going forward is to create stable growth in the Medical-Diagnostic Instruments & Systems segment and the Analytical Instruments & Systems segment that will generate profit and support the entire corporate group when downturns in the highly volatile Semiconductor Instruments & Systems segment and the Automotive Test Systems segment may occur at the same time. We will continue to grow all four businesses and make them into thick pillars to support our business base.

Operating Income by Business Segment



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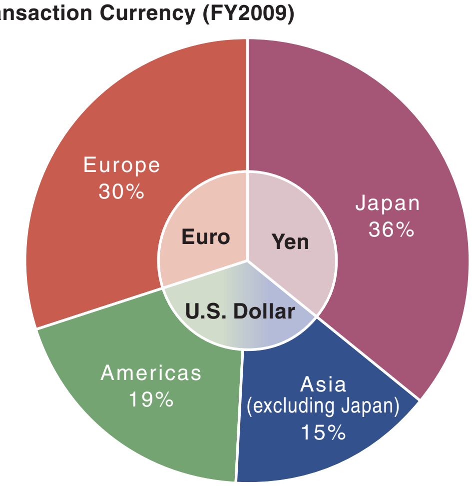
Balance Among Operating Regions and Transaction Currencies

Our dependence on the domestic market in Japan has been reduced to the current 36% of total sales. In the medium-term, growth in Asia and sales expansion in the U.S., a region of strategic focus, are expected to reduce the dependency on any particular regional market. The impact of transactional currency fluctuations has been lessened by achieving a good balance between the yen, the dollar, and the euro.

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

Breakdown of Net Sales by Region and Transaction Currency (FY2009)



Organizational Restructuring of Group Companies 〔Example of the operations in the U.S.〕

In 2008, we conducted an organizational restructuring in the U.S. and Europe by integrating local group companies into regional holding companies. Our aim was to make it easy for these regional companies to utilize the resources of previously separated companies. We also expected to improve efficiency by expanding cross-selling synergies between businesses and by sharing business resources. As about two years have passed since its implementation, we interviewed Masayuki Adachi, President & CEO of the holding company in the U.S., regarding the effects of restructuring in the U.S.

Dr. Masayuki Adachi

Masayuki Adachi joined HORIBA, Ltd. in 1985. He was engaged in research and development of engine emission measurement systems, which included an assignment at the University of California Irvine Combustion Laboratory (UCICL). As segment leader of the Automotive Test Systems segment, he headed the acquisition of the automotive development test systems business of Carl Schenck AG. He was appointed as president & CEO of HORIBA International Corporation (U.S.) in 2007. He has a Doctor of Engineering.

Q: How have you progressed with the organizational restructuring?

As a part of the "One Company" matrix management, the U.S. subsidiaries of the HORIBA Jobin Yvon Group (Scientific field) and the HORIBA ABX Group (Medical field) were absorbed by the U.S. arm of HORIBA International Corporation. I believe that the reorganization's full effects are yet to come. However, each U.S. operation, which had long suffered from sluggish sales and profits, has already shown great improvement and has generated profits in 2009. They have continued to perform favorably in 2010.

Q: Will you talk about the effects of restructuring?

First, we saw productivity improvement through rationalization, accelerated decision-making, and sharing of best practices. These changes have already contributed to improve sales and profits. The sharing of business infrastructure in administrative divisions has enabled us to make "apples to apples comparison."

Second, three different corporate cultures have been integrated. We initiated this change by encouraging the heads of the three companies to communicate with each other for better understanding (facilitating a "chemical reaction" between people). We have spent considerable time filling in the gaps separating the corporate culture of each of the three. As a result, I believe that the true meaning of cultural integration has been fostered. This should work as a source of strength when we try to share best practices or pursue synergy effects of operations. I am confident that our U.S. operation can contribute to improve earnings in the medium term.

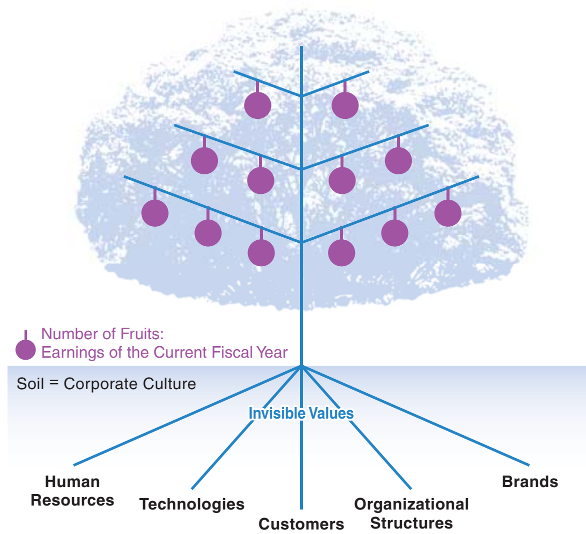
Q: What are your plans from now?

I believe that the matrix management of four businesses and three regions is an optimal way to realize HORIBA's "One Company" management. At the operating level, appreciation and coordination of the vertical axis (business segments) and the horizontal axis (regions) are required. On top of that, the introduction of shared services, associated with the restructuring, and utilization of IT (information technology) should enable us to accelerate decision making. We would like to share our experience in the U.S. with the management of other business segments and regions, in everyday operations or in the meetings of group managers. This is how we expect to contribute toward spreading matrix management to the entire HORIBA Group.

Value Creation Based on Invisible Values

Invisible Values = assets that do not appear in the financial statements
→Human Resources, Technologies, Customers, Organizational Structures, and Brands

Creating value by utilizing our "Invisible Values" is one of HORIBA's important management themes. Of course, the fruit (earnings) and the trunk with branches and leaves (the balance sheet), are both visible and important values. However, we believe that the essence of good management is to grow strong thick roots (invisible values) in rich soil (corporate culture). We do not believe that management's emphasis on maximizing short-term earnings and neglecting investment in invisible values will foster sustainable growth or increased corporate value.

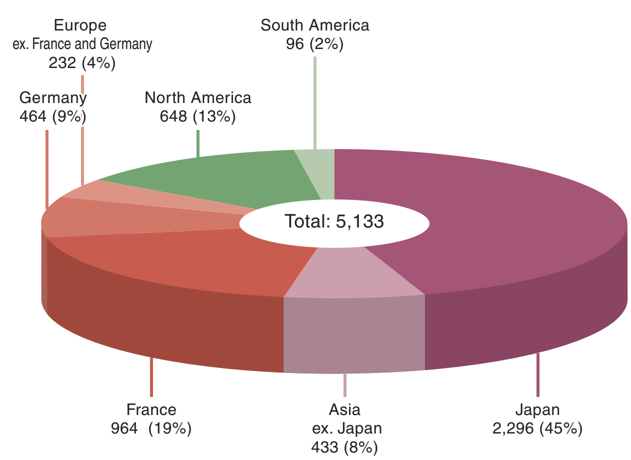


Rationale of Invisible Values
The number of fruits and the value of the harvest are important but it is more important that the roots are growing strong

Globalization of Human Resources

A core objective of acquisitions is to acquire globally competent human resources. Constructive acquisitions have raised HORIBA's ratio of non-Japanese employees to 55%. This high ratio was not achieved by pursuing low-cost overseas labor forces. In fact, HORIBA has gained very talented people, many holding doctorate degrees. This makes us a very unique Japanese company. As you can see on pages 9 and 10, three non-Japanese employees have been promoted to corporate officers from the group companies.

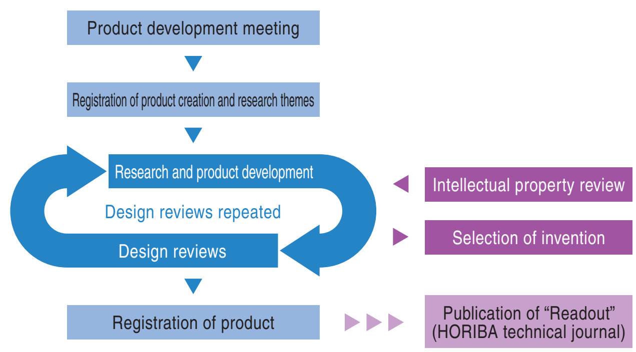
Number and Ratio of Employees by Region (End of 2009)



HORIBA's R&D Activities and Intellectual Property

HORIBA conducts research & development activities, based on the product development process shown on the right.
One distinctive feature is the fact that we perform repeated design previews*1 in tandem with intellectual property reviews*2. Based on this process, we aim to increase opportunities to select intellectual property, including inventions, and thereby protect and make use of intellectual property appropriately. This strategy is also enabling us to secure our dominance in global markets.

R&D Process and Selection of Inventions



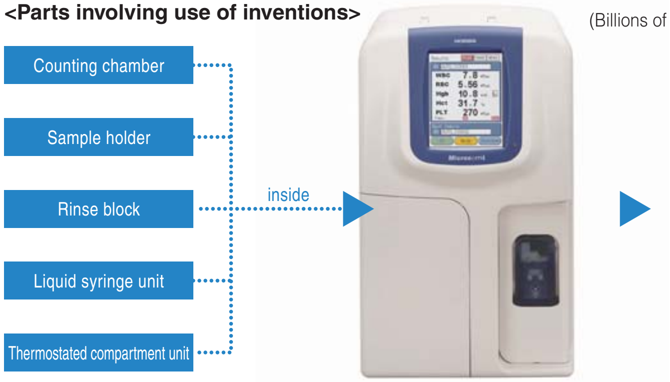
*1 A design review refers to checking whether design quality can proceed to the next stage in the case of various processes such as planning, analysis, design, production and testing aimed at the creation of products.
*2 In the case of an intellectual property review, we investigate matters such as the avoidance of intellectual property that is likely to entail risks and the establishment of rights for necessary intellectual property.

Products with Added Value Based on as Many as 30 or More Inventions

The Automatic Blood Cell Counter plus CRP, which HORIBA launched in Japan at the end of 2008, has generated new demand based on more than 30 inventions and supported an improvement in profits in the Medical-Diagnostics Instruments & Systems segment in Japan in 2009.
Through mutual Japanese-French technical cooperation with HORIBA ABX S.A.S. in France, we aim to create products with high market share and achieve further growth.

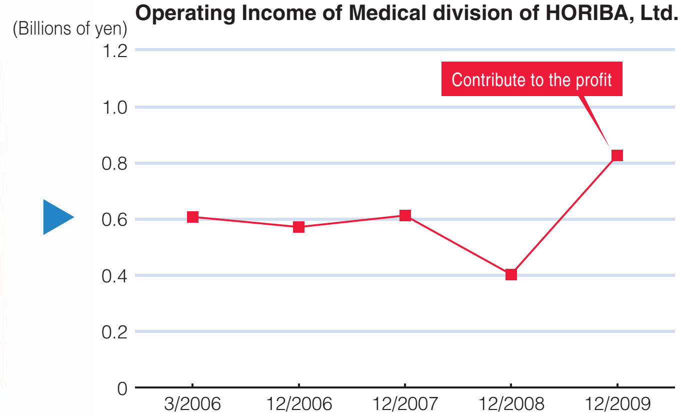
<Measurement Method>
Whole blood immunology

<Parts involving use of inventions>



Automatic Blood Cell Counter plus CRP

Operating Income of Medical division of HORIBA, Ltd.



Value Creation Based on Invisible Values: Human Resources

HORIBA COLLEGE

Since its opening in February 2009, the HORIBA COLLEGE has hosted 66 courses for 3,600 attendees in the first 11 months. Among them, 30 courses with 1,500 attendees were held at the renovated Kutsuki Training Center in Shiga Prefecture.

We invite guest lecturers for some courses. However, in most cases, our employees design and teach most courses, thereby encouraging our employees to teach and learn from each other. Our ultimate objective is to insure HORIBA's know-how and skills that have been accumulated over 50 years will be inherited by the next generation. Our belief is expert knowledge directly linked to our business operations and experiences should be shared within the group. Implanting HORIBA's corporate culture at the same time leads to the effective development of high-quality personnel.


A training session of the HORIBA COLLEGE

Evolution of Blackjack Project

Since its launch in 1997 the Blackjack Project (BJ) has been HORIBA's activity with the objective of fostering innovation in the mind-set and action of all our people. In 2009, 286 BJ entries from HORIBA Group companies were among the 738 total BJ activities registered. In recent years, the number of registered themes from the overseas group companies has been increasing. The award-winning theme in the 2009 BJ World Cup competition was provided by our group company in Singapore. BJ plays an important role in sharing our corporate culture, experiences, and knowledge.


Blackjack Awards World Cup 2009

Financial Results Briefing for Employees

HORIBA holds its business result meetings for employees twice a year. We call it the "Internal IR (Investor Relations)." Using the briefing materials we present to investors, we give presentations to our employees on how the company is doing.
In addition, we invite guest lecturers to talk about how HORIBA is regarded from the outside. These are good opportunities for our employees to learn about the expectations of HORIBA from outside the company; issues addressed to us; and, where useful or necessary, to readjust our employees' assumptions and perceptions. We are hoping that these events will further motivate our people in their work.


The internal IR event held in 2009








HORIBA
SIMULATED GAS GENERATOR





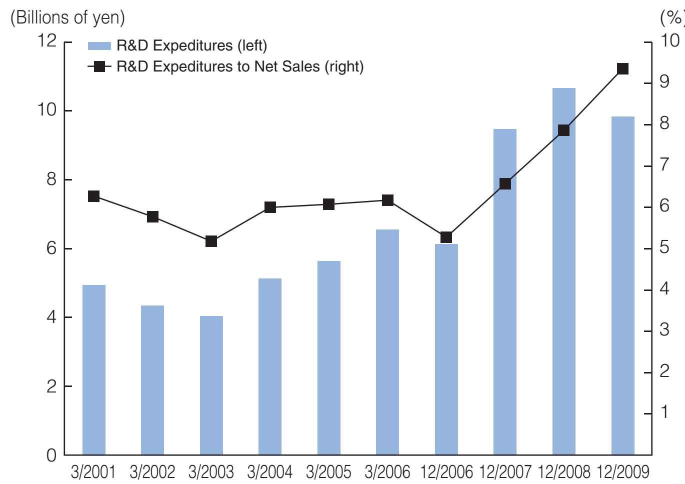
おもしろ
おかしく


Value Creation Based on Invisible Values: Technology

Technical Development will Accelerate Additional Growth

The development of basic technologies and product technologies is the lifeline of HORIBA as an analytical equipment manufacturer. We have continued to invest during economic downturns, while our competitors reduced their investments. This strategy has boosted our market share during recovery phases. Specifically, HORIBA has continued to grow without halting the value creating cycle by maintaining R&D investment at 5-7% of sales during times when earnings are favorable and when they may not be favorable. In 2009, our sales declined sharply, but we maintained the level of R&D investment. We firmly believe this investment will contribute to our future growth.

Amount of R&D Expenses and Ratio of R&D Expenses to Net Sales



Acquisition of Genoptics

In April 2009, HORIBA Jobin Yvon S.A.S., a group company based in France, acquired Genoptics S.A., a French venture company with advanced technologies in the biochemistry field. These technologies are likely to be applicable in the analysis of bio-molecules such as pathogenic bacteria in drug discovery, medical treatment and other such practical work locations, and we foresee the development of a new market based on the development of products in the near future.

An exchange opportunity with Genoptics' employees

Paris R&D Center

We have decided to create a new research and development center in the vicinity of the campus of École Polytechnique, France's most advanced science and technology institution, which is located in the suburb of Paris.
As an initiative by the French government to promote science and technology, it is planned to form a research and development cluster in this area that will target fields related to physics, chemistry and biology, and HORIBA is the first Japanese company to advance into this area. The center will develop high-precision, high-performance measurement technologies through strengthened collaboration among industry, academia and government, thereby furthering the progress of science and technology in France.

Paris R&D Center (image)

“Raising Efficiency” is the Main Theme

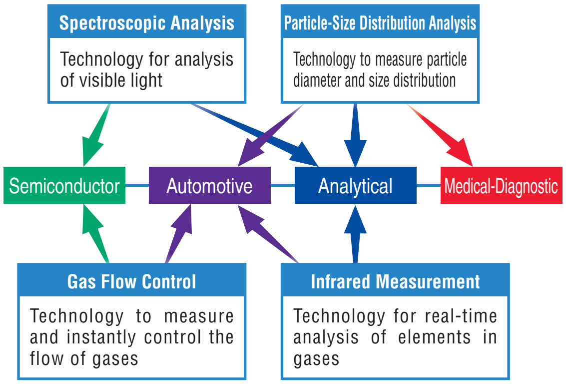
Improving investment efficiency is a major theme at HORIBA. In 2009, we produced “Getway (HORIBA R&D Action Guide),” a booklet that summarizes the outcome of activities in the development stage. The primary aim is to speed up development and pursue high quality. For each development project, we are attempting to revise its development process based on the recognition that the process flow is integrated from design to sales and service. Even during economic downturns, we will maintain R&D investment, and by further accelerating development, we aim to launch high-quality products in the market and expand our market share during periods of demand recovery.

Enabling Integrated Proposals at a Group Level

The ability to propose solutions from several fields in relation to one technical trend is a HORIBA strength. We have accumulated many practical accomplishments by responding to application needs in a wide variety of industries. For example, raising the efficiency of electric cars, our experts in mechatronics in the automotive segment are able to propose systems test solutions, while our specialists in the scientific field can propose solutions for battery material analysis. We regard a high degree of flexibility, namely our technical applications capability, as a unique strength of HORIBA to create great opportunities.

Application of Basic Technologies

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



Dr. Kozo Ishida
Executive Vice President

Kozo Ishida joined HORIBA, Ltd. in 1970 and has been engaged in the development of gas analyzers. He was appointed as President of HORIBA Europe GmbH in 1985. In 1988, he was appointed as a Director of HORIBA, Ltd. He was appointed as Executive Vice President in 2002. While still serving as an adviser in some industry-academia-government research projects, he teaches graduate students as a visiting professor of Doshisha University. He has a Doctor of Engineering.

Governance

Corporate Governance

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

Appointment of External Directors and Corporate Auditors

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

Implement a Dividend Policy that Emphasizes Shareholder Returns

HORIBA was the first listed Japanese company to start paying shareholder dividends based on a payout ratio (30% of parent company's net earnings) in 1972 and has paid dividends without interruption for 37 years.

Open General Meetings of Shareholders

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

Adoption of a Corporate Officer System

HORIBA has decreased the number of directors to prevent the Board of Directors from becoming inflexible and avoid lively discussion. In addition, we introduced a corporate officer system in 1998. HORIBA now has 15 corporate officers, including four non-Japanese. In April 2010, we invited Dr. Jai Hakhu, former vice president of Intel Corporation in the U.S. We are expecting his experience to be a valuable contribution in drafting the next Mid-Long Term Management Plan and our business expansion in the U.S. market.

Number of Directors

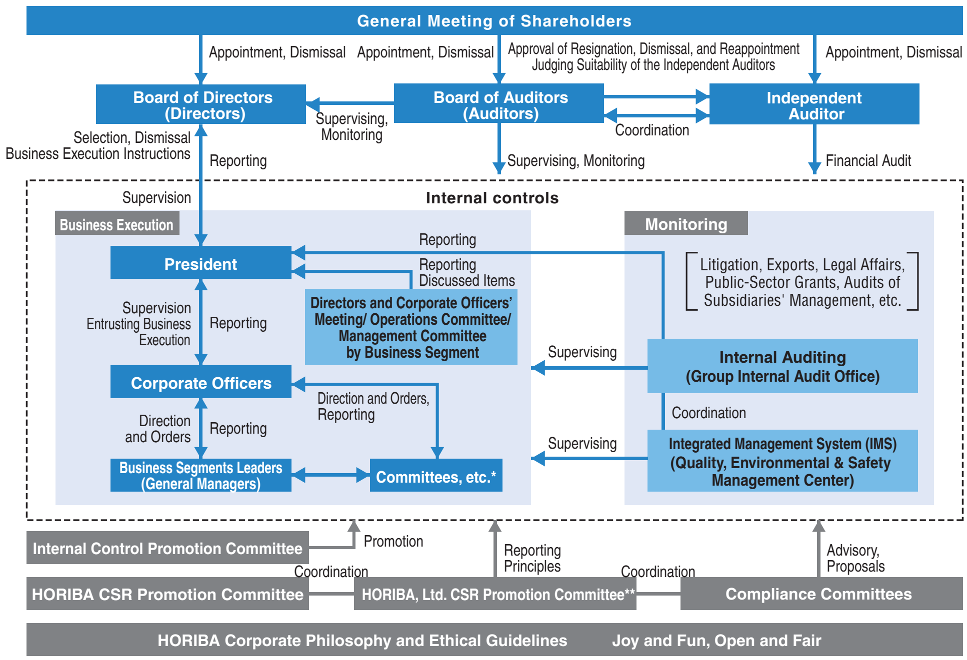
Fiscal March 1999	Fiscal March 2006	Fiscal December 2010
7 directors (including two external directors)	5 directors (including one external director)	5 directors (including one external director)
4 Corporate Officers	9 Corporate Officers	15 Corporate Officers (including 4 non-Japanese)

Dr. Jai Hakhu

Executive Corporate Officer of HORIBA, Ltd.
and Chairman of HORIBA International Corporation (U.S.) since April 2010.

Jai Hakhu was responsible for worldwide capital development, purchasing, manufacturing and R&D for Intel Corporation in the U.S. and served as Intel's corporate vice president and general manager. He also managed Intel's Technology and Manufacturing Group in Japan. After leaving Intel, he started a consulting firm for semiconductor-related companies, using his 30 years of experience in the industry. He is also senior advisor of Golden Gate Capital and serves several boards. He has been consulting for HORIBA's business management since 2008.

Corporate Governance Structure Chart



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

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

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

Corporate Officer	Executive Corporate Officer	Jai Hakhu	Chairman of HORIBA International Corporation (USA)
	Senior Corporate Officer	Michel Mariton	Segment Leader of Analytical Instruments & Systems (Scientific)
			President & CEO of HORIBA Jobin Yvon S.A.S. (France)
		Masayuki Adachi	President & CEO of HORIBA International Corporation (USA)
		Sunao Kikkawa	General Manager of Finance & Control Division of HORIBA, Ltd.
		Toshihiko Uno	General Manager of Production Center of HORIBA, Ltd.
		Atsushi Nakamine	Corporate Intelligence Office (Business Strategy Planning) of HORIBA, Ltd.
		Takashi Nagano	President & COO of HORIBA Europe GmbH (Germany)
		Yuichi Muroga	General Manager of International Division of HORIBA, Ltd.
	Corporate Officer	Kiyoaki Hara	Director of HORIBA STEC, Co., Ltd.
		Rex Tapp	US Region Leader of Automotive Test Systems Segment
			Vice President and General Manager of HORIBA Instruments Inc. (USA)
		Bertrand de Castelnau	Segment Leader of Medical-Diagnostic Instruments & Systems
			President & CEO of HORIBA ABX S.A.S. (France)
		Mamoru Dohi	President & CEO of HORIBA Techno Service Co., Ltd.
		Kenichi Obori	Corporate Intelligence Office (R&D Strategy Planning) of HORIBA, Ltd.
		Tsukasa Satake	Segment Leader of Semiconductor Instruments & Systems
			General Manager of Scientific /Semiconductor Instruments & Systems Division of HORIBA, Ltd
		Hiroshi Kawamura	Segment Leader of Automotive Test Systems
			General Manager of Automotive Test Systems Division of HORIBA, Ltd.

Corporate Social Responsibility (CSR) Policy

Encourage CSR in the Course of Day to Day Operations

HORIBA's products, supplied by four business segments are intimately linked with key issues challenging the global environment: human health, public safety, and energy. With a sense of pride, we will supply products and technologies that contribute to building a sustainable society and improving people's quality of life (QOL). This is the essence of HORIBA's CSR activities.

CSR Report: Gaiareport

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

http://www.horiba.com/us/en/social-responsibility/csr-reports/

Gaiareport

"HORIBA Challenge Tour 2009"
HORIBA supported the tour to France of the boys' football team in Kyoto

HORIBA supported the tour to France of select players of under-13 football (soccer) team in Kyoto prefecture in March 2009. The team enjoyed practice games with local U-13 football teams and watched a qualifying match for the 2010 World Cup competition. In addition, the team members visited HORIBA Jobin Yvon for a plant tour and a luncheon. This tour must have created strong impressions of real French football and of HORIBA as a leading global company for the participants. HORIBA also supported the tour in 2010. Utilizing our global network, HORIBA will continue to make social contributions similar to this activity.

Demonstration of the analytical instruments in HORIBA Jobin Yvon

HORIBA in Kyoto: From Kyoto to the world

Several academic studies have pointed out that many long-lasting, globally-competitive companies reside in Kyoto.
They argue that one of the factors behind that is Kyoto's culture, which has a significant effect on corporate sustainability and competitiveness.

Kyoto culture, typified by combinations of contrasts "sustainability and innovation" and "tradition and cutting-edge," is deeply embedded in HORIBA's corporate culture.

HORIBA's corporate culture, cultivated under the influence of Kyoto culture, is the unifying force for our globalization strategy.

New advances originating in traditional skills

Illustrations of Izutsu Yatsuhashi Honpo products:
http://www.yatsuhashi.co.jp/

At the twice-yearly meetings, when HORIBA presents midterm and full-year business results, the company distributes sweet buns (called mikasa, or dorayaki) to all who attend. HORIBA has the sweet buns made by a very old Kyoto firm, Izutsu Yatsuhashi Honpo (founded in 1805 and purveyor to the Imperial Household Agency), which imprints the HORIBA corporate motto, "Joy and Fun," on the buns.
In addition to the sweet-bean paste normally used as filling for these buns, the buns from this firm also has some Yatsuhashi inside; this is an old, only-in-Kyoto sweet, made from rice flour and sugar. The custom of distributing these special buns is based on their synergy with HORIBA tradition, in their combination of tradition and innovation.

The buns (and their maker) and HORIBA have in common

1. Long term cultivation of Kyoto tradition and culture
2. Dedication to quality and customer service
3. Finding new ways to use old tradition and technique

Eleven-Year Summary

HORIBA, Ltd. and Consolidated Subsidiaries
The years ended March 20, 2000 - 2006, the years ended December 31, 2006 - 2009.

	Millions of yen				
	3/2000	3/2001	3/2002	3/2003	3/2004
For the Year					
Net sales	¥71,030	¥77,873	¥74,468	¥78,501	¥85,073
Operating costs and expenses	67,213	73,123	71,921	73,027	78,223
Operating income	3,817	4,750	2,547	5,474	6,850
Net income (loss)	1,100	1,443	(1,071)	786	2,074
Capital expenditures	3,090	3,032	3,137	3,444	3,501
Depreciation and amortization	3,448	3,276	3,381	2,915	3,037
Research and development expenses	4,030	4,938	4,336	4,044	5,129
At Year-End					
Total assets	¥89,004	¥101,006	¥98,766	¥100,542	¥92,657
Cash and cash equivalents	15,264	17,443	16,625	22,061	13,603
Trade notes and accounts receivable					
Affiliated companies	-	-	-	-	-
Other	27,387	31,960	29,622	29,594	29,143
Inventories	16,207	19,503	19,169	18,336	19,402
Property, plant and equipment, net	17,722	18,541	19,279	19,000	18,841
Trade notes and accounts payable					
Affiliated companies	55	79	43	51	58
Other	10,073	12,081	7,887	9,147	8,700
Liabilities with interest	26,811	30,545	34,989	33,218	21,460
Shareholders' equity	37,214	39,796	40,063	40,144	43,348
Share price at end of fiscal period (¥)	786	825	896	765	1,380
Number of employees (consolidated)	3,257	3,540	3,583	3,691	3,808
			(Notes 2, 3, 4, 5, 6)		
Per Share Information					
Net income (loss) - basic	¥35.39	¥46.43	(¥34.47)	¥22.21	¥62.90
Net income - diluted	29.72	38.75	-	18.31	50.10
Net assets	1,197.12	1,280.51	1,293.42	1,293.30	1,350.31
Cash dividends	6.00	8.50	8.50	14.50	10.00
Financial Ratios					
Operating income to net sales (%)	5.4	6.1	3.4	7.0	8.1
Return on assets (%)	1.2	1.5	(1.1)	0.8	2.2
Return on equity (%)	2.8	3.7	(2.7)	2.0	5.0
Shareholders' equity ratio (%)	41.8	39.4	40.6	39.9	46.8
Consolidated dividend payout ratio (%)	17.0	18.3	-	57.2	15.3
Non-consolidated dividend payout ratio (%)	32.3	31.4	30.9	40.8	30.3

Notes: 1. The U.S. dollar amounts are provided solely for convenience at the rate of ¥91.03 to US$1.00, the rate prevailing on December 31, 2008.
2. Effective for the year ended March 20, 2001, HORIBA adopted the revised accounting standard for foreign currency translation.
The amounts in 2000 have been restated in compliance with this revised accounting standard. However, the amounts in prior years have not been restated.
3. Effective for the year ended March 20, 2002, HORIBA adopted the revised accounting standards for financial instruments and employees' retirement benefits.
The amounts in prior years have not been restated.
4. Effective for the year ended March 20, 2003, HORIBA adopted the revised accounting standard for per share information.
The amounts in prior years have not been restated.
5. Effective for the year ended December 31, 2006, HORIBA adopted the revised accounting standard for presentation of net assets in the balance sheet.
The amounts in prior years have not been restated.
6. For the year ended December 31, 2006, the accounting term for HORIBA, Ltd. and HORIBA Advanced Techno Co., Ltd. was only 9 months and 11 days and that for HORIBA STEC Co., Ltd. was only 9 months as a result of a change in the fiscal year-end to December 31.

		Millions of yen				Thousands of U.S. dollars (Note 1)	
3/2005	3/2006	12/2006	12/2007	12/2008	**12/2009**	**12/2009**	
¥92,492	¥105,665	¥116,099	¥144,283	¥134,248	**¥104,539**	**$1,135,060**	
83,119	94,390	104,392	127,753	123,290	**99,395**	**1,079,208**	
9,373	11,275	11,707	16,530	10,958	**5,144**	**55,852**	
3,524	6,473	6,510	8,691	6,039	**3,162**	**34,332**	
3,956	5,664	5,059	9,336	6,645	**4,534**	**49,229**	
2,944	3,173	3,246	4,161	4,955	**4,573**	**49,652**	
5,636	6,553	6,136	9,474	10,662	**9,831**	**106,743**	
¥99,913	¥119,976	¥129,236	¥154,367	¥133,279	**¥129,581**	**$1,406,960**	
16,108	14,884	15,673	20,565	22,660	**¥27,591**	**299,577**	
-	-	-	-	63	**6**	**65**	
30,595	37,408	42,485	45,873	37,330	**34,506**	**374,658**	
22,012	27,273	30,947	33,734	29,802	**23,363**	**253,670**	
18,481	20,223	21,700	24,071	23,115	**23,602**	**256,265**	
26	45	44	53	40	**52**	**565**	
11,264	13,017	14,917	16,792	11,063	**10,515**	**114,169**	
16,042	13,866	16,224	25,177	20,984	**18,349**	**199,229**	
52,263	65,446	72,371	80,377	76,829	**79,906**	**867,600**	
1,950	3,690	4,400	4,100	1,237	**2,250**	**24.43**	U.S. dollars (Note 1)
3,984	4,461	4,697	4,976	5,146	**5,133**		
		(Notes 2, 3, 4, 5, 6)				U.S. dollars (Note 1)	
¥98.33	¥154.27	¥154.23	¥205.01	¥142.76	**¥74.77**	**$0.81**	
83.81	146.97	153.70	204.39	142.71	**74.68**	**0.81**	
1,415.75	1,548.08	1,710.75	1,892.64	1,816.96	**1,889.58**	**20.52**	
16.00	28.00	26.00	39.00	44.00	**13.00**	**0.14**	
10.1	10.7	10.1	11.5	8.2	**4.9**		
3.7	5.9	5.2	6.1	4.2	**2.4**		
7.4	11.0	9.4	11.4	7.7	**4.0**		
52.3	54.6	56.0	52.1	57.6	**61.7**		
16.5	18.1	16.9	19.0	30.8	**17.4**		
41.8	33.8	30.0	30.1	30.0	**30.0**		

Computation:

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

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

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

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

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

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

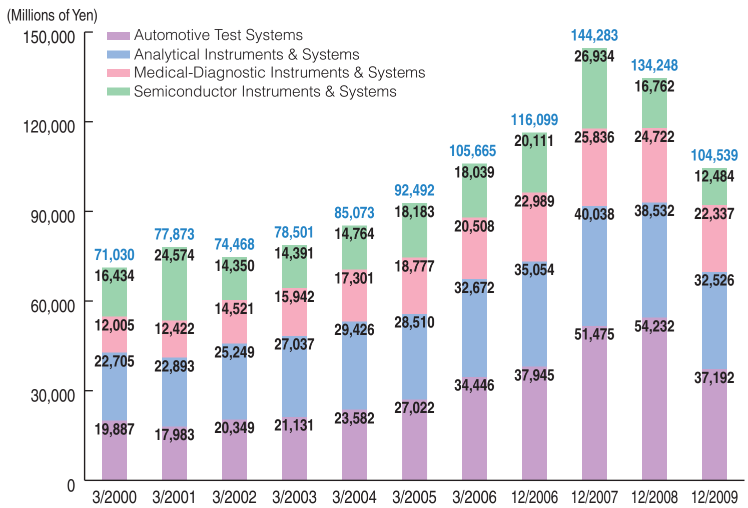
Consolidated dividend payout ratio (%) = 100 x dividends paid / net income (consolidated)

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

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

Eleven-Year Summary

Net Sales by Segment

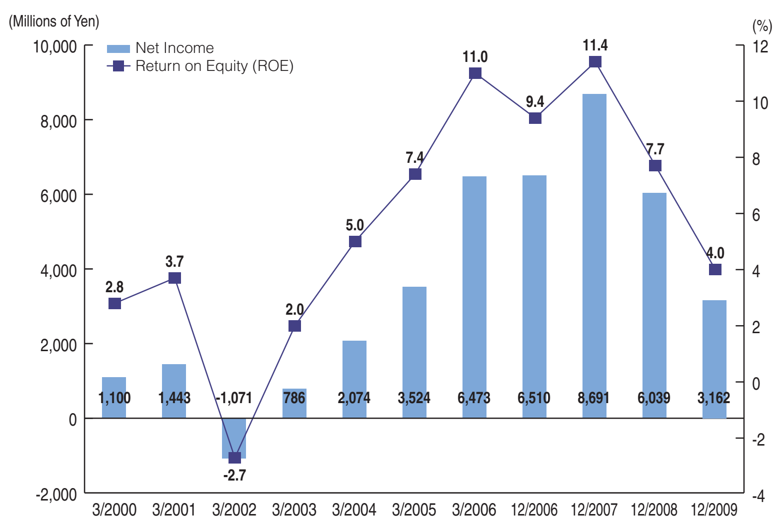


Net Sales amounted to ¥104,539 million in fiscal 2009 ended 31 December 2009. Changes from fiscal 2000, for segment, were as follows:

Automotive	up 87.0%
Analytical	up 43.3%
Medical-Diagnostic	up 86.1%
Semiconductor	down 24.0%
Total	up 47.2%

HORIBA's aim is a well-balanced growth in which our four business segments exert their strength and minimize their weakness.

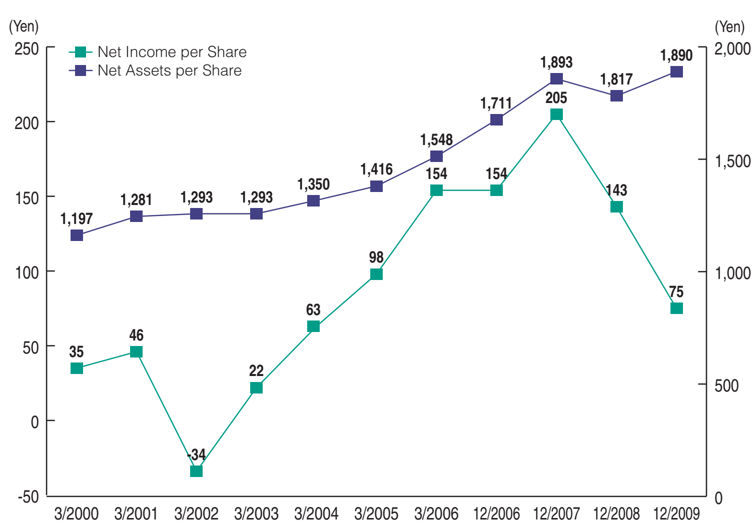
Net Income and Return on Equity (ROE)



Net income of ¥3,162 million and ROE of 4.0% were recorded in fiscal 2009. After fiscal 2002 when a net loss was posted, HORIBA had increased net income consecutively to post a record-high net income in 2007. Since then, however, we had a decrease in profits for two years in a row.

By promoting "One Company" matrix management and shared services, HORIBA aims to better utilize management resources and human resources in an efficient and effective manner.

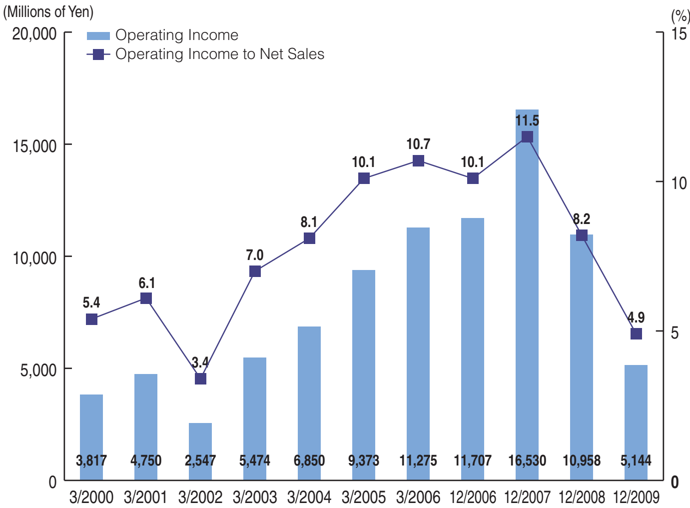
Net Income per Share and Net Assets per Share



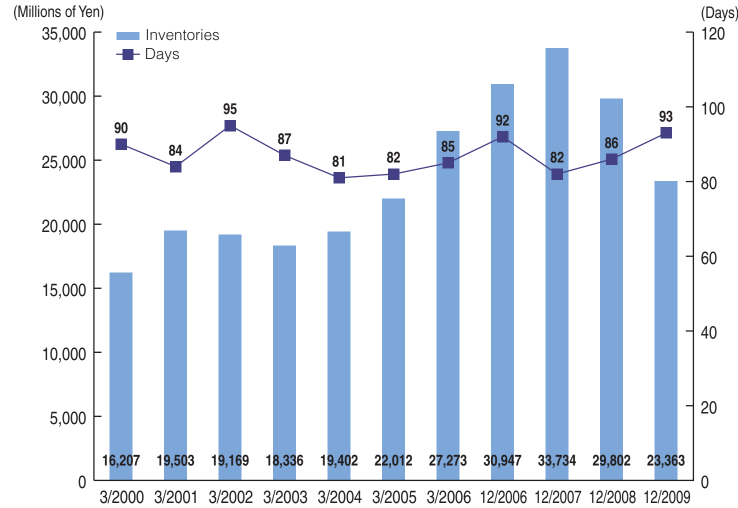
Total assets were ¥129,581 million at the end of December 2009. The amount increased by 46.7% relative to the end of March 2000, thanks to business expansion.

The number of shares outstanding at the end of December 2009 increased by 11,036 thousand shares from the end of March 2000 to 42,288 thousand shares, mainly due to conversion of convertible bonds and converting some domestic subsidiaries to fully-owned subsidiaries with share exchange.

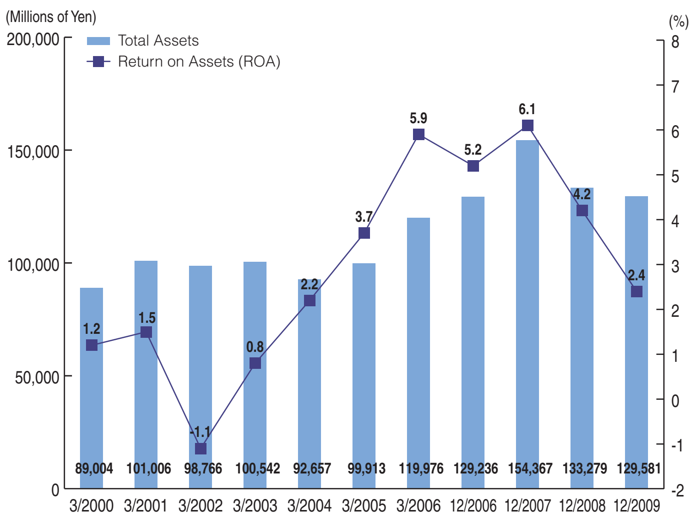
Operating Income and Operating Income to Net Sales



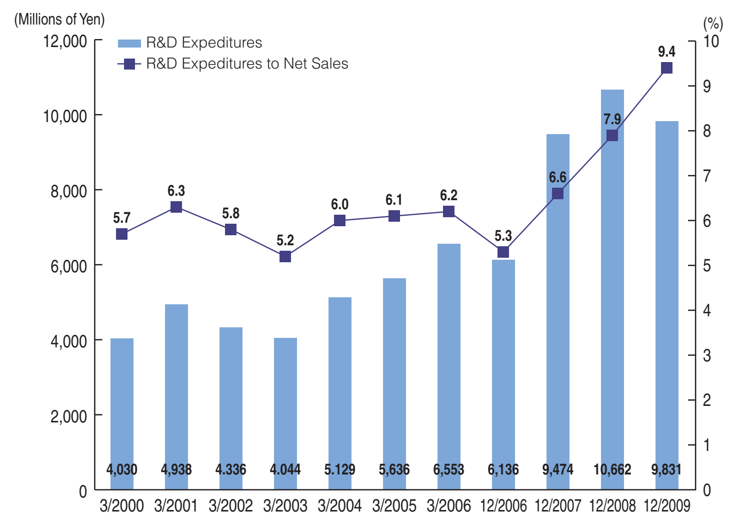
Inventories and Inventory Turnover (Days)



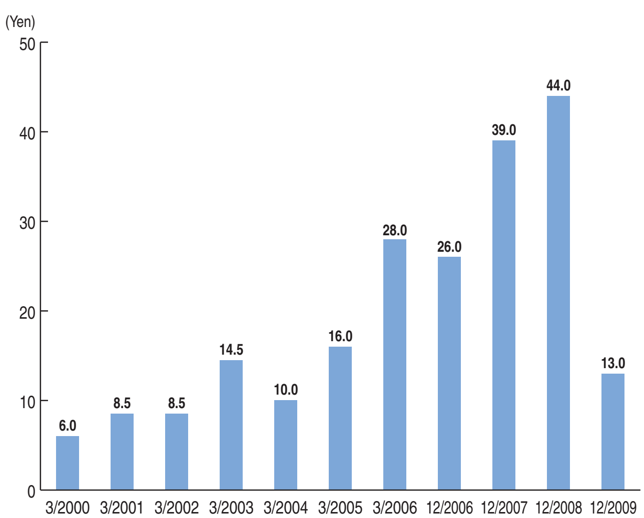
Total Assets and Return on Assets (ROA)



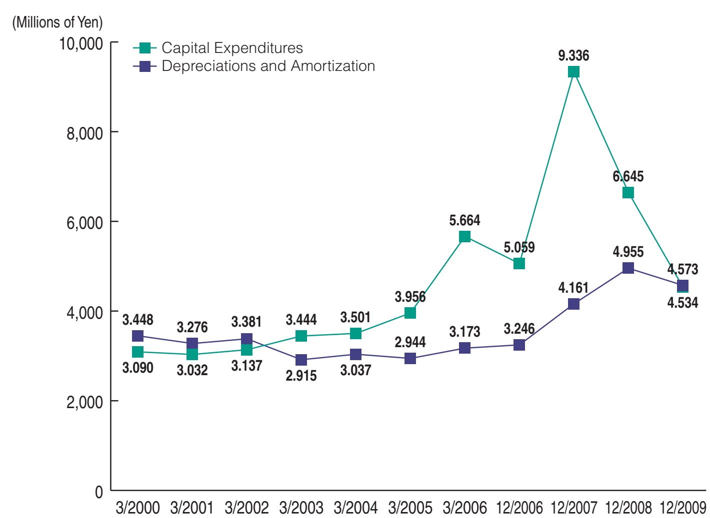
R&D Expenditures and R&D Expenditures to Net Sales



Cash Dividends per Share



Capital Expenditures and Depreciations and Amortization



During the fiscal year under review, the global economy weakened significantly in developed countries during the early stage of the year, in the midst of the expanding financial crisis that was triggered in the fall of 2008. Due to the implementation of various governments' economic stimulative measures, however, the economy has been picking up since the spring of 2009. In Japan, the slowdown in overseas economies and the appreciation of the yen caused significant deterioration in the economy in the fall of 2008. However, because of various economic measures taken in Japan and overseas and progress in inventory adjustment, the economy has been gradually improving since mid-2009. Nevertheless, private-sector capital investment has remained depressed since a significant drop in the first half of 2009, as corporate earnings have stayed at a low level. The Japanese yen also strengthened throughout the year. The average exchange rate for 2009 was 93.65 yen against the U.S. dollar and 130.35 yen against the Euro, representing an appreciation of about 10% and 17%, respectively.

The operating results of HORIBA, Ltd. ("the Company") and its consolidated subsidiaries (together "HORIBA Group" or "HORIBA" as a consolidated group) in the analytical and testing instrument market were affected by cutbacks in capital expenditures and R&D investment mainly in the automotive and semiconductor industries, which experienced a downturn in business in the first half of 2009. In addition, selling prices continued to decline due to the strengthening of the yen and the effects of intensified competition. Since then, the market has begun to pick up as a result of economic stimulative measures implemented by governments of various countries and a recovery in capital expenditures for memory products and LEDs from the second half of 2009.

In this environment, HORIBA Group made exerted efforts to improve profitability through thorough cost reduction. The Group also made progress in introducing shared services in administrative divisions and improved efficiency while enhancing its expertise. Recognizing "human resources" as the most important assets that do not appear in the financial statements, the HORIBA Group has focused on developing its "human resources" and has continued investing in internal training programs called HORIBA COLLEGE at Kutsuki Training Center, which was expanded in February 2009. Moreover, the Biwako Plant in Shiga Prefecture, upon its completion in May 2010, began operating as a distribution base and a manufacturing base of large-sized products, thereby preparing the Group for further cost reduction, efficiency enhancement, and demand growth.

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

Net Sales

In the fiscal year under review, consolidated net sales decreased by ¥29,709 million, or 22.1%, year on year to ¥104,539 million.

Business Segments

Automotive Test Systems

Sales in the Automotive Test Systems segment amounted to ¥37,192 million, down 31.4% year on year. Business results were depressed by a cutback in capital spending and R&D investment by auto manufacturers and the appreciation of the yen. Although sales of emission measurement systems, a core product, were steady in China, India, and other Asian countries, segment sales declined significantly due to a decline in demand in Japan and Europe and the appreciation of the yen. By geographic region*2, sales decreased by 22.9% in Japan and other Asian countries, 32.6% in the Americas and 40.0% in Europe.

Analytical Instruments & Systems

Sales in the Analytical Instruments & Systems amounted to ¥32,526 million, down 15.6% year on year. Analytical instruments and systems for analysis of cutting-edge materials that are developed and manufactured in France performed strongly in the U.S. and Japan, supported by supplementary budgets and other factors. In contrast, the Company saw a significant decline in demand for environmental analytical instruments and systems stemming from a decline in capital expenditures in the private sector associated with the economic downturn. Overseas sales in Japanese yen was reduced by the currency's appreciation. By geographic region*2, sales decreased by 15.1% in Japan and other Asian countries, 9.6% in the Americas and 19.8% in Europe.

Medical-Diagnostic Instruments & Systems

Sales in the Medical-Diagnostic Instruments & Systems segment decreased by 9.6% year on year to ¥22,337 million. Significant appreciation of the yen, compared to the previous year, reduced overseas sales value, representing approximately 80% of total sales. Nevertheless, robust domestic sales of hematology analyzers, which were launched at the end of 2008, were robust throughout the year. By geographic region*2, sales increased by 12.7% in Japan and other Asian countries and 18.0% in the Americas, but decreased by 18.1% in Europe.

Semiconductor Instruments & Systems

Sales in the Semiconductor Instruments & Systems segment amounted to ¥12,484 million, down 25.5% year on year. The sluggish worldwide semiconductor market in the first half of the year caused a significant drop in sales of mass flow controllers for semiconductor and solar cell manufacturing equipment, but sales recovered in the second half of the year. Similarly, sales of chemical concentration monitors used in semiconductor cleaning equipment and thin-film analyzers were sluggish. By geographic region*2, sales decreased by 27.4% in Japan and other Asian countries and 33.1% in the Americas, but increased by 2.8% in Europe.

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

The average foreign exchange rate applied in book closings was ¥93.65 to the U.S. dollar, compared with ¥103.48 for the previous year, and ¥130.35 to the euro, compared with ¥152.65 for the previous year. Using the exchange rates for the previous year, consolidated sales for the year under review would have been ¥113,929 million. Thus, ¥9,390 million in decreased sales can be attributed to the appreciation of the yen.

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

Consolidated cost of sales decreased by ¥15,960 million to ¥58,714 million. The cost of sales ratio decreased by 0.6 percentage points from a year ago to 56.2%, mainly due to a low capacity utilization of the plants that stemmed from a decline in production volume and the appreciation of the yen. Excluding ¥4,653 million from fluctuations in foreign exchange rates, however, the actual decrease in cost was ¥11,307 million rather than the nominal decrease of ¥15,960 million.

Selling, general and administrative (SG&A) expenses decreased by ¥7,935 million from a year ago to ¥40,681 million thanks to the effects of thorough cost cutting efforts. The ratio to net sales, however, worsened by 2.7 percentage points to 38.9% due to a decrease in sales. Excluding ¥3,546 million from fluctuations in foreign exchange rates, however, the actual decrease in SG&A expenses was ¥4,389 million rather than the nominal decrease of ¥7,935 million.

As a result, consolidated operating income decreased by ¥5,814 million, or 53.1%, year on year to ¥5,144 million. The operating income ratio was 4.9%, down 3.3 percentage points from 8.2% in the previous year.

Business Segments

Automotive Test Systems

Operating income in the Automotive Test Systems segment decreased by 75.0% to ¥1,810 million. In addition to a substantial drop in demand associated with a cutback in capital spending and R&D investment by auto manufacturers, the segment was affected by margin deterioration in Europe caused by the automotive development test systems (DTS) acquired from Germany's Carl Schenck AG in 2005.

Analytical Instruments & Systems

Segment operating income in the Analytical Instruments & Systems decreased by 16.8% to ¥1,520 million due to a substantial drop in demand associated with a cutback in private-sector capital spending because of the weak economy.

Medical-Diagnostic Instruments & Systems

In the Medical-Diagnostic Instruments & Systems segment, operating income surged by 182.1% to ¥1,913 million thanks to steady sales in Japan.

Semiconductor Instruments & Systems

The Semiconductor Instruments & Systems segment recorded operating loss of ¥99 million (compared to operating income of ¥1,222 million in the previous year.) It was affected by a significant sales decline stemming from a downturn in the global semiconductor market.

Net Income

Other income (expenses) improved by ¥226 million from the previous year to a loss of ¥751 million, due mainly to improvement in foreign exchange gains, despite a ¥472 million loss on valuation of inventories in accordance with changes in accounting policies and other losses. Nevertheless, because of the deterioration in operating income, pretax income decreased by ¥5,588 million, or 56.0%, to ¥4,393 million, and net income decreased by ¥2,877 million, or 47.6%, to ¥3,162 million.

Financial Position

As of December 31, 2009, total consolidated assets were ¥129,581 million, down ¥3,698 million from December 31, 2008. The main factors contributing to the reduction of total assets were a decline in sales, which reduced trade notes and accounts receivable by ¥2,881 million, and a cutback in inventory, which reduced goods and manufactured products by ¥2,299 million, work-in-process by ¥1,993 million and raw materials and supplies by ¥2,147 million.

Total consolidated liabilities declined to ¥49,604 million, down ¥6,833 million from a year ago, due mainly to a decrease of ¥2,234 million in short-term loans payable associated with a reduction in working capital and a decline of ¥1,960 million in accounts payable – other.

Total consolidated net assets amounted to ¥79,977 million, up ¥3,135 million from a year ago, due mainly to an increase of ¥1,556 million in retained earnings and an increase of ¥1,044 million in foreign currency translation adjustments.

Cash Flows

Cash Flow from Operating Activities

Net cash provided by operating activities amounted to ¥13,712 million, compared to ¥ 7,522 million provided in the previous year. Attributable factors were a decrease of ¥6,744 million in inventories and a decrease of ¥3,576 million in trade notes and accounts receivable, in addition to ¥4,393 million in income before income taxes despite income taxes paid of ¥2,664 million.

Cash Flow from Investing Activities

Net cash provided by investment activities totaled ¥4,192 million, compared to ¥491 million used in the previous year. Payments amounted to ¥3,941 million for the purchase of property, plant and equipment and ¥488 million for the purchase of intangibles.

Cash Flow from Financing Activities

Net cash used in financing activities amounted to ¥4,722 million, compared to ¥3,943 million used in the previous year. This was mainly attributable to a decrease of ¥2,157 million in short-term borrowings, cash dividends paid of ¥1,482 million, and repayment of long-term debt of ¥873 million.

As a result, there was a net increase of ¥4,931 million in cash and cash equivalents to ¥27,591 million as of December 31, 2009.

Dividend Policy

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

Major Risks

1. Business Risks

(1) Risks Associated with International Business Activities

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

To protect against fluctuations in foreign currency exchange rates, HORIBA promotes local production and supply. HORIBA also employs foreign exchange forward contracts within the limits of its balance of foreign currency denominated receivables and payables to import and export transactions to minimize foreign exchange risks. However, fluctuations in foreign exchange rates could still have an impact when financial statements prepared in local currencies are translated into Japanese yen for the consolidated financial statements, and a major change in foreign exchange rates beyond our estimates could affect our financial condition and business performance.

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

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

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

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

(4) Risks Associated with Contracts and Transactions

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

(5) Other Business Risks

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

2. Risks Associated with Development and Production

(1) Compensation for Product Liability

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

(2) Delays in Development of New Products

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

(3) Risks Concerning Intellectual Property Rights

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

(4) Risks Associated with Fluctuations in Raw Material Prices

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

3. Financial Risks

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

HORIBA holds shares in its major alliance partners and other companies as part of its technology and business strategies for the future. Currently, HORIBA's acquisitions and sales of investment securities are carefully inspected by the Board of Directors. Market prices of the shares are reported to top management on a timely basis, and the purpose for holding the investment securities is properly reviewed. If declines in the market price or profitability of land, building or other assets occurred in the future, there could be a negative impact on the financial condition and business performance of HORIBA by application of impairment accounting.

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

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

4. Risks by Business Segment

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

(1) Automotive Test Systems

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

(2) Analytical Instruments & Systems

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

(3) Medical-Diagnostic Instruments & Systems

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

(4) Semiconductor Instruments & Systems

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

Consolidated Balance Sheets

HORIBA, Ltd. and Consolidated Subsidiaries
For the years ended December 31, 2008 and December 31, 2009

ASSETS	Millions of yen 12/2008	Millions of yen 12/2009	Thousands of U.S. dollars (Note 1) 12/2009
Current Assets:			
Cash and cash equivalents	¥22,660	¥27,591	$299,577
Trade notes and accounts receivable (Note 5)			
Affiliated companies	63	6	65
Other	37,330	34,506	374,658
Allowance for doubtful receivables	(607)	(826)	(8,969)
Marketable securities (Note 3)	–	237	2,573
Inventories (Note 4)	29,802	23,363	253,670
Deferred tax assets (Note 13)	2,397	2,081	22,595
Other current assets	2,936	2,947	31,998
Total current assets	94,581	89,905	976,167
Property, Plant and Equipment (Note 6):			
Land	7,141	7,154	77,677
Buildings and structures	17,792	20,689	224,636
Machinery, equipment and vehicles	11,471	13,528	146,884
Construction in progress	1,722	156	1,694
Other property, plant and equipment	11,893	12,541	136,167
Total	50,019	54,068	587,058
Accumulated depreciation	(26,904)	(30,466)	(330,793)
Net property, plant and equipment	23,115	23,602	256,265
Investments and Other Noncurrent Assets:			
Investment securities (Note 3)	3,522	4,398	47,752
Investments in nonconsolidated subsidiaries and affiliates	105	84	912
Deferred tax assets (Note 13)	2,019	2,216	24,061
Allowance for doubtful accounts	(92)	(133)	(1,444)
Other investments and other assets	2,781	2,924	31,748
Total	8,335	9,489	103,029
Intangibles:			
Goodwill	337	293	3,182
Software	6,124	5,728	62,193
Other intangibles	787	564	6,124
Total	7,248	6,585	71,499
Total Assets	¥133,279	¥129,581	$1,406,960
LIABILITIES AND NET ASSETS			
Current Liabilities:			
Short-term loans payable (Note 6)	¥8,199	¥6,159	$66,873
Current portion of long-term debt (Note 6)	653	721	7,828
Trade notes and accounts payable:			
Affiliated companies	40	52	565
Other	11,063	10,515	114,169
Accounts payable – other	10,363	8,403	91,238
Accrued income taxes	1,513	667	7,242
Deferred tax liabilities (Note 13)	10	24	261
Accrued bonuses to employees	745	836	9,077
Accrued bonuses to directors and corporate auditors	37	17	185
Reserve for product warranty	918	898	9,750
Other current liabilities	7,658	5,892	63,974
Total current liabilities	41,199	34,184	371,162
Long-term debt (Note 6)	12,132	12,016	130,467
Deferred tax liabilities (Note 13)	12	31	337
Employees' retirement benefits (Note 7)	1,673	1,675	18,187
Directors' and corporate auditors' retirement benefits	896	254	2,758
Reserve for loss on guarantees	52	56	608
Other noncurrent liabilities	473	1,388	15,070
Total liabilities	56,437	49,604	538,589
Contingent Liabilities (Note 11)			
Net Assets (Note 8):			
Common stock	12,007	12,011	130,413
Authorized – 100,000,000 shares			
Issued and outstanding – 42,284,232 shares (excluding treasury stock) at 12/2008			
Issued and outstanding – 42,287,801 shares (excluding treasury stock) at 12/2009			
Capital surplus	18,713	18,717	203,225
Retained earnings	49,539	51,095	554,777
Treasury stock	(811)	(811)	(8,806)
(244,520 shares at 12/2008 and 244,951 shares at 12/2009)			
Net unrealized holding gains on securities	464	933	10,130
Foreign currency translation adjustments	(3,083)	(2,039)	(22,139)
Subscription rights to shares	–	59	641
Minority interests in consolidated subsidiaries	13	12	130
Net assets	76,842	79,977	868,371
Total Liabilities and Net Assets	¥133,279	¥129,581	$1,406,960

See the notes to the consolidated financial statements.

Consolidated Statements of Income

HORIBA, Ltd. and Consolidated Subsidiaries
For the years ended December 31, 2008 and December 31, 2009

	Millions of yen		Thousands of U.S. dollars (Note 1)
	12/2008	12/2009	12/2009
Net Sales (Note 15)	¥134,248	**¥104,539**	**$1,135,060**
Operating Costs and Expenses (Note 15):			
Cost of sales	74,674	**58,714**	**637,503**
Selling, general and administrative expenses	48,616	**40,681**	**441,705**
Total operating costs and expenses	123,290	**99,395**	**1,079,208**
Operating Income (Note 15)	10,958	**5,144**	**55,852**
Other Income (Expenses):			
Interest and dividend income	445	**237**	**2,573**
Interest expense	(886)	**(664)**	**(7,210)**
Foreign exchange gains (losses), net	(394)	**90**	**977**
Gain on sales of investment securities	–	**8**	**87**
Gain on sale of property, plant and equipment	36	**7**	**76**
Loss on disposal of property, plant and equipment	(98)	**(37)**	**(402)**
Loss on sale of property, plant and equipment	(10)	**(7)**	**(76)**
Loss on impairment of fixed assets (Note 14)	(462)	**(236)**	**(2,562)**
Loss on valuation of inventories (Note 2(d))	–	**(472)**	**(5,125)**
Reversal of provision for possible losses from litigation (Note 2(r))	1,127	**–**	**–**
Gain on insurance surrender value	254	**–**	**–**
Loss on restructuring of an affiliated company	(206)	**–**	**–**
Loss on valuation of investment securities	(182)	**(7)**	**(76)**
Loss due to violation of the antimonopoly law (Note 2(s))	(178)	**–**	**–**
Provision for retirement benefits for directors and corporate auditors (Note 2(l))	(145)	**–**	**–**
Loss on reorganization of U.S. subsidiaries (Note 2(t))	(132)	**–**	**–**
Provision of allowance for doubtful accounts	(70)	**–**	**–**
Subsidy income	2	**100**	**1,086**
Retirement benefits expense (Note 2(l) and 7)	–	**(111)**	**(1,205)**
Loss on valuation of shares of affiliated companies	–	**(21)**	**(228)**
Reserve for loss on guarantees	–	**(4)**	**(43)**
Other, net	(78)	**366**	**3,974**
Total other expenses, net	(977)	**(751)**	**(8,154)**
Income Before Income Taxes	9,981	**4,393**	**47,698**
Income Taxes (Note 13):			
Current	4,024	**1,388**	**15,071**
Deferred	(95)	**(155)**	**(1,683)**
Total income taxes	3,929	**1,233**	**13,388**
Minority Interests (Losses) in Earnings of Consolidated Subsidiaries	13	**(2)**	**(22)**
Net Income	¥6,039	**¥3,162**	**$34,332**

	Yen		U.S. dollars (Note 1)
	12/2008	12/2009	12/2009
Per Share Information:			
Net income – basic	¥142.76	**¥74.77**	**$0.81**
Net income – diluted	142.71	**74.68**	**0.81**
Cash dividends	44.00	**13.00**	**0.14**

See the notes to the consolidated financial statements.

Consolidated Statements of Changes in Net Assets

HORIBA, Ltd. and Consolidated Subsidiaries
For the years ended December 31, 2008 and December 31, 2009

	Millions of yen		Thousands of U.S. dollars (Note 1)
	12/2008	12/2009	12/2009
Common Stock			
Balance at beginning of period	¥11,953	**¥12,007**	**$130,369**
Issuance of new shares (exercise of stock aquisition rights)	54	**4**	**44**
55,000 shares in 12/2008			
4,000 shares in 12/2009			
Balance at end of period	¥12,007	**¥12,011**	**$130,413**
Capital Surplus			
Balance at beginning of period	¥18,659	**¥18,713**	**$203,181**
Issuance of new shares (exercise of stock aquisition rights)	54	**4**	**44**
Balance at end of period	¥18,713	**¥18,717**	**$203,225**
Retained Earnings			
Balance at beginning of period	¥45,365	**¥49,539**	**$537,883**
Net income	6,039	**3,162**	**34,332**
Cash dividends	(1,865)	**(1,481)**	**(16,081)**
Effect of changes in accounting policies applied to foreign subsidiaries	–	**(125)**	**(1,357)**
Balance at end of period	¥49,539	**¥51,095**	**$554,777**
Treasury Stock			
Balance at beginning of period	(¥10)	**(¥811)**	**($8,806)**
Purchase of treasury stock	(801)	**–**	**–**
239,270 shares in 12/2008			
431 shares in 12/2009			
Balance at end of period	(¥811)	**(¥811)**	**($8,806)**
Net Unrealized Holding Gains on Securities			
Balance at beginning of period	¥1,622	**¥464**	**$5,038**
Increase (decrease) in net unrealized holding gains on securities	(1,158)	**469**	**5,092**
Balance at end of period	¥464	**¥933**	**$10,130**
Foreign Currency Translation Adjustments			
Balance at beginning of period	¥2,788	**(¥3,083)**	**($33,474)**
Increase (decrease) in foreign currency translation adjustments	(5,871)	**1,044**	**11,335**
Balance at end of period	(¥3,083)	**(¥2,039)**	**($22,139)**
Subscription Rights to Shares			
Balance at beginning of period	–	**–**	**–**
Increase (decrease) in subscription rights to shares	–	**59**	**641**
Balance at end of period	–	**¥59**	**$641**
Minority Interests in Consolidated Subsidiaries			
Balance at beginning of period	¥4	**¥13**	**$141**
Increase (decrease) in minority interests in consolidated subsidiaries	9	**(1)**	**(11)**
Balance at end of period	¥13	**¥12**	**$130**
Net Assets	¥76,842	**¥79,977**	**$868,371**

See the notes to the consolidated financial statements.

Consolidated Statements of Cash Flows

HORIBA, Ltd. and Consolidated Subsidiaries
For the years ended December 31, 2008 and December 31, 2009

	Millions of yen		Thousands of U.S. dollars (Note 1)
	12/2008	12/2009	12/2009
Cash Flows From Operating Activities:			
Income before income taxes	¥9,981	**¥4,393**	**$47,698**
Adjustments to reconcile income before income taxes to net cash provided by operating activities:			
Depreciation and amortization	4,955	**4,573**	**49,652**
Loss on impairment of fixed assets	462	**236**	**2,562**
Increase (decrease) in allowance for doubtful receivables	(31)	**277**	**3,008**
Increase (decrease) in provision for possible losses from litigation	(1,204)	**–**	**–**
Increase (decrease) in employees' retirement benefits	159	**44**	**478**
Increase (decrease) in directors' and corporate auditors' retirement benefits	210	**(641)**	**(6,960)**
Interest and dividend income	(445)	**(237)**	**(2,573)**
Interest expense	886	**664**	**7,210**
Foreign exchange losses (gains)	(16)	**42**	**456**
Gain on sale of property, plant and equipment	(36)	**(7)**	**(76)**
Loss on sale of property, plant and equipment	10	**7**	**76**
Loss on disposal of property, plant and equipment	98	**37**	**402**
Loss on valuation of marketable securities	–	**3**	**33**
Loss on valuation of share of affiliates	–	**21**	**228**
Loss on valuation of investment securities	182	**7**	**76**
Gain on sales of investment securities	–	**(7)**	**(76)**
Decrease (increase) in trade notes and accounts receivable	2,860	**3,576**	**38,827**
Decrease (increase) in inventories	(271)	**6,744**	**73,225**
Increase (decrease) in trade notes and accounts payable	(2,502)	**(769)**	**(8,350)**
Other, net	(893)	**(2,141)**	**(23,247)**
Subtotal	14,405	**16,822**	**182,649**
Interest and dividends received	455	**253**	**2,747**
Interest paid	(841)	**(699)**	**(7,589)**
Income taxes paid	(6,497)	**(2,664)**	**(28,925)**
Net cash provided by (used in) operating activities	7,522	**13,712**	**148,882**
Cash Flows From Investing Activities:			
Decrease (increase) in time deposits with maturities longer than three months	7,507	**(147)**	**(1,596)**
Decrease in time deposits restricted for use	–	**700**	**7,600**
Payments for purchase of marketable securities	–	**(324)**	**(3,518)**
Proceeds from sale of marketable securities	–	**100**	**1,086**
Payments for purchase of property, plant and equipment	(4,797)	**(3,941)**	**(42,790)**
Proceeds from sale of property, plant and equipment	230	**282**	**3,062**
Increase in intangibles	(1,426)	**(488)**	**(5,299)**
Payments for purchase of investment securities	(1,032)	**(214)**	**(2,324)**
Proceeds from sale or redemption of investment securities	25	**27**	**293**
Payments for purchase of investments in newly consolidated subsidiaries	–	**(122)**	**(1,325)**
Other, net	(16)	**(65)**	**(705)**
Net cash provided by (used in) investing activities	491	**(4,192)**	**(45,516)**
Cash Flows From Financing Activities:			
Net increase (decrease) in short-term borrowings	3,488	**(2,157)**	**(23,420)**
Increase in long-term debt	903	**20**	**217**
Repayments of long-term debt	(779)	**(873)**	**(9,479)**
Payment for redemption of corporate bonds	(5,000)	**–**	**–**
Repayments of finance lease obligation	–	**(238)**	**(2,584)**
Proceeds from exercise of stock aquisition rights	108	**9**	**98**
Payments for purchase of treasury stock	(801)	**(1)**	**(11)**
Cash dividends paid	(1,859)	**(1,482)**	**(16,091)**
Other, net	(3)	**–**	**–**
Net cash provided by (used in) financing activities	(3,943)	**(4,722)**	**(51,270)**
Effect of Exchange Rate Changes on Cash and Cash Equivalents	(1,975)	**133**	**1,444**
Net Increase (Decrease) in Cash and Cash Equivalents	2,095	**4,931**	**53,540**
Cash and Cash Equivalents at Beginning of Year	20,565	**22,660**	**246,037**
Cash and Cash Equivalents at End of Year	¥22,660	**¥27,591**	**$299,577**

1. Basis of presenting consolidated financial statements

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

Prior to the year ended December 31, 2009, the accounts of overseas subsidiaries were based on their accounting records maintained in conformity with generally accepted accounting principles prevailing in the respective countries of domicile. From the fiscal year ended December 31, 2009, the "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements" (Practical Issue Task Force of the ASBJ No. 18; issued on May 17, 2006) was adopted, and necessary adjustments in preparing the consolidated financial statements were made. The adoption of the new standard had the effect of increasing operating income by 158 million yen ($1,716 thousand) and reducing income before income taxes by 20 million yen ($217 thousand) compared to the amounts that would have been recorded with the previous method. The accompanying consolidated financial statements have been restructured and translated into English (with some expanded descriptions) from the consolidated financial statements of the Company prepared in accordance with Japanese GAAP and filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Japanese Financial Instruments and Exchange Law. Some supplementary information included in the statutory Japanese language consolidated financial statements, but not required for fair presentation, is not presented in the accompanying consolidated financial statements.

The translation of the Japanese yen amounts into U.S. dollar amounts is included solely for the convenience of readers outside Japan, using the prevailing exchange rate at December 31, 2009, which was ¥92.10 to U.S.$1.00. The translations should not be construed as representations that the Japanese yen amounts have been, could have been, or could in the future be converted into U.S. dollars at this or any other rate of exchange.

Certain prior year amounts have been reclassified to conform to the current year's presentation.

2. Summary of significant accounting policies

(a) Principles of consolidation

The consolidated financial statements include the accounts of the Company and 36 (40 in the year ended December 31, 2008) of its subsidiaries ("HORIBA" as a consolidated group). In the year ended December 31, 2009, one company became a subsidiary of the Company as a result of a share acquisition, four subsidiaries were absorbed by another subsidiary of the Company and another subsidiary was liquidated.

The accompanying consolidated financial statements include the accounts of the Company and significant companies over which the Company has control through majority voting rights or certain other conditions evidencing control by the Company. Significant intercompany transactions and accounts have been eliminated in consolidation. In the elimination of investments in subsidiaries, the assets and liabilities of the subsidiaries, including the portions attributable to minority shareholders, are evaluated using the fair value at the time the Company acquired control of the respective subsidiary. Acquisition costs that are in excess of the net assets of acquired subsidiaries and affiliates and that cannot be assigned to specific individual accounts are amortized on a straight-line basis over five years.

December 31 is the year-end of the consolidated subsidiaries and matches that of the consolidated financial statements for the year ended December 31, 2008 and 2009.

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

The Company has six affiliated companies. For one of the six affiliates, the equity method was applied. Investments in five affiliates (generally 20%-50% ownership) over which the Company has the ability to exercise significant influence over operating and financial policies and one nonconsolidated subsidiary were accounted for on a cost basis, not by the equity method, as the effect on income and retained earnings was immaterial.

(b) Cash and cash equivalents

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

(c) Securities

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

(d) Inventories

Inventories are valued by the cost method. Cost is principally determined by the weighted average method for merchandise, finished goods and work-in-process and by the moving average method for raw materials and supplies.

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

For the year ended December 31, 2008, operating income was ¥135 million less than it would have been without the adoption of the new method. However, this change did not have any impact on the results of income before income taxes.

Effective January 1, 2009, the Company and its consolidated domestic subsidiaries have adopted the "Accounting Standards for Measurement of Inventories" (ASBJ Statement No. 9; issued on July 5, 2006), and standards for inventory valuation have been changed from the conventional cost method to the cost method (writing down book values based on decreasing profitability with regard to the values on the balance sheet). The adoption of the new standard reduced operating income by 543 million yen ($5,896 thousand) and income before income taxes by 1,015 million yen ($11,021 thousand) compared to the amounts that would have been recorded with the previous method.

(e) Property, plant and equipment and depreciation (except for leases)

Property, plant and equipment are stated at cost. Depreciation is computed by the straight-line method or the declining balance method over the estimated useful life of the asset.

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

Estimated useful lives of assets are principally as follows:

Buildings and structures – 5 to 60 years

Machinery, equipment and vehicles – 2 to 18 years

Effective January 1, 2008, the Company and its domestic subsidiaries have adopted the method of depreciation for tangible fixed assets acquired on or after April 1, 2007 provided by the revised Corporate Tax Law, following the completion of its fixed assets management system. For the year ended December 31, 2008, operating income and income before income taxes were ¥124 million less, respectively, than they would have been without the adoption of the new method.

In addition, the Company and its domestic subsidiaries have adopted the revised Corporation Tax Law and changed the method of depreciation for tangible fixed assets acquired on or before March 31, 2007. Accordingly, the difference between the residual value of such an asset under the amended Japanese Tax Law and the value equivalent to 5% of its acquisition cost, as computed by the previous Corporation Tax Law, is depreciated over a period of five years starting from the year following the year in which the value of the asset falls to 5% of its acquisition cost. The difference is amortized by the straight-line method and is included in depreciation expense. For the year ended December 31, 2008, operating income and income before income taxes were ¥55 million less, respectively, than they would have been without the adoption of the new method.

In accordance with the revised Corporate Tax Law of Japan, the Company and its consolidated domestic subsidiaries reviewed the estimated useful lives of machinery and equipment. As a result, the estimated useful lives of some machinery and equipment were changed. This change had the effect of reducing operating income and income before income taxes by 36 million yen ($391 thousand) each for the year ended December 31, 2009.

(f) Software

Amortization of computer software used by HORIBA is computed on the straight-line method over the estimated useful life of 5 to 10 years.

(g) Leases

With regard to leased assets under finance leases other than those that are deemed to transfer ownership of the leased property to the lessee, the lease term is deemed to be the useful life, and depreciation is computed by the straight-line method over the lease term with zero residual value. Financial leases other than those that are deemed to transfer ownership of the leased property to the lessee and which commenced in fiscal years beginning prior to January 1, 2009, continue to be accounted for in a similar way to operating leases.

The leased assets under finance leases other than those that are deemed to transfer ownership of the leased property to the lessees are accounted for in the similar way to operating leases. However, the "Accounting Standard for Lease Transactions" (ASBJ Statement No. 13; originally issued by the Corporate Accounting Council on June 17, 1993 and revised by the ASBJ on March 30, 2007) and the "Guidance on Accounting Standard for Lease Transactions" (ASBJ Guidance No. 16; issued by the Japanese Institute of Certified Public Accountants on January 18, 1994 and revised by the ASBJ on March 30, 2007) became applicable to fiscal years beginning on or after April 1, 2008. HORIBA adopted this accounting standard and practical guideline starting from January 1, 2009, and the leases were accounted for by the method used for ordinary sales transactions. The above changes had no impact on operating income or income before income taxes for the year ended December 31, 2009.

(h) Allowance for doubtful receivables

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

(i) 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.

(j) Accrued bonuses to directors and corporate auditors

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

(k) Reserve for product warranty

The reserve for product warranty is provided for accrued warranty expenses for products of the Company and certain subsidiaries. The provision is determined by predetermined standards, which are based on actual product warranty records, and takes into account individual cases.

(l) Retirement benefits and pension plans

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

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

Effective January 1, 2009, at one domestic consolidated subsidiary, the method for calculating projected benefit obligation has changed from the simplified method to the "rule method" to more accurately account for retirement benefits. The difference resulting from the change from the simplified method to the "rule method" has been recorded as other expenses of 111 million yen ($1,205 thousand) in "Retirement benefits expense" for the year ended December 31, 2009. This change had no impact on operating income, but it reduced income before income taxes by 111 million yen ($1,205 thousand) for the year ended December 31, 2009 compared to the amount that would have been recorded with the previous method.

(m) Retirement benefits for the directors and corporate auditors

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

Following a resolution by the Board of Directors meeting held on February 17, 2009 to abolish the retirement benefits plan for directors and corporate auditors, the Company resolved at the shareholders meeting held on March 28, 2009 to pay retirement benefits to directors and corporate auditors on their termination (the actual payment will be made when a director or auditor retires from his post.)

As a result, an additional allowance for retirement benefits for directors and corporate auditors, in a certain percentage of the increment of the retirement allowance corresponding to the term served, was recognized as provision for retirement benefits for the directors and corporate auditors in other expenses for the year ended December 31, 2008. The allowance for directors' and corporate auditors' retirement benefits was fully reversed, and the resulting unpaid amount of 655 million yen ($7,112 thousand), was included in "Other noncurrent liabilities" for the year ended December 31, 2009.

(n) Reserve for loss on guarantees

A reserve for loss on guarantees was provided in an estimated amount in relation to an affiliated company after consideration of the Company's financial position, etc.

(o) Foreign currency translation

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

Balance sheet accounts of consolidated foreign subsidiaries are translated into Japanese yen at the balance sheet date, except for shareholders' equity accounts, which are translated at historical rates. Revenue and expense accounts of consolidated foreign subsidiaries are translated into Japanese yen at average annual exchange rates. Differences arising from the application of the process stated above are separately presented in the consolidated financial statements in "Foreign currency translation adjustments" and "Minority interests" in net assets.

(p) Derivatives and hedge accounting

Derivative financial instruments are stated at fair value, and changes in the fair value are recognized as gains or losses unless the derivative financial instruments are used for hedging purposes. HORIBA uses foreign currency exchange contracts to manage risk related to its importing and exporting activities. The use of foreign currency exchange contracts is limited to the amounts of HORIBA's foreign currency denominated receivables and payables. HORIBA also uses interest rate swap contracts to avoid the risk of rising interest rates. Contracts are entered into and controlled by the finance department, which reports results to the Director. Transactions involving derivative contracts are limited to highly rated banking institutions, and HORIBA considers that there are no material credit risks associated with them.

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

(q) Research and development expenses

Research and development expenses are charged to income when incurred. Research and development expenses charged to income for the years ended December 31, 2008, and December 31, 2009, were ¥10,662 million and ¥9,831 million ($106,743 thousand), respectively.

(r) Provision for possible losses from litigation

A lawsuit was filed by Micronics Japan Co., Ltd. against the Company seeking compensation for damages related to an agreement to develop and commercialize liquid-crystal related testing equipment (¥933 million plus damages for delay in payment).

On December 25, 2008, the Tokyo High Court ruled in favor of the Company. As a result, the Company recorded other income of ¥1,127 million for the year ended December 31, 2008, as reversal of the provision for possible losses from litigation after subtracting attorneys' fees and other related costs from the provision of the ¥1,204 million for possible losses from litigation that was established when the Tokyo District Court initially ruled against the Company on May 22, 2007.

(s) Losses due to violation of the antimonopoly law

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

(t) Loss on reorganization of U.S. subsidiaries

For the year ended December 31, 2008, HORIBA recorded a loss on the reorganization of U.S. subsidiaries in the amount of ¥132 million as other expenses. This loss consisted of a reserve for product warranty of ¥62 million and loss on the write-down of inventories of ¥70 million.

(u) Income taxes

Income taxes comprise corporate tax, enterprise tax, and prefectural and municipal inhabitants taxes.

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

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

(v) Per share information

The computations of net income per share are based on the weighted average number of shares of common stock outstanding during each period. The weighted average number of shares of common stock used in the computation for the years ended December 31, 2008 and December 31, 2009 were 42,304 thousand and 42,286 thousand, respectively. Diluted net income per share of common stock assumes full conversion of dilutive convertible bonds at the beginning of the year or at the later date of issuance, with an applicable adjustment for related interest expense, net of tax and dilutive stock option plans. The weighted average number of shares used in the computation for the years ended December 31, 2008 and December 31, 2009 were 42,319 thousand and 42,340 thousand, respectively.

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

3. Securities

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

	Millions of yen		
	12/2008		
	Acquisition cost	Book value	Difference
Securities with book values exceeding acquisition costs:			
Equity securities	¥870	¥2,113	¥1,243
	870	2,113	1,243
Securities with book values not exceeding acquisition costs:			
Equity securities	1,713	1,069	(644)
Other	111	111	–
	1,824	1,180	(644)
Total	¥2,694	¥3,293	¥599

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

	Millions of yen
	12/2008
Total sales of available-for-sale securities	¥22
Related gains	7
Related losses	–

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

	Millions of yen
Available-for-sale securities:	12/2008
Non-listed equity securities	¥210
Limited partnerships for investment	16
	¥226

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

	Millions of yen		
	12/2008		
	Within 1 year	Over 1 year but within 5 years	Over 5 years but within 10 years
Bonds			
Government bonds	–	¥3	–

The following table summarizes acquisition costs and book values (fair values) of available-for-sale securities with available fair values at December 31, 2009.

	Millions of yen			Thousands of U.S. dollars		
	12/2009			12/2009		
	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference
Securities with book values exceeding acquisition costs:						
Equity securities	¥1,223	¥3,013	¥1,790	$13,279	$32,714	$19,435
Corporate bonds	100	102	2	1,086	1,108	22
	1,323	3,115	1,792	14,365	33,822	19,457
Securities with book values not exceeding acquisition costs:						
Equity securities	1,358	1,049	(309)	14,745	11,390	(3,355)
	1,358	1,049	(309)	14,745	11,390	(3,355)
Total	¥2,681	¥4,164	¥1,483	$29,110	$45,212	$16,102

The following table summarizes available-for-sale securities sold for the year ended December 31, 2009.

	Millions of yen	Thousands of U.S. dollars
	12/2009	12/2009
Total sales of available-for-sale securities	¥114	$1,238
Related gains	8	87
Related losses	–	–

The following table summarizes book values of securities with no available fair values as of December 31, 2009.

	Millions of yen	Thousands of U.S. dollars
Available-for-sale securities:	12/2009	12/2009
Non-listed equity securities	¥223	$2,421
Limited partnerships for investment	8	87
Other	83	901
	¥314	$3,409

Available-for-sale securities with maturities and held-to-maturity debt securities at December 31, 2009 mature as follows:

	Millions of yen			Thousands of U.S. dollars		
	12/2009			12/2009		
	Within 1 year	Over 1 year but within 5 years	Over 5 years but within 10 years	Within 1 year	Over 1 year but within 5 years	Over 5 years but within 10 years
Bonds						
Government bonds	–	¥3	–	–	$32	–
Corporate bonds	–	101	–	–	$1,097	–
Other	–	1	–	–	$11	–
Total	–	¥105	–	–	$1,140	–

4. Inventories

Inventories at December 31, 2008 and December 31, 2009 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	12/2008	12/2009	12/2009
Merchandise and finished goods	¥10,108	**¥7,809**	**$84,788**
Work-in-process	10,461	**8,468**	**91,944**
Raw materials and supplies	9,233	**7,086**	**76,938**
Total	¥29,802	**¥23,363**	**$253,670**

5. Notes receivable maturing on December 31, 2008 and December 31, 2009, which were bank holidays

December 31, 2008 and December 31, 2009, the end of the period, were bank holidays. Notes receivable maturing on those dates were settled on the following business day. Therefore, notes in the amount of ¥783 million were included in the ending balance at December 31, 2008 and notes in the amount of ¥540 million ($5,863 thousand) were included in the ending balance at December 31, 2009.

6. Short-term loans and long-term debt

Short-term loans are generally represented by bank notes with annual interest rates ranging from 0.80% to 6.44% and 0.85% to 4.37% at December 31, 2008 and December 31, 2009, respectively.

Long-term debt at December 31, 2008 and December 31, 2009 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
Secured:	12/2008	12/2009	12/2009
Loans from banks due in 2010			
at a rate of 2.53% per annum	¥19	**¥10**	**$108**
Unsecured:			
1.98% bonds due in 2014	10,000	**10,000**	**108,578**
Loans from banks due serially from 2010 to 2014			
at rates from 1.39% to 5.96% per annum	2,766	**2,180**	**23,670**
Lease obligations at 8.9% maturing serially through 2015	–	**547**	**5,939**
Total	12,785	**12,737**	**138,295**
Current portion	(653)	**(721)**	**(7,828)**
Long-term debt, less current portion	¥12,132	**¥12,016**	**$130,467**

The aggregate annual maturities of long-term debt outstanding at December 31, 2009 were as follows:

Year ending December 31	Millions of yen	Thousands of U.S. dollars
2010	¥721	$7,828
2011	¥545	5,916
2012	¥475	5,157
2013	¥974	10,574
2014	10,022	108,817
Thereafter	–	–
Total	¥12,737	$138,295

At December 31, 2009, buildings and structures amounting to ¥51 million ($554 thousand) at net book value were pledged as collateral for the current portion of long-term debt of ¥10 million ($108 thousand).

As of December 31, 2009, the Company and its 6 subsidiaries had entered into agreeements for bank overdrafts or loan commitments with 14 banks as follows:

	Millions of yen	Thousands of U.S. dollars
The maximum aggregate principal	¥14,521	$157,666
Amount utilized	4,768	51,770
Balance available	¥9,753	$105,896

7. Employees' severance and pension benefits

(1) The funded status of the multi-employer pension plan at December 31, 2008 and December 31, 2009 (available information as of March 31, 2008 and 2009), to which contributions were recorded as net periodic retirement benefit costs, was as follows:

(a) Funded status of pension plans

	Millions of yen		Thousands of U.S. dollars
	12/2008	12/2009	12/2009
Fair value of plan assets	¥62,195	¥46,857	$508,762
Pension benefits obligation recorded by pension fund	88,943	88,592	961,911
Net balance	(¥26,748)	(¥41,735)	($453,149)

(b) The ratio of pension premiums expensed from March 1, 2009 to March 31, 2009 by the Company and its subsidiaries to the total premium amount was 14.00% (12.45% from March 1, 2008 to March 31, 2008).

Notes: 1. Net balance resulted from the prior service cost of ¥11,544 million and ¥16,021 million ($173,952 thousand), the addition from asset evaluation of ¥0 million and ¥7,139 million ($77,514 thousand) and the shortage of a reserve for corporate pension of ¥15,204 millions and ¥18,575 millions ($201,683 thousand) for the year ended December 31, 2008 and December 31, 2009, respectively.
2. Prior service cost is amortized over 20 years.
3. HORIBA's contribution percentage for the multi-employer pension plan described above (1)(b) should not be construed as HORIBA's actual obligation percentage.

(2) Liabilities for employees' retirement benefits at December 31, 2008 and December 31, 2009 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	12/2008	12/2009	12/2009
Projected benefit obligation	(¥4,847)	**(¥5,253)**	**($57,036)**
Pension assets	2,054	**2,563**	**27,829**
Unfunded projected benefit obligation	(2,793)	**(2,690)**	**(29,207)**
Unrecognized actuarial differences	539	**548**	**5,950**
Unrecognized differences on change of employees' retirement plan	581	**467**	**5,070**
Employees' retirement benefits	(¥1,673)	**(¥1,675)**	**($18,187)**

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

Employees' retirement benefits expense for the years ended December 31, 2008 and December 31, 2009 comprised the following:

	Millions of yen		Thousands of U.S. dollars
	12/2008	12/2009	12/2009
Service cost	¥1,515	**¥1,147**	**$12,454**
Interest expense on projected benefit obligation	61	**109**	**1,183**
Expected return on plan assets	(29)	**(53)**	**(575)**
Amortization of actuarial differences	69	**153**	**1,661**
Amortization of prior service costs	114	**115**	**1,249**
Other	–	**317**	**3,442**
Retirement benefits expense	¥1,730	**¥1,788**	**$19,414**

Note 1. Premiums on the contributory funded retirement plan in the amount of ¥536 million and ¥482 million ($5,233 thousand) expensed for the year ended December 31, 2008 and December 31, 2009, respectively, were also included in service cost.
Note 2: "Other" is plan participants' contribution to the defined contribution pension plan.

Assumptions used were as follows:

	12/2008	12/2009
Discount rate	2.00%	2.00%
Expected rate of return on plan assets	2.00%	2.00%
Allocation method for retirement benefits expected to be paid at retirement dates	Straight-line method based on years of service	
Amortization period for actuarial gains/losses	5 years	5 years
Amortization period for unrecognized prior service cost on change of employees' retirement plan	10 years (the Company and some subsidiary companies), Time of occurrance (some subsidiary companies)	

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

Beginning in fiscal 2009 at one domestic consolidated subsidiary, the method for calculating projected benefit obligation changed from the simplified method to the "rule method" to more accurately account for retirement benefits. The difference resulting from the change from the simplified method to the "rule method" in fiscal 2009 has been recorded as other expenses of ¥111 million ($1,205 thousand) in "Provision for Retirement Benefit for Employees." This change had no impact on operating income in fiscal 2009, but it reduced income before income taxes by 111 million yen ($1,205 thousand).

8. Net assets

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

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

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

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

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

At the Board of Directors' meeting held on February 15, 2010, the Board of Directors approved cash dividends amounting to ¥296 million ($3,214 thousand). Such appropriations have not been accrued in the consolidated financial statements as of December 31, 2009. Such appropriations are recognized in the period in which they are approved by the Board of Directors.

9. Stock options

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

(1) Details of stock options

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

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

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

Note 3. The service period is not stipulated.

(2) Number, movement and price of stock options

Stock options are convertible into an equal number of shares.

(a) Number of shares

	Stock options granted in 2004	Stock options granted in 2005	Stock options granted in 2006
Options before vesting (number of shares)			
Balance at December 31, 2007	–	–	–
Granted	–	–	–
Forfeited	–	–	–
Vested	–	–	–
Balance at December 31, 2008	–	–	–
Options after vesting (number of shares)			
Balance at December 31, 2007	26,000	108,000	250,000
Vested	–	–	–
Excercised	(26,000)	(28,000)	(1,000)
Forfeited	–	–	–
Balance at December 31, 2008	–	80,000	249,000

(b) Price per share

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

Note. The fair value at grant date has been omitted because the stock options had been granted before the Japanese Corporate Law became effective on May 1, 2006.

Information regarding stock options existing in the year ended December 31, 2009 was as follows:
(1) Expenses and items related to stock options in the year ended December 31, 2009
Selling, general and administrative expenses..............￥59 million ($641 thousand)

(2) Scale and movement (fluctuation) of stock options
Information regarding stock options outstanding in the year ended December 31, 2009. The number of stock options is stated after conversion into an equal number of shares.
(a) Details of stock options

	Stock options granted in 2005	Stock options granted in 2006	No. 1 Stock-based Compensation Type Stock Option
Persons granted options	2 directors, 9 corporate officers and 39 employees of the Company and 3 directors, 2 corporate officers and 12 employees of subsidiary companies	4 directors, 9 corporate officers and 37 employees of the Company and 2 directors, 4 corporate officers and 10 employees of subsidiary companies	4 directors and 13 corporate officers of the Company
Number of shares by type of stock (Note 1)	Common stock 300,000 shares	Common stock 300,000 shares	Common stock 54,200 shares
Date of grant	June 1, 2005	April 21, 2006	April 16, 2009
Vesting conditions	(Note 2)	(Note 2)	(Note 3)
Service period	(Note 4)	(Note 4)	(Note 4)
Exercise period	July 1, 2006 to June 30, 2009	July 1, 2007 to June 30, 2010	April 17, 2009 to April 16, 2039

Note 1. Stock options are convertible into an equal number of shares.
Note 2. To exercise these options, the person granted the option is principally required to be a director, a corporate auditor, a corporate officer or an employee of HORIBA, except in cases of resignation at the expiration of term, involuntary retirement or other cases approved by the Board of Directors.
Note 3. Vesting conditions and exercise period of stock options
A holder of stock options may exercise the options for a period of ten days from the day following the date on which he resigns (or retires) from the office of director or from the corporate office of the Company.
Note 4. The service period is not stipulated.

(b) Number, movement and price of stock options
Stock options are convertible into an equal number of shares.
(i) Number of shares

	Stock options granted in 2005	Stock options granted in 2006	No. 1 Stock-based Compensation Type Stock Option
Options before vesting (number of shares)			
Balance at December 31, 2008	–	–	
Granted	–	–	54,200
Forfeited	–	–	
Vested	–	–	54,200
Balance at December 31, 2009	–	–	
Options after vesting (number of shares)			
Balance at December 31, 2008	80,000	249,000	
Vested	–	–	54,200
Excercised	4,000	–	
Forfeited	76,000	–	
Balance at December 31, 2009	–	249,000	54,200

(ii) Price per share

	Stock options granted in 2005	Stock options granted in 2006	No. 1 Stock-based Compensation Type Stock Option
Option price (yen)	2,265	3,890	1
Weighted-average stock price (yen)	2,242	–	–
Fair value at grant date (yen)	(Note) –	(Note) –	1,091

Note. The fair value at grant date value has been omitted because the stock options had been granted before the Japanese Corporate Law became effective on May 1, 2006.

10. Leases

At December 31, 2008 and December 31, 2009, assets leased under non-capitalized finance leases were as follows:

Acquisition cost, accumulated depreciation and balance of assets leased.

	Millions of yen		Thousands of U.S. dollars
	12/2008	12/2009	12/2009
Machinery, equipment and vehicles	¥257	**¥246**	**$2,671**
Other property, plant and equipment	749	**817**	**8,871**
Other intangibles	95	**96**	**1,042**
Less accumulated depreciation and amortization	(560)	**(758)**	**(8,230)**
Total	¥541	**¥401**	**$4,354**

Note 1. The method of depreciation and amortization of lease assets is described in Note 2(g) Summary of significant accounting policies – Leases.

With respect to finance lease transactions that do not transfer ownership and in which the lease transaction began prior to the first fiscal year of its adoption, the Company has continued to implement accounting practices in accordance with those for normal sales transactions, as stated above.

Note 2. The above depreciation and amortization is calculated by the straight-line method over the term of the lease. If the above leases had been capitalized, interest of ¥20 million and ¥15 million ($163 thousand) and depreciation and amortization of ¥196 million and ¥220 million ($2,389 thousand) would have been recorded for the years ended December 31, 2008 and December 31, 2009, respectively. Lease payments under non-capitalized finance leases were ¥216 million and ¥241 million ($2,617 thousand) for the years ended December 31, 2008 and December 31, 2009, respectively. Obligations under finance leases at December 31, 2008 and December 31, 2009 were as follows:

	Millions of yen		Thousands of U.S. dollars
Payments remaining:	12/2008	12/2009	12/2009
Payments due within 1 year	¥231	**¥209**	**$2,269**
Payments due after 1 year	379	**380**	**4,126**
Total	¥610	**¥589**	**$6,395**

Payments remaining under operating leases at December 31, 2008 and December 31, 2009 were as follows:

	Millions of yen		Thousands of U.S. dollars
Payments remaining:	12/2008	12/2009	12/2009
Payments due within 1 year	¥800	**¥511**	**$5,548**
Payments due after 1 year	1,749	**1,201**	**13,040**
Total	¥2,549	**¥1,712**	**$18,588**

11. Contingent liabilities

The Company and certain consolidated subsidiaries were contingently liable as guarantors of loans to affiliated companies and employees in the amounts of ¥299 million and ¥278 million ($3,018 thousand) at December 31, 2008 and December 31, 2009, respectively.

12. Derivative transactions

Outstanding derivative transactions at December 31, 2008 and December 31, 2009 were as follows:

Currency related:

	Millions of yen				Millions of yen			
	12/2008				12/2009			
	Amount	Over 1 year	Market value	Gain (loss)	Amount	Over 1 year	Market value	Gain (loss)
Forwards								
Selling								
US dollar	¥628	–	¥608	¥20	**¥1,610**	**–**	**¥1,628**	**(¥18)**
Euro	516	–	540	(24)	**1,101**	**132**	**1,098**	**3**
Pound	103	–	95	8	**114**	**–**	**110**	**4**
Baht	–	–	–	–	**96**	**–**	**99**	**(3)**
Zloty	–	–	–	–	**66**	**–**	**67**	**(1)**
Buying								
US dollar	19	–	19	–	**150**	**–**	**151**	**1**
Euro	110	–	110	–	**246**	**–**	**251**	**5**
Pound	63	–	62	(1)	**13**	**–**	**13**	**–**
Options					**–**	**–**	**–**	**–**
Selling								
Call								
US dollar	–	–	–	–	**166**	**–**	**–**	**–**
Option cost	–	–	–	–	**–**	**–**	**2**	**2**
Buying								
Put								
US dollar	–	–	–	–	**166**	**–**	**–**	**–**
Option cost	–	–	–	–	**–**	**–**	**(6)**	**(6)**
Total	–	–	–	¥3	**–**	**–**	**–**	**(¥13)**

Note 1. Market value is determined by banking institutions.

Note 1. Market value is determined by banking institutions.
Note 2. Market value of currency option transactions is based on the price indicated by the transacting bank of the currency related option transaction contract.

	Thousands of U.S. dollars			
	12/2009			
	Amount	Over 1 year	Market value	Gain (loss)
Forwards				
Selling				
US dollar	**$17,481**	**–**	**$17,676**	**($195)**
Euro	**11,955**	**1,433**	**11,922**	**33**
Pound	**1,238**	**–**	**1,195**	**43**
Baht	**1,042**	**–**	**1,075**	**(33)**
Zloty	**717**	**–**	**728**	**(11)**
Buying				
US dollar	**1,629**	**–**	**1,640**	**11**
Euro	**2,671**	**–**	**2,725**	**54**
Pound	**141**	**–**	**141**	**–**
Options				
Selling				
Call				
US dollar	**1,802**	**–**	**–**	**–**
Option cost	**–**	**–**	**22**	**22**
Buying				
Put				
US dollar	**1,802**	**–**	**–**	**–**
Option cost	**–**	**–**	**(65)**	**(65)**
Total	**–**	**–**	**–**	**($141)**

Interest rate related:

	Millions of yen				Millions of yen			
	12/2008				12/2009			
	Amount	Over 1 year	Market value	Gain (loss)	Amount	Over 1 year	Market value	Gain (loss)
Interest rate swap contracts								
Receiving floating rates and paying fixed rates	¥792	¥683	(¥78)	(¥78)	**¥2,916**	**¥2,696**	**(¥242)**	**(¥242)**
Total	¥792	¥683	(¥78)	(¥78)	**¥2,916**	**¥2,696**	**(¥242)**	**(¥242)**

Note 1. Market value is determined by banking institutions.

Note 1. Market value is determined by banking institutions.

	Thousands of U.S. dollars			
	12/2009			
	Amount	Over 1 year	Market value	Gain (loss)
Interest rate swap contracts				
Receiving floating rates and paying fixed rates	**$31,661**	**$29,273**	**($2,628)**	**($2,628)**
Total	**$31,661**	**$29,273**	**($2,628)**	**($2,628)**

13. Income taxes

The Company is subject to a number of taxes based on income, which, in the aggregate, indicate a statutory income tax rate in Japan of approximately 40.60% for the years ended December 31, 2008 and December 31, 2009.

The following table summarizes the significant differences between the statutory tax rate and HORIBA's effective tax rates for financial statement purposes for the years ended December 31, 2008 and December 31, 2009.

	12/2008	12/2009
Statutory tax rate	40.60%	**40.60%**
Expenses not qualifying for permanent deduction, e.g. entertainment expenses	1.67	**1.68**
Nontaxable dividend income	(0.48)	**(0.30)**
Per capita inhabitants tax	0.41	**0.94**
Increase/decrease in valuation allowance for deferred tax assets	5.08	**0.76**
Amortization of goodwill	1.86	**0.02**
Consolidated elimination of dividend income from consolidated subsidiaries	3.47	**2.01**
Differences in tax rate between foreign subsidiaries and the Company	(2.60)	**(4.74)**
Tax credits	(9.48)	**(8.21)**
Other	(1.17)	**(4.69)**
Effective tax rate	39.36%	**28.07%**

Significant components of HORIBA's deferred tax assets and liabilities at December 31, 2008 and December 31, 2009 were as follows:

	Millions of yen		Thousands of U.S. dollars
	12/2008	12/2009	12/2009
Deferred tax assets			
Accrued enterprise tax	¥180	**¥85**	**$923**
Loss on write-down of inventory	459	**932**	**$10,120**
Allowance for doubtful receivables	89	**90**	**$977**
Accrued bonuses	319	**273**	**$2,964**
Loss carryforwards	2,154	**1,787**	**$19,403**
Unrealized gains	1,155	**869**	**$9,436**
Employees' retirement benefits	378	**469**	**$5,092**
Depreciation	910	**856**	**$9,294**
Loss on valuation of investment securities	156	**107**	**$1,162**
Retirement benefits for directors and corporate auditors	376	**103**	**$1,118**
Loss on impairment of fixed assets	192	**251**	**$2,725**
Other	1,942	**2,869**	**$31,151**
Total deferred tax assets	8,310	**8,691**	**94,365**
Valuation allowance	(2,669)	**(2,689)**	**(29,197)**
Net deferred tax assets	5,641	**6,002**	**65,168**
Deferred tax liabilities			
Reserve for deferred gains on property, plant and equipment	(87)	**(145)**	**(1,574)**
Unrealized losses	(390)	**(390)**	**(4,235)**
Net unrealized holding gains on securities	(325)	**(549)**	**(5,961)**
Other	(445)	**(676)**	**(7,340)**
Total deferred tax liabilities	(1,247)	**(1,760)**	**(19,110)**
Net deferred tax assets	¥4,394	**¥4,242**	**$46,058**

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

	Millions of yen		Thousands of U.S. dollars
	12/2008	12/2009	12/2009
Current assets	¥2,397	**¥2,081**	**$22,595**
Investments and other noncurrent assets	2,019	**2,216**	**24,061**
Current liabilities	(10)	**(25)**	**(271)**
Deferred tax liabilities (noncurrent)	(12)	**(31)**	**(337)**
Net deferred tax assets	¥4,394	**¥4,241**	**$46,048**

14. Loss on Impairment of Fixed Assets

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

Location	Use	Type	Millon of Yen
Kyoto City	Idle	Land	¥196
Taiwa-cho, Kurokawa-gun, Miyagi Prefecture	Idle	Land, buildings, etc.	22
Germany	Other	Goodwill	156
Japan	Other	Goodwill	88
		Totals	¥462

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

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

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

(Method used for grouping)
In connection with the use of impairment accounting, assets are grouped on an industry segment basis. Idle assets bearing no connection to an industry segment are grouped on a property-by-property basis.

(Method used for calculating recoverable amounts)
The recoverable amount for idle assets was measured according to estimated net realizable value. Estimated net realizable value was determined based on publicly announced market values for land.

HORIBA reviewed its long-lived assets for impairment, and, as a result, impairment losses were recognized by HORIBA for the following asset groups as other expenses for the year ended December 31, 2009.

Location	Use	Type	Millon of Yen	Thousands of U.S. dollars
Kyoto City	Idle	Land	**¥9**	**$98**
Kyoto City and other	Business assets (Semiconductor)	Tool, machinery, equipment and vehicles	**94**	**$1,020**
Germany	Business assets (Automotive)	Machinery, equipment and vehicles	**133**	**$1,444**
		Totals	**¥236**	**$2,562**

(Background)
Because there are no concrete plans to put to use the idle land owned in Kyoto City, the book value of this asset was lowered to the recoverable value, and the resulting impairment was recognized as other expenses.

Regarding the business assets (semiconductor related business) owned in Kyoto City and others, HORIBA estimated that the book value of these assets exceeded the estimated future cash flows due to deterioration in profitability. As a result, the value was lowered to the recoverable amount. The resulting impairment was recognized as other expenses.

The business assets related to the automotive development test systems (DTS) in Germany were purchased by the Company's subsidiary in Germany in September 2005 from Carl Schenk AG. HORIBA estimated that the book value of these assets exceeded the estimated future cash flows due to deterioration in profitability. As a result, the value was lowered to the recoverable amount. The resulting impairment was recognized as other expenses.

(Method used for grouping)
In connection with the use of impairment accounting, assets are grouped on an industry segment basis. Idle assets bearing no connection to an industry are grouped on a property-by-property basis.

(Method used for calculating a recoverable amount)
The recoverable amount of idle assets was measured according to estimated net realizable value. Estimated net realizable value was determined based on publicly announced market values for land.

In addition, value for use of business assets (semiconductor related business) and those (automotive test system business) based on the estimated future cash flow were estimated to be negative at present. Thus, impairment loss was recognized based on the assumption of a zero recoverable amount.

15. Segment Information

(1) Operations by business segment

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

(a) Automotive Test Systems

Emission Measurement Systems, In-Use Automotive Emissions Analyzers, On-Board Emission Measurement Systems, Driveline Test Systems, Engine Test Systems, Brake Test Systems, Drive Recorders

(b) 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 Systems, Air Pollution Analyzers)

(c) Medical-Diagnostic Instruments & Systems

Equipment for Blood Sample Analysis (Hematology Analyzers, Equipment for Measuring Immunological Responses, Clinical Chemistry Analyzers, Blood Sugar Measurement Systems)

(d) Semiconductor Instruments & Systems

Mass Flow Controllers, Chemical Concentration Monitors, Thin-Film Analyzers for Semiconductors and LCD Inspection, Reticle/Mask Particle Detection Systems, Residual Gas Analyzers

Information about operations by business and geographic segments and sales to foreign customers of HORIBA for the years ended December 31, 2008 and December 31, 2009, was as follows:

	Millions of yen					
	12/2008					
	Automotive	Analytical	Medical-Diagnostic	Semiconductor	Unallocated	Consolidated
Sales to outside customers	¥54,232	¥38,532	¥24,722	¥16,762	–	¥134,248
Operating expenses	47,001	36,705	24,044	15,540	–	123,290
Operating income	¥7,231	¥1,827	¥678	¥1,222	–	¥10,958
Assets	¥38,436	¥30,365	¥17,409	¥17,485	¥29,584	¥133,279
Depreciation and amortization	¥1,606	¥1,234	¥1,409	¥706	–	¥4,955
Impairment loss	¥224	¥100	¥12	¥126	–	¥462
Capital expenditures	¥1,952	¥1,601	¥2,729	¥363	–	¥6,645

	Millions of yen					
	12/2009					
	Automotive	Analytical	Medical-Diagnostic	Semiconductor	Unallocated	Consolidated
Sales to outside customers	**¥37,192**	**¥32,526**	**¥22,337**	**¥12,484**	**–**	**¥104,539**
Operating expenses	**35,382**	**31,006**	**20,424**	**12,583**	**–**	**99,395**
Operating income	**¥1,810**	**¥1,520**	**¥1,913**	**(¥99)**	**–**	**¥5,144**
Assets	**¥31,929**	**¥29,058**	**¥18,744**	**¥14,736**	**¥35,114**	**¥129,581**
Depreciation and amortization	**¥1,349**	**¥1,258**	**¥1,396**	**¥570**	**–**	**¥4,573**
Impairment loss	**¥137**	**¥4**	**¥1**	**¥94**	**–**	**¥236**
Capital expenditures	**¥1,159**	**¥1,105**	**¥1,942**	**¥328**	**–**	**¥4,534**

	Thousands of U.S. dollars					
	12/2009					
	Automotive	Analytical	Medical-Diagnostic	Semiconductor	Unallocated	Consolidated
Sales to outside customers	**$403,822**	**$353,160**	**$242,530**	**$135,548**	**–**	**$1,135,060**
Operating expenses	**384,170**	**336,656**	**221,759**	**136,623**	**–**	**1,079,208**
Operating income	**$19,652**	**$16,504**	**$20,771**	**($1,075)**	**–**	**$55,852**
Assets	**$346,678**	**$315,505**	**$203,518**	**$160,000**	**$381,259**	**$1,406,960**
Depreciation and amortization	**$14,647**	**$13,659**	**$15,157**	**$6,189**	**–**	**$49,652**
Impairment loss	**$1,487**	**$43**	**$11**	**$1,021**	**–**	**$2,562**
Capital expenditures	**$12,584**	**$11,998**	**$21,086**	**$3,561**	**–**	**$49,229**

Note 1. Unallocated assets of ¥29,584 million and ¥35,114 million ($381,259 thousand) at December 31, 2008 and December 31, 2009, respectively, mainly include cash and cash equivalents and investment securities.

Note 2. As stated in Note 2(e) Summary of significant accounting policies – Property, plant and equipment and depreciation, the Company and its consolidated subsidiaries in Japan adopted the method of depreciation for tangible fixed assets acquired on or after April 1, 2007, in accordance with the method prescribed by the revised Corporate Tax Law. As a result of this change, in comparison to amounts that would have been recorded with the previous accounting method, operating expenses increased ¥46 million for Automotive Test Systems, ¥43 million for Analytical Instruments & Systems, ¥6 million for Medical-Diagnostic Instruments & Systems, and ¥29 million for Semiconductor Instruments & Systems, while operating income recorded a decrease of the same amount.

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

As stated in Note 2(d), Summary of significant accounting policies – Inventories, the Company and some of its consolidated subsidiaries in Japan reclassified loss on disposal and write-down of inventories from other expenses to cost of sales. As a result, in comparison to the amounts that would have been recorded with previous accounting method, operating expenses increased ¥20 million for Automotive Test Systems, ¥69 million for Analytical Instruments & Systems, ¥20 million for Medical-Diagnostic Instruments & Systems, and ¥26 million for Semiconductor Instruments & Systems, while operating income recorded a decrease of the same amount.

Note 3. As stated in Note 2(d), Summary of significant accounting policies – inventories, the "Accounting Standards for Measurement of Inventories" (ASBJ Statement No. 9; issued on July 5, 2006) has been adopted since fiscal 2009. The adoption of the new standard had the effect of increasing operating income of the Medical-Diagnostic Instruments & Systems by ¥0 million ($0 thousand) and reducing operating income of the Automotive Test Systems by ¥12 million ($130 thousand), the Analytical Instruments & Systems by ¥342 million ($3,714 thousand), and the Semiconductor Instruments & Systems by ¥189 million ($2,052 thousand) compared to the amounts that would have been recorded under the previous method.

As stated in Note 1 Basis of presenting consolidated financial statements, the "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements" (Practical Issue Task Force of the ASBJ No. 18; issued on May 17, 2006) was adopted, commencing in fiscal 2009. The adoption of the new standard had the effect of increasing operating income of the Automotive Test Systems by ¥183 million ($1,987 thousand), and reducing operating income of the Analytical Instruments & Systems by ¥9 million ($98 thousand), and the Medical-Diagnostic Instruments & Systems by ¥14 million ($152 thousand), and the Semiconductor Instruments & Systems by ¥2 million ($21 thousand) compared to the amounts that would have been recorded under the previous method.

As stated in Note 2(e), Summary of significant accounting policies – Property, plant and equipment and depreciation (except for leases), the Company and its consolidated domestic subsidiaries reviewed the estimated useful lives of some machinery and equipment, commencing in fiscal 2009, in accordance with the revised Corporate Tax Law of Japan. This change had the effect of reducing operating income of the Automotive Test Systems by ¥14 million ($152 thousand), the Analytical Instruments & Systems by ¥8 million ($87 thousand), the Medical-Diagnostic Instruments & Systems by ¥1 million ($11 thousand), and the Semiconductor Instruments & Systems by ¥13 million ($141 thousand) compared to the amounts that would have been recorded under the previous method.

(2) Operations by geographic segment

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

	Millions of yen					
	12/2009					
	Japan	Americas	Europe	Asia	Elimination and/or unallocated	Consolidated
Sales to outside customers	¥43,660	¥16,988	¥39,364	¥4,527	−	¥104,539
Inter-area	9,980	1,488	3,824	1,765	(¥17,057)	−
Total sales	53,640	18,476	43,188	6,292	(17,057)	104,539
Operating expenses	52,178	17,784	41,761	5,571	(17,899)	99,395
Operating income	¥1,462	¥692	¥1,427	¥721	¥842	¥5,144
Assets	¥53,002	¥8,372	¥30,768	¥2,325	¥35,114	¥129,581

	Thousands of U.S. dollars					
	12/2009					
	Japan	Americas	Europe	Asia	Elimination and/or unallocated	Consolidated
Sales to outside customers	$474,050	$184,452	$427,405	$49,153	−	$1,135,060
Inter-area	108,361	16,156	41,520	19,164	(185,201)	−
Total sales	582,411	200,608	468,925	68,317	(185,201)	1,135,060
Operating expenses	566,537	193,094	453,431	60,489	(194,343)	1,079,208
Operating income	$15,874	$7,514	$15,494	$7,828	$9,142	$55,852
Assets	$575,483	$90,901	$334,072	$25,244	$381,260	$1,406,960

Note 1. Unallocated assets of ¥29,584 million and ¥35,114 million ($381,260 thousand) at December 31, 2008 and December 31, 2009, respectively, mainly included cash and cash equivalents and investment securities.

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

Note 3. As stated in Note 2(e), Summary of significant accounting policies − Property, plant and equipment and depreciation, the Company and its consolidated subsidiaries in Japan adopted the method of depreciation for tangible fixed assets acquired on or after April 1, 2007, in accordance with the method prescribed by the revised Corporate Tax Law. As a result of this change, in comparison to the amounts that would have been recorded with the previous accounting method, operating expenses increased ¥124 million in the Japan segment while operating income recorded a decrease of the same amount.

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

As stated in Note 2(d), Summary of significant accounting policies − Inventories, the Company and some of its consolidated subsidiaries in Japan reclassified loss on disposal and write-down of inventories from other expenses to cost of sales. As a result, in comparison to the amounts that would have been recorded with the previous accounting method, operating expenses increased ¥135 million in the Japan segment, while operating income recorded a decrease of the same amount.

Note 4. As stated in Note 2(d) Summary of significant accounting policies – inventories, the "Accounting Standards for Measurement of Inventories" (ASBJ Statement No. 9; issued on July 5, 2006) has been adopted since fiscal 2009. The adoption of the new standard had the effect of reducing operating income in the Japan segment by ￥543 million ($5,896 thousand) compared to the amount(s) that would have been recorded with the previous method.

As stated in Note 1, Basis of presenting consolidated financial statements, the "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements" (Practical Issue Task Force of the ASBJ No. 18; issued on May 17, 2006) was adopted commencing in fiscal 2009. The adoption of the new standard had the effect of increasing operating income in the Europe segment by ￥187 million ($2,031 thousand) , and reducing operating income in the Asia segment by ￥29 million ($315 thousand) compared to the amount(s) that would have been recorded with the previous method.

As stated in Note 2(e), Summary of significant accounting policies – Property, plant and equipment and depreciation (except for leases), the Company and its consolidated domestic subsidiaries reviewed the estimated useful lives of some machinery and equipment, commencing in fiscal 2009, in accordance with the revised Corporate Tax Law of Japan. This change had the effect of reducing operating income in the Japan segment by ￥36 million ($391 thousand) compared to the amount(s) that would have been recorded with the previous method.

(3) Sales to foreign customers

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

	Millions of yen			
	12/2009			
	Americas	Europe	Asia	Total
Sales to outside customers	**¥19,603**	**¥31,575**	**¥15,991**	**¥67,169**

	Thousands of U.S. dollars			
	12/2009			
	Americas	Europe	Asia	Total
Sales to outside customers	**$212,845**	**$342,834**	**$173,626**	**$729,305**

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

16. Related party transactions

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

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

Note 1. The above transaction amounts do not include consumption taxes, while the balance at December 31, 2008 includes consumption taxes.

Note 2. Transaction conditions and policies on determining transaction conditions

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

(b) Fees arising from real estate transactions were determined based on actual transactions that had taken place in the neighborhood where the real estate was located.

(c) The transaction stated above was made by Keisuke Ishida as representative of SHASHIN KAGAKU Co., Ltd. The payment of fees was based on common terms and conditions.

Related party transactions for the year ended December 31, 2009 comprise the following:
Additional information
The Company has adopted the Accounting Standard for Related Party Disclosures (Corporate Accounting Standards No. 11, issued on October 17, 2006), and the Application Guidance for Accounting Standard for Related Party Disclosures (Corporate Accounting Standards Application Guidance No. 13, issued on October 17, 2006) starting in the consolidated fiscal year ended December 31, 2009.

As a result, in addition to the previous scope of disclosure, Michel Mariton and Bertrand de Castelnau, directors of important subsidiaries of the Company that submitted consolidated financial statements, were included in the scope of disclosure. However, neither of the directors had any transactions to be disclosed.

(1) Related party transactions with the Company
Directors and major shareholders (individuals only) of the Company

Category		Director's close family member	
Name		Masao Horiba	
Address		–	
Amount of capital stock (millions of yen)		–	
Business or occupation		Advisor	
Percentage of voting rights held		3.1% (direct)	
Relationship		Consulting contract	
Transaction	Transaction amount	Consulting fee (Note 2)	¥24 million ($261 thousand)
Account	Balance at December 31, 2009	–	–

Note 1. The above transaction amounts do not include consumption taxes, while the balance at December 31, 2009 includes consumption taxes.

Note 2. Transaction conditions and policy on determining transaction conditions
The consulting fee for Masao Horiba is compensation for management consulting services to the Company, activities of society-academia collaboration for innovation, and participation in economic organizations. The payment was determined on a negotiated basis.

(2) Related party transactions with consolidated subsidiaries of the Company that submitted consolidated financial statements
Directors and major shareholders (individuals only) of the Company

Category		Director's close family member	
Name		Masao Horiba	
Address		–	
Amount of capital stock (millions of yen)		–	
Business or occupation		Advisor	
Percentage of voting rights held		3.1% (direct)	
Relationship		Consulting contract	
Transaction	Transaction amount	Consulting fee (Note 2)	¥12 million ($130 thousand)
Account	Balance at December 31, 2009	–	–

Note 1. The above transaction amounts do not include consumption taxes, while the balance at December 31, 2009 includes consumption taxes.

Note 2. Transaction conditions and policy on determining transaction conditions
The consulting fee for Masao Horiba is compensation for management consulting services to the Company, activities of society-academia collaboration for innovation, and participation in economic organizations. The payment was determined on a negotiated basis.

17. Subsequent events

Cash dividends

On February 15, 2010, the Company's Board of Directors resolved to pay cash dividends of ¥7 ($0.08) per share, aggregating ¥296 million ($3,214 thousand) to shareholders of record at December 31, 2009.

18. Other information

Litigation

A lawsuit was filed by Micronics Japan Co., Ltd. against the Company seeking compensation for damages related to an agreement to develop and commercialize liquid-crystal related testing equipment (¥933 million and damages for delay in payment), but the Company won the case in the Tokyo High Court on December 25, 2008. Subsequently, Micronics Japan appealed the case to a higher court, but the Supreme Court dismissed the case on November 24, 2009, resulting in a final victory for the Company.

Independent Auditors' Report

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

We have audited the accompanying consolidated balance sheets of HORIBA, Ltd. and consolidated subsidiaries as of December 31, 2009 and 2008, and the related consolidated statements of income, changes in net assets and cash flows for the years then ended, expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to independently express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of HORIBA, Ltd. and subsidiaries as of December 31, 2009 and 2008, and the consolidated results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in Japan.

Without qualifying our opinion, we draw attention to the following:
As discussed in Note 1 to the consolidated financial statements, the Company applied the new accounting standard for unification of accounting policies applied to foreign subsidiaries for the consolidated financial statements.
As discussed in Note 2(d) to the consolidated financial statements, effective January 1, 2009, the Company and certain domestic subsidiaries adopted the new accounting standard for measurement of inventories.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended December 31, 2009 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

KPMG AZSA & Co.

Kyoto, Japan
March 29, 2010

Corporate Philosophy

HORIBA's company motto "Joy and Fun"

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

Business Operations

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

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

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

Customer Responsiveness

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

Responsibility to Shareholders and Investors

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

Employees

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

Corporate Data

Corporate Information

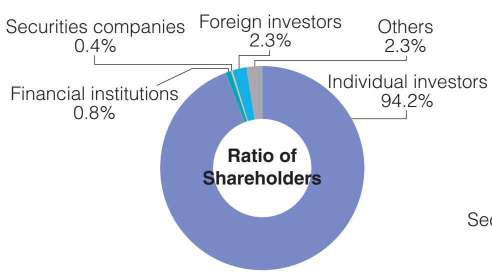
As of December 31, 2009

Head Office	2, Miyanohigashi-cho, Kisshoin, Minami-ku, Kyoto 601-8510, Japan
Founded	October 17, 1945
Incorporated	January 26, 1953
Paid in Capital	12,011 miillion yen
Number of Employeees	5,133(Consolidated)
Fiscal Closing Date	December 31, annually
Annual Meeting of Shareholders	Held in March
Transfer Agent and Registrar	The Chuo Mitsui Trust and Banking Co., Ltd.
Independent Auditors	KPMG AZSA & Co.
Stock Listings	Tokyo Stock Exchange, First Section Osaka Securities Exchange, First Section Securities Code: 6856

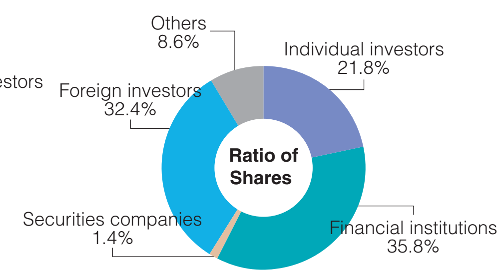
Major Shareholders

As of December 31, 2009

Name of Shareholders	Shares (Thousands)	Percentage (%)
Japan Trustee Service Bank, Ltd.	3,952	9.29
Taiyo Fund, L.P.	3,316	7.79
The Master Trust Bank of Japan, Ltd.	2,782	6.54
Masao Horiba	1,300	3.05
The Bank of Kyoto, Ltd.	828	1.94
Japan Trustee Service Bank, Ltd. 9	816	1.91
Atsushi Horiba	807	1.89
HORIBA Raku-Raku Kai	764	1.79
Northern Trust Co.(AVFC) Sub A/C American Clients	742	1.74
The Kyoto Chuo Shinkin Bank	645	1.51



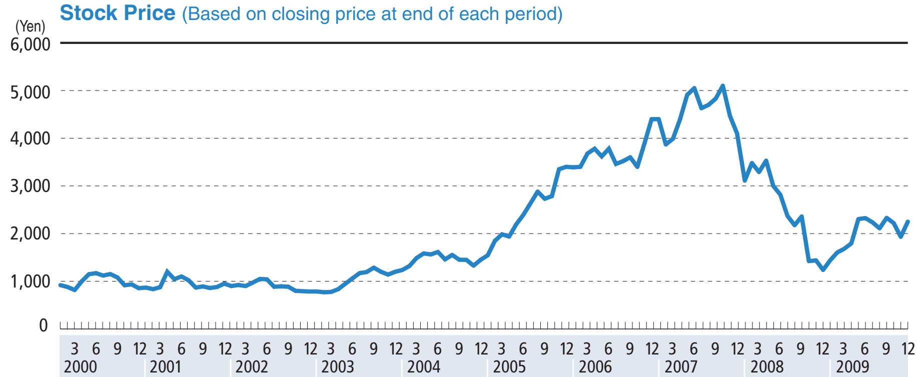
Number of Shareholders: 7,986



Number of Shares: 42,532,752

Stock Price and Volume Trend

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



HORIBA

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