HORIBA
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Consolidated Financial Statements for the Year ended March 20, 2006

Company Name	HORIBA, Ltd.		May 10, 2006
Listing Code	6856		Stock Exchange Listings: Tokyo, Osaka
(URL http://www.horiba.co.jp)			Address of Head Office: Kyoto
Representative:	Atsushi Horiba	Chairman, President and CEO	
Contact:	Fumitoshi Sato	Managing Director	Telephone:(81)75-313-8121
Board of Directors meeting	: May 10, 2006		
U.S. accounting standards used	: No		

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

(1) Sales and Income

	Net sales		Operating income		Ordinary income	
	¥ million	%	¥ million	%	¥ million	%
Year ended 20/3/06	105,664	14.2	11,275	20.3	11,197	26.1
Year ended 20/3/05	92,492	8.7	9,372	36.8	8,882	58.7

	Net income		Earnings per share	Earnings per share (diluted)	Return on equity	Return on assets	Ordinary income to net sales
	¥ million	%	¥	¥	%	%	%
Year ended 20/3/06	6,473	83.7	154.27	146.97	11.0	10.2	10.6
Year ended 20/3/05	3,523	69.9	98.33	83.81	7.4	9.2	9.6

Notes:
1. Equity in earnings of affiliates : Year ended Mar. 20, 2006 : ¥ - million Year ended March 20, 2005 : ¥ - million
2. Average number of shares outstanding (consolidated):
   Year ended Mar. 20, 2006 : 40,199,849 shares Year ended Mar. 20, 2005 : 34,142,798 shares
3. Changes in accounting methods : No
4. Percentage (%) represents year-on -year change for net sales, operating income, ordinary income and net income compared to the previous fiscal year.

(2) Financial Position

	Total assets	Shareholders' equity	Shareholders' equity ratio	Shareholders' equity per share
	¥ million	¥ million	%	¥
Year ended 20/3/06	119,976	65,446	54.5	1,548.08
Year ended 20/3/05	99,913	52,262	52.3	1,415.75

Note: Number of shares outstanding at end of period (consolidated) :
Mar. 20, 2006: 42,100,053 shares March 20, 2005: 36,797,578 shares

(3) Cash Flows

	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Cash and cash equivalents at end of period
	¥ million	¥ million	¥ million	¥ million
Year ended 20/3/06	8,672	(10,361)	129	14,884
Year ended 20/3/05	7,215	(3,628)	(1,058)	16,108

(4) Scope of consolidation and application of the equity method
Consolidated subsidiaries : 44 companies Unconsolidated subsidiaries accounted for by the equity method : None
Affiliated companies accounted for by the equity method : None

(5) Changes in scope of consolidation and application of the equity method
Consolidation : (New) 7 companies (Eliminated) None Equity method : (New) None (Eliminated) None

2. Projected Results for the Term ending December 31, 2006 (March 21, 2006 - December 31, 2006)

	Net sales	Operating income	Ordinary income	Net income
	¥ million	¥ million	¥ million	¥ million
Interim term (note)	53,000	4,400	4,000	2,000
Full term	100,000	9,000	8,200	4,600

Ref: Estimated earnings per share (full term) ¥109.26
Note: Interim term will be from March 21, 2006 to September 20, 2006.

(Ref) Projected Results for the Year ending March 20, 2007 (March 21, 2006 - March 20, 2007)

	Net sales	Operating income	Ordinary income	Net income
	¥ million	¥ million	¥ million	¥ million
Year ending March 20, 2007	118,000	12,000	11,200	6,500

* The term ending December 31, 2006 will only be 9 months and 11 days due to the change of the accounting term, except consolidated subsidiaries whose year end is December 31.
The projected results are computed based on information available to us at May 10, 2006, and HORIBA's actual results could materially differ from those contained in these forward-looking statements as a result of numerous factors outside of HORIBA's control. Please refer to page 10 of the attachments with regard to the above projected results.

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HORIBA, Ltd. Financial Highlights for the Year ended March 20, 2006

May 10, 2006

Consolidated Results

(The accounting term will be changed from March 20 to December 31 in 2006.)

1. Consolidated Financial Results

	3/2006 Result	3/2005 Result	Change from previous year		12/2006 Estimate	Change from previous year	12/2006 Estimate	Change from previous period
	Full year	Full year	Amount	Ratio	Full year	Amount	1st Half	Amount
	Millions of yen	Millions of yen	Millions of yen		Millions of yen	Millions of yen	Millions of yen	Millions of yen
Net Sales	105,664	92,492	+13,172	+14.2%	100,000	−5,664	53,000	+8,306
Operating Income	11,275	9,372	+1,902	+20.3%	9,000	−2,275	4,400	+662
Operating Income Ratio	*10.7%*	*10.1%*	*+0.6P*		*9.0%*	*−1.7P*	*8.3%*	*−0.1P*
Ordinary Income	11,197	8,882	+2,315	+26.1%	8,200	−2,997	4,000	+140
Ordinary Income Ratio	*10.6%*	*9.6%*	*+1.0P*		*8.2%*	*−2.4P*	*7.5%*	*−1.1P*
Net Income	6,473	3,523	+2,949	+83.7%	4,600	−1,873	2,000	+348
Net Income Ratio	*6.1%*	*3.8%*	*+2.3P*		*4.6%*	*−1.5P*	*3.8%*	*+0.1P*
US$	110.25	108.23	+2.02		110.00	−0.25	110.00	+3.84
Euro	136.91	134.44	+2.47		130.00	−6.91	130.00	−6.25

2. Consolidated Segment Information

Net Sales	3/2006 Result	3/2005 Result	Change from previous year		12/2006 Estimate	Change from previous year	12/2006 Estimate	Change from previous period
	Full year	Full year	Amount	Ratio	Full year	Amount	1st Half	Amount
	Millions of yen	Millions of yen	Millions of yen		Millions of yen	Millions of yen	Millions of yen	Millions of yen
Automotive*	34,446	27,021	+7,424	+27.5%	35,000	+553	17,000	+4,405
Analytical	32,671	28,510	+4,160	+14.6%	28,000	−4,671	16,000	+1,753
Medical	20,508	18,776	+1,731	+9.2%	20,000	−508	10,000	+651
Semiconductor	18,038	18,182	−144	−0.8%	17,000	−1,038	10,000	+1,494
Total	105,664	92,492	+13,172	+14.2%	100,000	−5,664	53,000	+8,306

Operating Income	3/2006 Result	3/2005 Result	Change from previous year		12/2006 Estimate	Change from previous year	12/2006 Estimate	Change from previous period
	Full year	Full year	Amount	Ratio	Full year	Amount	1st Half	Amount
	Millions of yen	Millions of yen	Millions of yen		Millions of yen	Millions of yen	Millions of yen	Millions of yen
Automotive*	6,509	4,705	+1,803	+38.3%	4,200	−2,309	2,200	−352
Analytical	1,322	861	+460	+53.4%	1,300	−22	400	+492
Medical	952	1,145	−192	−16.8%	1,500	+547	500	+290
Semiconductor	2,490	2,659	−168	−6.3%	2,000	−490	1,300	+231
Total	11,275	9,372	+1,902	+20.3%	9,000	−2,275	4,400	+662

3. Trend of Consolidated Sales by Segment and Area

	3/2006 Result	3/2005 Result	Change from previous year		12/2006 Estimate	Change from previous year	12/2006 Estimate	Change from previous period
	Full year	Full year	Amount	Ratio	Full year	Amount	1st Half	Amount
	Millions of yen	Millions of yen	Millions of yen		Millions of yen	Millions of yen	Millions of yen	Millions of yen
Automotive*	34,446	27,021	+7,424	+27.5%	35,000	+553	17,000	+4,405
Japan + Asia	17,276	14,885	+2,390	+16.1%	12,074	−5,201	7,654	−46
America	7,324	4,175	+3,148	+75.4%	6,523	−800	2,432	+228
Europe	9,845	7,960	+1,885	+23.7%	16,401	+6,556	6,913	+4,223
Analytical	32,671	28,510	+4,160	+14.6%	28,000	−4,671	16,000	+1,753
Japan + Asia	16,939	15,347	+1,591	+10.4%	11,302	−5,637	8,393	+491
America	3,455	2,295	+1,159	+50.5%	4,544	+1,088	2,065	+782
Europe	12,276	10,867	+1,409	+13.0%	12,153	−122	5,540	+480
Medical	20,508	18,776	+1,731	+9.2%	20,000	−508	10,000	+651
Japan + Asia	3,887	3,393	+493	+14.5%	3,242	−644	1,953	+124
America	−	−	−	−	−	−	−	−
Europe	16,621	15,383	+1,237	+8.0%	16,757	+136	8,046	+527
Semiconductor	18,038	18,182	−144	−0.8%	17,000	−1,038	10,000	+1,494
Japan + Asia	14,481	13,371	+1,109	+8.3%	12,408	−2,073	7,534	+607
America	2,615	3,493	−877	−25.1%	3,610	+994	2,017	+827
Europe	941	1,318	−376	−28.6%	981	+39	447	+60
Total	105,664	92,492	+13,172	+14.2%	100,000	−5,664	53,000	+8,306

(Note) The first half of the term ending December 31, 2006 will be from March 21, 2006 to September 20, 2006.

4. Consolidated Financial Results (Quarterly Comparison)

	3/2006 1Q Result	3/2006 2Q Result	3/2006 3Q Result	3/2006 4Q Result	3/2005 1Q Result	3/2005 2Q Result	3/2005 3Q Result	3/2005 4Q Result
	Millions of yen	Millions of yen	Millions of yen	Millions of yen	Millions of yen	Millions of yen	Millions of yen	Millions of yen
Net Sales	22,418	22,275	26,861	34,109	21,674	20,490	24,279	26,047
Operating Income	2,702	1,035	3,994	3,543	2,092	1,441	3,125	2,713
Operating Income Ratio	*12.1%*	*4.6%*	*14.9%*	*10.4%*	*9.7%*	*7.0%*	*12.9%*	*10.4%*
Ordinary Income	2,683	1,175	3,967	3,371	2,034	1,285	2,960	2,602
Ordinary Income Ratio	*12.0%*	*5.3%*	*14.8%*	*9.9%*	*9.4%*	*6.3%*	*12.2%*	*10.0%*
Net Income	1,047	604	2,559	2,262	773	42	1,453	1,254
Net Income Ratio	*4.7%*	*2.7%*	*9.5%*	*6.6%*	*3.6%*	*0.2%*	*6.0%*	*4.8%*

5. Consolidated Segment Information (Quarterly Comparison)

Net Sales	3/2006 1Q Result	3/2006 2Q Result	3/2006 3Q Result	3/2006 4Q Result	3/2005 1Q Result	3/2005 2Q Result	3/2005 3Q Result	3/2005 4Q Result
	Millions of yen	Millions of yen	Millions of yen	Millions of yen	Millions of yen	Millions of yen	Millions of yen	Millions of yen
Automotive*	6,318	6,275	9,734	12,117	6,031	4,550	7,964	8,475
Analytical	7,107	7,138	7,579	10,846	6,444	6,640	7,240	8,185
Medical	4,616	4,732	5,252	5,907	4,071	4,697	4,549	5,458
Semiconductor	4,375	4,129	4,295	5,237	5,126	4,601	4,525	3,928
Total	22,418	22,275	26,861	34,109	21,674	20,490	24,279	26,047

Operating Income	3/2006 1Q Result	3/2006 2Q Result	3/2006 3Q Result	3/2006 4Q Result	3/2005 1Q Result	3/2005 2Q Result	3/2005 3Q Result	3/2005 4Q Result
	Millions of yen	Millions of yen	Millions of yen	Millions of yen	Millions of yen	Millions of yen	Millions of yen	Millions of yen
Automotive*	1,751	801	2,696	1,259	1,193	507	1,889	1,115
Analytical	59	−152	279	1,135	−53	−194	329	780
Medical	118	91	479	263	30	355	265	493
Semiconductor	772	295	538	883	922	772	641	324
Total	2,702	1,035	3,994	3,543	2,092	1,441	3,125	2,713

6. Consolidated Orders, Backlog Information (Quarterly Comparison)

Orders	3/2006 1Q Result	3/2006 2Q Result	3/2006 3Q Result	3/2006 4Q Result	3/2005 1Q Result	3/2005 2Q Result	3/2005 3Q Result	3/2005 4Q Result
	Millions of yen	Millions of yen	Millions of yen	Millions of yen	Millions of yen	Millions of yen	Millions of yen	Millions of yen
Automotive*	8,965	5,842	9,935	10,469	7,965	4,616	9,310	6,708
Analytical	7,936	8,138	8,120	10,464	7,291	7,218	8,154	6,882
Medical	4,888	5,114	5,575	5,593	4,311	5,046	4,600	4,958
Semiconductor	4,610	3,988	4,417	5,071	5,745	3,896	4,777	3,733
Total	26,400	23,084	28,049	31,599	25,313	20,778	26,843	22,282

Backlog	3/2006 1Q Result	3/2006 2Q Result	3/2006 3Q Result	3/2006 4Q Result	3/2005 1Q Result	3/2005 2Q Result	3/2005 3Q Result	3/2005 4Q Result
	Millions of yen	Millions of yen	Millions of yen	Millions of yen	Millions of yen	Millions of yen	Millions of yen	Millions of yen
Automotive*	11,472	11,039	21,707	20,059	9,181	9,246	10,593	8,825
Analytical	7,466	8,467	9,008	8,627	6,448	7,026	7,940	6,638
Medical	1,603	1,985	2,309	1,995	1,431	1,779	1,831	1,330
Semiconductor	1,800	1,659	1,781	1,615	2,214	1,510	1,762	1,566
Total	22,343	23,152	34,807	32,297	19,275	19,562	22,126	18,361

(Note) Automotive test systems took over the backlog of ¥10,466 million from seven subsidiaries of Carl Schenck AG as the result of the acquisition of shares.

* The segment name of engine measurement instruments & systems was changed to automotive test systems effective March 21, 2006.

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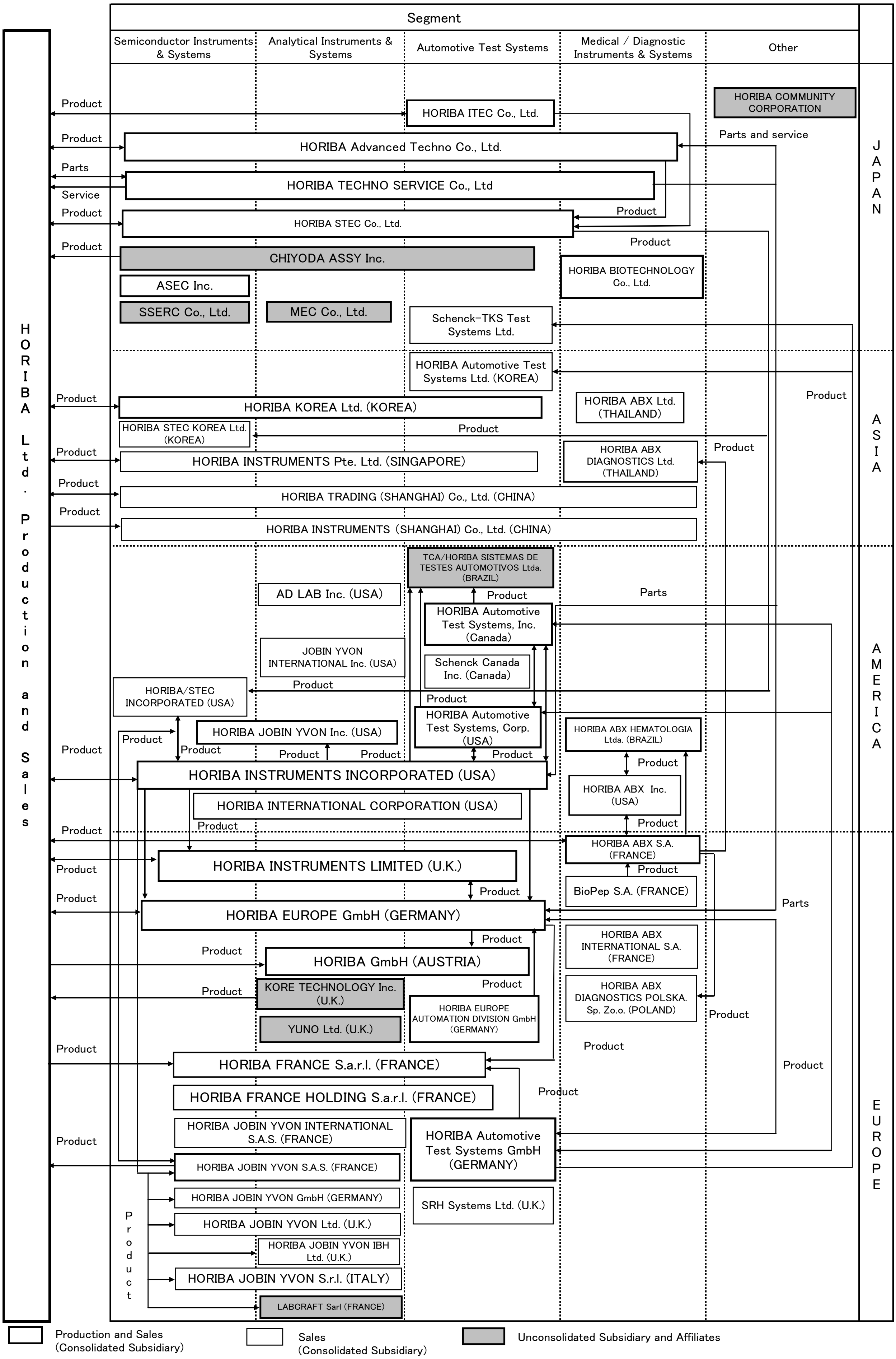
The HORIBA Group

The HORIBA Group consists of 44 consolidated subsidiaries, 1 unconsolidated subsidiary and 7 affiliates, producing and selling analyzers. The HORIBA Group consists of the following divisions : Automotive Test Systems, Analytical Instruments & Systems, Medical /Diagnostic Instruments & Systems, Semiconductor Instruments & Systems.
The following shows the main products and main companies for each segment.

	Main products	Main companies
Automotive Test Systems	Emission Measurement Systems On-Board Emission Measurement Systems In-Use Automotive Emission Analyzers Catalyst Test and Evaluation Systems Fuel Cell Evaluation Systems Laboratory Automation Systems Driveline Test Systems Vehicle Performance Test Systems Brake Test Systems Transportation Management Systems Driving Recorders	HORIBA, Ltd., HORIBA INSTRUMENTS INCORPORATED (USA), HORIBA AUTOMOTIVE TEST SYSTEMS, Corp. (USA), HORIBA EUROPE GmbH (GERMANY), HORIBA INSTRUMENTS LIMITED (U.K.), HORIBA EUROPE AUTOMATION DIVISION GmbH (GERMANY), HORIBA AUTOMOTIVE TEST SYSTEMS GmbH (GERMANY), HORIBA KOREA Ltd. (KOREA), HORIBA INSTRUMENTS Pte. Ltd. (SINGAPORE) 16 other companies (Total 25 companies)
Analytical Instruments & Systems	Particle-size Distribution Analyzers X-ray Fluorescence Analyzers Raman Spectrophotometers ICP Optical Emission Spectrometers Diffraction Gratings Water Quality Analysis and Examination pH Meters Air Pollution Analyzers Stack Gas Analysis Systems	HORIBA, Ltd., HORIBA JOBIN YVON S.A.S. (FRANCE), HORIBA JOBIN YVON Inc. (USA), HORIBA JOBIN YVON GmbH (GERMANY), HORIBA INSTRUMENTS INCORPORATED (USA), HORIBA EUROPE GmbH (GERMANY), HORIBA INSTRUMENTS LIMITED (U.K.), HORIBA Advanced Techno Co., Ltd. 20 other companies (Total 28 companies)
Medical/ Diagnostic Instruments & Systems	Equipment for blood sample analysis (Hematology Analyzers, Equipment for measuring immunological responses, clinical analyzers, blood sugar measurement systems)	HORIBA, Ltd., HORIBA ABX S.A.S.(FRANCE), HORIBA ABX DIAGNOSTICS POLSKA. Sp. Zo.o. (POLAND), HORIBA ABX Inc. (USA), HORIBA ABX HEMATOLOGIA Ltda. (BRAZIL) 9 other companies (Total 14 companies)
Semiconductor Instruments & Systems	Mass Flow Controllers Chemical Concentration Monitors Thin-film analyzers for semiconductors and LCD inspection Reticle/Mask Particle Detection Systems Residual Gas Analyzers Vacuum meters	HORIBA, Ltd., HORIBA STEC Co., Ltd. HORIBA JOBIN YVON S.A.S. (FRANCE), HORIBA INSTRUMENTS INCORPORATED (USA), HORIBA EUROPE GmbH (GERMANY), HORIBA INSTRUMENTS LIMITED (U.K.), HORIBA INSTRUMENTS Pte. Ltd. (SINGAPORE), HORIBA STEC KOREA Ltd. (KOREA) 17 other companies (Total 25 companies)
Employee welfare	Employee welfare	HORIBA COMMUNITY CORPORATION (Total 1 company)

* The segment name of engine measurement instruments & systems was changed to automotive test systems effective March 21, 2006.

Brief overview is as follows.



Business Policies

1. Fundamental Business Policies of HORIBA

As a manufacturer of analytical equipment that is developing its business worldwide, the HORIBA Group aims to be a truly global company. Our basic philosophy is to contribute to society by preserving the environment, bringing human health and greater convenience to society and promoting the development of science and technology through our business activities, which focus on analytical technologies, and which span a variety of industrial fields in the global market. The HORIBA Group has also long placed great importance on its affiliated businesses, and is aggressively promoting the strengthening and amalgamation of its alignments that utilize the human and technological resources of 45 companies throughout the world.

2. Fundamental Profit Sharing Policies of HORIBA

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

3. Concepts and Policies on Reduction of Investment Unit

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

4. Management Index Targets of HORIBA

For its mid- and long-term plan that starts in 2006, the HORIBA Group aims to achieve consolidated sales of ¥150 billion, a consolidated operating earning rate of 10% or higher and ROE of 10% or higher in the year ending December 31, 2010.

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

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

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

Primary Measures

1) To be well - prepared for the next stage: "¥200 billion" in sales

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

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

2. Efficient operations by region matrix

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

3. Introduction of ERP/SAP

Making operating decisions based on detailed and timely information is necessary. Also, we will introduce New Enterprise Resource Planning (ERP) because it is inevitable to introduce the unified operating system to promote efficient operations by region. This introduction is one of core investments in our Mid-Long Term Management Plan; we aim to set up in the early-stage by promoting standardization of operating processes by corporation as well as promoting the changes in the consciousness of all employees.

2) Enhance the well-balanced operations

We will strive to improve business volume and profits besides automotive test systems and promote the well-balanced development of our four segments including stable analytical instruments & systems. Actually, our active investments in semiconductor instruments & systems and medical instruments & systems will begin to reach fruition. We will expand our business in emerging markets including India and South-America as well as China's fast growing market.

3) Value increase in "Valuable Intangibles"

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

6. Challenges of HORIBA

We think it is an essential issue to improve investment efficiency and productivity for sustained growth and value of the company and to establish a network system for management of business risks. To achieve this, we must improve the backbone information system that is the basis of business management for all of the HORIBA Group companies. HORIBA, Ltd. set up the enterprise resources planning office on March 21, 2005 to establish and introduce the unified information system for the purpose of providing detailed information promptly to the top-management and the investors.

Operating Results and Financial Condition

1. Operating Results

Consolidated net sales for the year ended March 20, 2006 increased by 14.2% to ¥105,664 million compared with the previous fiscal year. As for income, operating income increased by 20.3% to ¥11,275 million, ordinary income increased by 26.1% to ¥11,197 million due to an increase in foreign exchange income and a decrease in interest expense and amortization of goodwill, and net income increased by 83.7% to ¥6,473 million due to a significant decrease in special losses and in minority interest with the conversion of HORIBA STEC Co., Ltd. into a wholly owned subsidiary relative to the previous fiscal year.

(Automotive Test Systems)

As a result of an expansion of new investments by automobiles manufacturers in China, Korea, India and other Asian countries and brisk demand in the American market due to the legal limits on exhaust emissions in 2007, sales of motor exhaust gas analyzers increased. In addition, with an increase of sales related to development test systems acquired from Carl Schenck AG in September, 2005, sales of this segment increased by 27.5% to ¥34,446 million compared with the previous fiscal year. Operating income increased by 38.3% to ¥659 million due to the sales growth and the effectiveness in mass production.

(Analytical Instruments & Systems)

Due to the growth of sales of X-ray analyzers for Waste Electrical and Electronic Equipment (WEEE) and restriction of the use of certain hazardous substances in Electrical and Electronic Equipment (RoHS) directives in the domestic and Asian markets and high demand for sulfur-in-oil analyzers in the American market and exhaust gas measurement (stack gas) in the domestic market, total segment sales increased by 14.6% to ¥32,671 million relative to the previous fiscal year. Operating income increased by 53.4% to ¥1,322 million.

(Medical/Diagnostic Instruments & Systems)

Due to increased sales of new products, mid-sized clinical chemistry analyzers and large-sized hematology analyzers and diagnostic reagents, total segment sales increased by 9.2% to ¥20,508 million compared with the previous fiscal year. Operating income decreased by 16.8% to ¥952 million due to an increase in sales expenses for promotion of new products.

(Semiconductor Instruments & Systems)

Though sales of analytical instruments for semiconductors and liquid crystals, like chemical concentration monitors, were favorable and sales of mass flow controllers rapidly recovered in the 2nd half of this fiscal year, total segment sales decreased 0.8% to ¥18,038 million and operating income decreased 6.3% to ¥2,490 million due to a slump in the 1st half of this fiscal year compared with the previous fiscal year.

2. Financial Condition

1) Cash Flows

Cash Flows Resulting from Operating Activities

Net cash provided by operating activities amounted to ¥8,672 million. This was due mainly to a significant increase of income before income taxes to ¥10,747 million, even though trade notes and accounts receivable increased by ¥4,692 million.

Cash Flows Resulting from Investing Activities

Net cash used in investing activities totaled ¥10,361 million. This was due primarily to payment of ¥4,019 million for purchase of tangible fixed assets, cash outflow of ¥3,269 million related to purchase of investments in seven subsidiaries of Carl Schenck AG (acquisition of shares and repayment of borrowings) and payment of ¥1,765 million for purchase of intangible fixed assets.

Cash Flows Resulting from Financing Activities

Net cash provided by financing activities amounted to ¥129 million. This resulted from a net increase in short-term borrowings of ¥1,253 million and an increase in long-term debt of ¥684 million, offset by dividend paid of ¥722 million and repayment of convertible bonds of ¥786 million.

As a result, cash and cash equivalents decreased by ¥1,223 million and cash and cash equivalents at the end of the period amounted to ¥14,884 million.

2) Trends in Cash Flow Indexes

	Year ended March 20, 2006	Year ended March 20, 2005
Shareholders' Equity Ratio(%)	54.5	52.3
Shareholders' Equity Ratio on a Market Value Basis(%)	129.5	71.8
Number of Years for Debt Redemption(Year)	1.6	2.2
Interest Coverage Ratio	26.8	19.4

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

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

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

Interest Coverage Ratio = Operating Cash Flow / Interest Payments

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

3. Outlook for the Term Ending December 31, 2006 (March 21, 2006 – December 31, 2006)

The next fiscal term will only be 9 months and 11 days from March 21, 2006 to December 31, 2006. For your reference, the outlook for the year ending March 20, 2007, as if there were no change of the accounting term, is also mentioned below.

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

Net Sales of ¥100,000 million (5.4% down from the previous fiscal year)
For automotive test systems, HORIBA expects an increase of full-year sales related to development test systems acquired from Carl Schenck AG despite a slight decrease in demand of motor exhaust gas analyzers. For analytical instruments & systems, demand for X-ray elemental analyzers for hazardous substances is forecast to be continuously stable and sales of high-end products for nanotechnology research is predicted to increase. For medical/diagnostic instruments & systems, demand of diagnostic reagents is expected to increase with expanded sales of large-sized hematology analyzers and mid-sized clinical chemistry analyzers. For semiconductor instruments & systems, HORIBA will enjoy favorable sales of mass flow controllers, our main product. With the above-mentioned prospective, HORIBA expects to secure sales of ¥100,000 million even after the effect of shortening the fiscal term due to the change of accounting term.

Operating Income of ¥9,000 million (20.2% down from the previous fiscal year)
Although stable sales, a slight decline in operating profit ratio is forecast because there is a negative effect of development test systems acquired from Carl Schenck AG, which is low in profitability, and also the results for the term from January'07 to March'07, when the profitability of domestic companies is usually high, is not to be included in consolidation due to the change of accounting term.

Ordinary Income of ¥8,200 million (26.8% down from the previous fiscal year)
With fluctuations in foreign exchange rates and other uncertain risks, other operating loss of ¥800 million is predicted.

Net Income of ¥4,600 million (28.9% down from the previous fiscal year)
Special loss of ¥500 million is expected from some uncertain risks.

(Ref) Projected Results for the Year ending March 20, 2007 (March 21, 2006 – March 20, 2007)

- Net sales of ¥118,000 million/Operating income of ¥12,000 million/Ordinary income of ¥11,200 million/Net income of ¥650 million
- Segment information

	Net sales	Operating income
Automotive Test Systems	¥40,000 million	¥5,600 million
Analytical Instruments & Systems	¥35,000 million	¥1,800 million
Medical/Diagnostic Instruments & Systems	¥22,500 million	¥1,800 million
Semiconductor Instruments & Systems	¥20,500 million	¥2,800 million
Total	¥118,000 million	¥12,000 million

(NOTE) The outlook is calculated based on information available to us at May 10, 2006. Uncertainties could cause our actual results to be different from these projections. Of uncertainties, some of the main factors are listed as follows.

Business risks (changes in economic conditions in our market and demand for our products/ fluctuations in market prices affected by competitors/environmental restrictions /delay in launching new products, etc.)
Risks on world-wide activities (fluctuation of exchange rates/changes in laws, rules and taxation/terrorist acts, wars and other social confusions/other risks on economy, social and politics)
Compensation for product liability
Changes in results and financial condition caused by M&A and tie-ups
Changes in a market values of marketable and investment securities and other assets
Reversal of deferred tax assets due to changes in accounting standards and policies
Repairs of facilities damaged by natural disasters and delay in a delivery of products

Consolidated Balance Sheets

Accounts	As of March 20, 2006		As of March 20, 2005		Increase/ Decrease
	Amount	%	Amount	%	Amount
Assets	¥ million		¥ million		¥ million
Current Assets:	85,760	71.5	72,505	72.6	13,254
Cash and bank deposits	14,612		15,447		(834)
Trade notes and accounts receivable	37,407		30,595		6,812
Marketable securities	394		680		(285)
Inventories	27,272		22,012		5,260
Deferred tax assets	2,741		2,012		729
Other current assets	4,211		2,270		1,941
Allowance for doubtful receivables	(880)		(511)		(368)
Fixed Assets:	34,216	28.5	27,407	27.4	6,808
Property, Plant and Equipment:	20,223	16.9	18,481	18.5	1,741
Buildings and structures	8,006		7,184		821
Machinery, equipment, and vehicles	3,316		2,866		450
Land	6,617		6,564		53
Construction in progress	87		81		6
Other property, plant and equipment	2,195		1,784		410
Intangibles:	5,462	4.5	2,688	2.7	2,773
Goodwill	39		78		(39)
Consolidation difference	2,365		1,315		1,050
Other intangibles	3,057		1,294		1,762
Investments and Other Non-current Assets:	8,530	7.1	6,237	6.2	2,293
Investment securities	5,397		4,296		1,100
Deferred tax assets	671		704		(32)
Other investments and other assets	2,544		1,356		1,187
Allowance for doubtful accounts	(81)		(119)		37
Total Assets	119,976	100.0	99,913	100.0	20,063

Consolidated Balance Sheets

Accounts	As of March 20, 2006		As of March 20, 2005		Increase/ Decrease
	Amount	%	Amount	%	Amount
Liabilities	¥ million		¥ million		¥ million
Current Liabilities:	44,377	37.0	34,799	34.9	9,578
Trade notes and accounts payable	13,061		11,290		1,771
Short-term loans payable	6,746		5,468		1,278
Current portion of long-term debt	452		267		184
Accounts payable - other	8,913		5,476		3,437
Accrued income taxes	3,121		1,463		1,657
Accrued bonuses to employees	2,900		2,355		544
Reserve for product warranty	1,025		820		204
Current maturities of convertible bonds	–		3,863		(3,863)
Other current liabilities	8,156		3,794		4,362
Non-Current Liabilities:	9,992	8.4	10,305	10.3	(313)
Corporate bonds	5,000		5,000		–
Long-term debt	1,666		1,442		223
Employees' retirement benefits	1,461		1,347		114
Directors' and corporate auditors' retirement benefits	617		1,144		(526)
Deferred tax liabilities	637		22		614
Other non-current liabilities	607		1,348		(740)
Total Liabilities	54,369	45.4	45,105	45.2	9,264
Minority Interests in Consolidated Subsidiaries	160	0.1	2,544	2.5	(2,384)
Shareholders' Equity					
Common stock	11,569	9.6	9,640	9.6	1,928
Capital surplus	18,275	15.2	13,932	13.9	4,343
Retained earnings	32,904	27.5	27,422	27.5	5,482
Net unrealized holding gains on securities	1,919	1.6	1,401	1.5	518
Foreign currency translation adjustments	849	0.7	20	0.0	829
Treasury stock	(73)	(0.1)	(154)	(0.2)	80
Shareholders' Equity	65,446	54.5	52,262	52.3	13,183
Total Liabilities, Minority Interests, and Shareholders' Equity	119,976	100.0	99,913	100.0	20,063

Consolidated Statements of Income

	Year ended March 20, 2006		Year ended March 20, 2005		Increase/ Decrease
	Amount	%	Amount	%	Amount
	¥ million		¥ million		¥ million
Net Sales	105,664	100.0	92,492	100.0	13,172
Cost of Sales	60,739	57.5	53,855	58.2	6,883
Gross Income	44,925	42.5	38,637	41.8	6,288
Selling, General and Administrative Expenses	33,650	31.8	29,264	31.7	4,385
Operating Income	11,275	10.7	9,372	10.1	1,902
Other Income	765	0.7	722	0.8	42
Interest and dividend income	120	0.1	103	0.1	16
Foreign exchange gains	143	0.1	–	–	143
Other	500	0.5	618	0.7	(117)
Other Expenses	842	0.8	1,213	1.3	(370)
Interest expense	333	0.3	372	0.4	(39)
Foreign exchange losses	–	–	40	0.0	(40)
Amortization of goodwill	–	–	85	0.1	(85)
Other	509	0.5	714	0.8	(204)
Ordinary Income	11,197	10.6	8,882	9.6	2,315
Special Gains	714	0.7	39	0.0	675
Gain on sales of property, plant and equipment	46	0.0	38	0.0	7
Gain on sales of investment securities	394	0.4	0	0.0	394
Casualty insurance premium income	95	0.1	–	–	95
Gain on settlement of license	177	0.2	–	–	177
Other	0	0.0	–	–	0
Special Losses	1,164	1.1	2,815	3.0	(1,651)
Loss on disposal of property, plant and equipment	115	0.1	45	0.0	69
Loss on sales of property, plant and equipment	16	0.0	1,123	1.2	(1,106)
Loss on impairment of fixed assets	–	–	53	0.1	(53)
Loss on change of retirement benefit plan	–	–	79	0.1	(79)
Loss on change in accounting method of retirement benefits from a simplified method to a standard method	–	–	143	0.2	(143)
Loss on sales of investment securities	–	–	0	0.0	(0)
Retirement benefits to directors	749	0.7	–	–	749
Loss on valuation of investment securities	12	0.0	35	0.0	(22)
Provision of retirement benefits for directors and corporate auditors for prior years	–	–	1,150	1.2	(1,150)
Other	270	0.3	183	0.2	86
Income Before Income Taxes	10,747	10.2	6,105	6.6	4,642
Income taxes (Current)	4,424	4.2	2,353	2.6	2,070
Income taxes (Deferred)	(210)	(0.2)	(62)	(0.1)	(147)
Minority interest in earnings of consolidated subsidiaries	60	0.1	290	0.3	(229)
Net Income	6,473	6.1	3,523	3.8	2,949

Consolidated Statements of Surplus

	Year ended March 20, 2006	Year ended March 20, 2005	Increase/ Decrease
	¥ million	¥ million	¥ million
(Capital Surplus)			
Balance of capital surplus at beginning of period	13,932	11,456	2,475
Increase of capital surplus	4,343	2,475	1,867
Conversion of convertible bonds	1,925	2,475	(550)
Increase through a stock-for-stock exchange	2,418	−	2,418
Balance of capital surplus at end of period	18,275	13,932	4,343
(Retained Earnings)			
Balance of retained earnings at beginning of period	27,422	24,341	3,081
Increase of retained earnings	6,473	3,523	2,949
Net income	6,473	3,523	2,949
Decrease of retained earnings	990	442	548
Cash dividends	722	327	394
Bonuses to directors and corporate auditors	176	102	73
Decrease on disposal of treasury stock	14	4	10
Effect of excluding a subsidiary from consolidation	−	7	(7)
Effect of accounting change in an overseas subsidiary	77	−	77
Balance of retained earnings at end of period	32,904	27,422	5,482

Consolidated Statement of Cash Flows

	Year ended March 20, 2006	Year ended March 20, 2005	Increase/ Decrease
	¥ million	¥ million	¥ million
Cash Flows from Operating Activities:			
Income before income taxes	10,747	6,105	4,642
Depreciation	2,781	2,692	88
Loss on impairment of fixed assets	−	53	(53)
Amortization of consolidation difference	391	251	140
Loss on disposal of property, plant and equipment	115	45	69
Loss on valuation of investment securities	12	35	(22)
Increase (decrease) in allowance for doubtful receivables	219	(23)	243
Increase in directors' and corporate auditors' retirement benefits	74	1,144	(1,069)
Increase in employees' retirement benefits	81	230	(148)
Interest and dividend income	(120)	(103)	(16)
Interest expense	333	372	(39)
Foreign exchange losses	15	23	(7)
Gain on sale of property, plant and equipment	(46)	(38)	(7)
Loss on sale of property, plant and equipment	16	1,123	(1,106)
Gain on sales of investment securities	(394)	(0)	(394)
Loss on sales of investment securities	−	0	(0)
Retirement benefits to directors	770	−	770
Increase in trade notes and accounts receivable	(4,692)	(894)	(3,797)
Increase in inventories	(673)	(2,281)	1,607
Increase in trade notes and accounts payable	313	2,162	(1,849)
Bonuses to directors and corporate auditors	(176)	(102)	(73)
Bonuses to directors and corporate auditors charged to minority interests	−	(6)	6
Other, net	3,447	(299)	3,747
Subtotal	13,216	10,488	2,728
Interest and dividends received	116	100	16
Interest paid	(324)	(385)	61
Payment of retirement benefits to directors	(1,341)	(26)	(1,314)
Income taxes paid	(2,994)	(2,960)	(33)
Net cash provided by operating activities	8,672	7,215	1,456
Cash Flows from Investing Activities:			
Increase in time deposits	(1,615)	(17)	(1,597)
Decrease in time deposits	22	0	21
Payments for purchase of investment securities	(349)	(394)	44
Proceeds from sale and redemption of investment securities	507	559	(52)
Payments for purchase of property, plant and equipment	(4,019)	(2,979)	(1,040)
Proceeds from sale of property, plant and equipment	133	230	(96)
Payments for purchase of intangibles	(1,765)	(730)	(1,035)
Proceeds from sale of intangibles	2	0	1
Payments for purchase of investments in a consolidated subsidiary	−	(19)	19
Payments for purchase of investments in newly consolidated subsidiaries	(3,269)	(119)	(3,150)
Payments for sale of investments in a consolidated subsidiary	−	(45)	45
Increase in loans receivable	(10)	(0)	(9)
Decrease in loans receivable	12	2	9
Other, net	(7)	(115)	107
Net cash used in investing activities	(10,361)	(3,628)	(6,732)
Cash Flows from Financing Activities:			
Net increase (decrease) in short-term borrowing	1,253	(1,034)	2,287
Increase in long-term debt	684	1,049	(364)
Repayment of long-term debt	(283)	(720)	437
Payments for purchase of treasury stock	(119)	(88)	(30)
Proceeds from sale of treasury stock	185	206	(21)
Cash dividends paid	(722)	(328)	(394)
Cash dividends paid to minority interests	(31)	(72)	41
Payments for redemption of convertible bonds	(786)	−	(786)
Other, net	(50)	(70)	20
Net cash provided by (used in) financing activities	129	(1,058)	1,187
Cash and Cash Equivalents Foreign Currency Translation Adjustments	335	104	231
Net Increase (Decrease) in Cash and Cash Equivalents	(1,223)	2,633	(3,857)
Cash and Cash Equivalents at Beginning of Period	16,108	13,603	2,505
Cash and Cash Equivalents of a Subsidiary Excluded from Consolidation	−	(127)	127
Cash and Cash Equivalents at End of Period	14,884	16,108	(1,223)

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

1. Scope of consolidation

   1) Consolidated subsidiary companies: 44 companies

   Overseas subsidiary companies (37 companies)

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

   Domestic subsidiary companies (7 companies)

   HORIBA STEC Co., Ltd.; HORIBA ITEC Co., Ltd.; HORIBA Advanced Techno Co., Ltd.; HORIBA TECHNO SERVICE Co., Ltd.; HORIBA Biotechnology Co., Ltd.; ASEC Inc.; Schenck-TKS Test Systems Ltd.

   With acquisition of shares of seven subsidiaries of Carl Schenck AG for the year ended March 20, 2006, HORIBA Automotive Test Systems, Corp. (U.S.A), Schenck Canada Inc. (Canada), HORIBA Automotive Test Systems, Inc. (Canada), HORIBA Automotive Test Systems GmbH (Germany), HORIBA Automotive Test Systems Ltd. (Korea), SRH Systems Ltd. (U.K.) and Schenck-TKS Test Systems Ltd. were newly included in the scope of consolidation.

   2) Unconsolidated subsidiary companies: 1 company

   HORIBA Community Corporation (Japan)

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

2. Application of the equity method

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

   HORIBA Community Corporation (Japan)

   2) Affiliated companies for which the equity method has not been applied: 7 companies

   Chiyoda Assy Inc.; Mec Co., Ltd.; SSERC Co., Ltd.; LABCRAFT S.a.r.l. (France); KORE Technology Inc. (U.K.); YUNO Ltd. (U.K.); TCA/HORIBA SISTEMAS FR TESTES AUTOMOTIVOS (Brazil)

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

3. Year ends of the consolidated subsidiary companies

   The year end is December 31 for HORIBA ITEC Co., Ltd., HORIBA TECHNO SERVICE Co., Ltd., ASEC Inc., Schenck-TKS Test Systems Ltd. and overseas subsidiaries. It is March 20 for HORIBA Advanced Techno Co., Ltd., and March 31 for HORIBA STEC Co., Ltd. and HORIBA Biotechnology Co., Ltd.

The accounts of these subsidiaries at the respective year ends are used in preparing the consolidated financial statements. With respect to significant transactions which occurred after those subsidiaries' year ends, necessary adjustments have been made in the consolidated financial statements.

4. Accounting policies

1) Valuation of marketable securities

Available-for-sale securities

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

  (Unrealized gains and losses are reported as a separate component of shareholders' equity. Cost of sales is calculated using the moving-average method.)
- Without available fair market values: Primarily at cost using the moving-average method

2) Derivatives

Market value method

3) Valuation of inventories

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

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

4) Depreciation methods of depreciable assets

a. Property, plant and equipment

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

Estimated useful lives of the assets are mainly as follows:
Buildings and structures: 3-60 years
Machinery, equipment and vehicles: 2-17 years

b. Intangible assets

The straight-line method is used.

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

5) Allowance and accruals

a. Allowance for doubtful receivables

- The parent company and its domestic subsidiaries

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

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

b. Accrued bonuses to employees

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

c. Reserve for product warranty

Reserve for product warranty is provided for warranty expenses for products of the parent company and certain subsidiaries.

d. Employees' retirement benefits

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

e. Retirement benefits for directors and corporate auditors

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

6) Foreign currency translation

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

7) Lease transactions

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

8) Hedge accounting

a. Hedge accounting method

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

b. Hedge instruments and hedged items

Hedge instruments	Hedged items
Foreign exchange contracts	Foreign currency trade receivables

c. Hedge policy

With respect to such things as foreign currency trade receivables, the parent company enters into foreign exchange contracts within the limits of the balance for foreign currency trade receivables and payables. The execution and management of these transactions are carried out by the corporate strategy office, and the results of the transactions are reported to the member of the board of directors that is responsible for accounting.

d. Methods for evaluating hedge effectiveness

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

9) Accounting for consumption tax

The net of tax method is used.

5. Valuation of assets and liabilities of consolidated subsidiaries

In the elimination of investments in subsidiaries, the assets and liabilities of the subsidiaries, including the portion attributable to minority shareholders, are evaluated using the fair value at the time the Company acquired control of the respective subsidiaries.

6. Amortization of consolidation difference

Acquisition costs in excess of the net assets of acquired subsidiaries and affiliates which can not be specifically assigned to individual accounts are amortized on the straight-line basis over five years. Some of the foreign consolidated subsidiaries amortize acquisition cost in excess of the net assets of acquired subsidiaries and affiliates, which cannot be specifically assigned to individual accounts, on the straight-line basis over four to twenty years, in accordance with generally accepted accounting principles of the country of their incorporation.

7. Appropriation of retained earnings

In the consolidated statement of capital surplus and retained earnings the amounts are based on appropriations which were approved in the period.

8. Cash and cash equivalents

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

(Additional information)

Effective for years commencing on April 1, 2004 or later, according to the revised local tax law, the assessment by estimation on the basis of the size of business was introduced as enterprise taxes. The tax portion due to this assessment was recorded as selling, general and administrative expenses. By this change, the amount of selling, general and administrative expenses increased by ¥139 million, and operating income, ordinary income and income before income taxes decreased by the same amount for the year ended March 20, 2006.

Notes:

(Consolidated Balance Sheet at March 20, 2006)

1.	Accumulated depreciation for tangible assets		¥24,167 million
2.	Pledged assets	Buildings	¥140 million
3.	Secured liabilities	Current portion of long-term debt	¥4 million
		Long-term debt	¥94 million
4.	Contingent liabilities for guarantees		¥330 million
5.	Number of treasury stock		44,699 shares
6.	Note receivable discounted		¥34 million

(Consolidated Statement of Income for the Year ended March 20, 2006)

Research and development expenses ¥6,552 million

(Consolidated Statement of Cash Flow for the Year ended March 20, 2006)

Reconciliation between Cash and Banks in Consolidated Balance Sheets and Cash and Cash Equivalents at End of Period in Consolidated Statement of Cash Flows:

	As of March 20, 2006	As of March 20, 2005
	¥ million	¥ million
Cash and banks	14,612	15,447
Time deposits with maturities exceeding 3 months	(122)	(19)
Short-term investments whose expiration or redemption date is within 3 months	394	680
Cash and cash equivalents at end of period	14,884	16,108

Significant Non-cash Transactions:

Conversion of convertible bonds

	Year ended March 20, 2006	Year ended March 20, 2005
	¥ million	¥ million
Increase in common stock	1,928	2,480
Increase in capital surplus	1,925	2,475
Decrease in convertible bonds by conversion	3,854	4,956

Share exchange

In order to convert HORIBA STEC Co., Ltd. into a wholly owned subsidiary, HORIBA Ltd., issued 1,614,750 new shares in the year ended March 20, 2006. With the new stock issue, the amount of capital surplus increased by ¥2,418 million.

For the year ended March 20, 2006, at the time of acquiring additional shares of newly consolidated subsidiaries, HORIBA Automotive Test Systems GmbH (Germany) and six other subsidiaries of Carl Schenck AG, their assets and liabilities, the cost for the share acquisition, and the net proceeds to acquire the shares were as follows;

	¥ million
Current assets	6,958
Fixed assets	610
Consolidation difference	1,408
Current liabilities	(7,557)
Non-current liabilities	(166)
Cost for share acquisition at the beginning of current period	(0)
Cost for share acquisition in current period	1,252
Repayment of loans payable	2,379
Cash and cash equivalents	(362)
Net cash outflow to acquire the shares of newly consolidated subsidiaries	3,269

Securities

As of March 20, 2006

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

¥ million

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

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

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

3. Securities with no available fair values

¥ million

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

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

¥ million

	Within one year	Over one year but within 5 years	Over five years but within ten years	Over ten years
Bonds:				
Government bonds	0	2	0	–
Corporate bonds	–	–	–	–
Other	–	–	–	–
Total	0	2	0	–

As of March 20, 2005

1. Available-for-sale securities with available fair values at March 20, 2005 ¥ million

	Acquisition cost	Book (fair) value	Difference
Securities with book values exceeding acquisition costs:			
Equity securities	1,427	3,792	2,365
Bonds:			
Government bonds	–	–	–
Corporate bonds	–	–	–
Other	–	–	–
Other	–	–	–
Subtotal	1,427	3,792	2,365
Securities with book values not exceeding acquisition costs:			
Equity securities	19	12	(7)
Bonds:			
Government bonds	–	–	–
Corporate bonds	–	–	–
Other	–	–	–
Other	121	96	(25)
Subtotal	141	108	(32)
Total	1,568	3,901	2,332

2. Securities with no available fair values ¥ million

	Book value
Available-for-sale securities	
Non-listed foreign investment trust	671
Non-listed equity securities	262
Limited partnership for investment	46

3. Available-for-sale securities with maturities at March 20, 2005 ¥ million

	Within one year	Over one year but within 5 years	Over five years but within ten years	Over ten years
Bonds:				
Government bonds	–	3	0	–
Corporate bonds	–	–	–	–
Other	–	–	–	–
Total	–	3	0	–

Lease Transactions

Omitted due to disclosure on EDINET.

Derivative Transactions

Omitted due to disclosure on EDINET.

Retirement Benefits and Pension Plans

(Year ended March 20, 2006)

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

2. Projected benefit obligation

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

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

3. Retirement benefits expenses

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

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

4. Basis of calculation of projected benefit obligation

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

Retirement Benefits and Pension Plans

(Year ended March 20, 2005)

1. Retirement benefit plans
As of March 20, 2005, in HORIBA, Ltd. and its consolidated subsidiaries, 4 companies have lump-sum severance payment plans, 3 companies have contributory funded retirement plans, 4 companies have defined contribution plans, and 4 companies have new defined-benefit corporate pension plans.
The Company and certain consolidated subsidiaries use these plans together.
The Company and certain domestic consolidated subsidiaries changed to defined contribution plans and new defined-benefit corporate pension plan from non-contributory funded retirement plans in March and September 2004.

2. Projected benefit obligation

	As of March 20, 2005
	¥ million
1) Projected benefit obligation	(2,848)
2) Pension assets	377
3) Unfunded projected benefit obligation 1)+2)	(2,471)
4) Unrecognized differences on change of accounting standard	−
5) Unrecognized actuarial differences	104
6) Unrecognized prior service costs on change of employees' retirement plan (decrease in liability)	1,019
7) Balance sheet amount 3)+4)+5)+6)	(1,347)
8) Prepaid retirement benefit expenses	−
9) Liability for employees' retirement benefits 7)−8)	(1,347)

Notes: 1. Certain domestic consolidated subsidiaries use a simplified method for calculating projected benefit obligation.
2. Pension assets of the contributory funded retirement plan are not included in 2) pension assets in the amount of ¥5,882 million (a proforma portion calculated by the ratio of accumulated pension premiums paid by the Company and certain subsidiaries).

3. Retirement benefits expenses

	Year ended March 20, 2005
	¥ million
1) Service cost	1,185
2) Interest cost on projected benefit obligation	35
3) Expected return on plan assets	(0)
4) Amortization of actuarial differences	29
5) Amortization of prior service costs on change of employees' retirement plan	114
6) Special loss on change of retirement benefit plan	79
7) Special loss on change in accounting method of retirement benefits from a simplified method to a standard method	143
8) Amortization of effect of changing the accounting standard	−
9) Retirement benefits expenses 1)+2)+3)+4)+5)+6)+7)+8)	1,587

Notes: 1. Retirement benefits expenses of consolidated subsidiaries which use the simplified method are included in 1) service cost.
2. Premiums on contributory funded retirement plan (¥616 million) are also included.

4. Basis of calculation of projected benefit obligation

	As of March 20, 2005
1) Discount rate	2.0%
2) Expected rate of return on plan assets	2.0%
3) Allocation method of the retirement benefits expected to be paid at retirement dates	Straight-line method based on years of service
4) Amortization period for unrecognized prior service costs on change of employees' retirement plan	10 years (HORIBA, Ltd.), Time of occurrence (consolidated subsidiaries)
5) Amortization period of differences from change in the accounting standard	No differences
6) Amortization period for actuarial differences	5 years

Deferred Tax Assets and Liabilities

1. Significant components of deferred tax assets and liabilities

	As of March 20, 2006	As of March 20, 2005
	¥ million	¥ million
Deferred tax assets		
Accrued enterprise tax	304	115
Loss on write-down of inventories	163	177
Allowance for doubtful receivables	188	16
Accrued bonuses	949	756
Loss carryforwards	2,089	2,383
Unrealized gains	839	709
Employees' retirement benefits	315	422
Retirement benefits	245	492
Depreciation	337	299
Loss on valuation of investment securities	281	232
Retirement benefits to directors and corporate auditors	254	468
Loss on valuation of treasury stock	–	37
Offset to deferred tax liabilities	(783)	(1,345)
Other	1,135	843
Total deferred tax assets	6,321	5,609
Valuation allowance	(2,908)	(2,893)
Net deferred tax assets	3,413	2,716
Deferred tax liabilities		
Allowance for doubtful receivables	–	(1)
Reserve for deferred gains on property, plant, and equipment	(50)	(51)
Net unrealized holding gains on securities	(1,315)	(929)
Offset to deferred tax assets	783	1,345
Other	(55)	(385)
Total deferred tax liabilities	(637)	(22)
Net deferred tax assets	2,775	2,693

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

	As of March 20, 2006	As of March 20, 2005
	%	%
Statutory tax rate	40.6	41.9
Adjustments:	(note)	
Expenses like entertainment expenses not qualifying for deduction permanently		1.52
Non-taxable dividend income		(0.20)
Per capita inhabitant tax		0.64
Valuation allowance for deferred tax assets		3.04
Amortization of consolidation adjustment account		1.72
Consolidated elimination of dividend income from consolidated subsidiaries		2.09
Differences in tax rate between foreign subsidiaries and the Company		(2.94)
Tax credits		(5.26)
Other		(4.99)
Effective tax rate	39.21	37.52

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

Business Segment Information

1. Business Segment Information

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

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

Results for the Year ended March 20, 2005 (March 21, 2004 - March 20, 2005)

	Automotive Test Systems	Analytical Instruments & Systems	Medical/Diagnostic Instruments & Systems	Semiconductor Instruments & Systems	Total	Unallocated	Consolidated
	¥ million	¥ million	¥ million	¥ million	¥ million	¥ million	¥ million
Net Sales							
(1) Sales to outside customers	27,021	28,510	18,776	18,182	92,492	—	92,492
(2) Intersegment sales and transfer	—	—	—	—	—	—	—
Operating expenses	22,316	27,648	17,631	15,523	83,119	—	83,119
Operating income	4,705	861	1,145	2,659	9,372	—	9,372
Assets, Depreciation, Capital Expenditures							
Assets	22,588	24,109	15,741	15,746	78,185	21,728	99,913
Depreciation	574	685	1,253	430	2,943	—	2,943
Capital expenditures	937	1,128	1,385	505	3,956	—	3,956

Main products of each business segment

Business Segment	Main Products
Automotive Test Systems	Emission Measurement Systems, On-Board Emission Measurement Systems, In-Use Automotive Emission Analyzers, Catalyst Test and Evaluation Systems, Fuel Cell Evaluation Systems, Laboratory Automation Systems, Driveline Test Systems, Vehicle Performance Test Systems, Brake Test Systems, Transportation Management Systems, Driving Recorders
Analytical Instruments & Systems	Particle-size Distribution Analyzers, X-ray Fluorescence Analyzers, Raman Spectrophotometers, ICP Optical Emission Spectrometers, Diffraction Gratings, Water Quality Analysis and Examination, pH Meters, Air Pollution Analyzers, Stack Gas Analysis Systems
Medical/Diagnostic Instruments & Systems	Equipment for blood sample analysis (Hematology Analyzers, Equipment for measuring immunological responses, clinical analyzers, blood sugar measurement systems)
Semiconductor Instruments & Systems	Mass Flow Controllers, Chemical Concentration Monitors, Thin-film analyzers for semiconductors and LCD inspection, Reticle/Mask Particle Detection Systems, Residual Gas Analyzers, Vacuum meters

Notes:
1. The segment name of engine measurement instruments & systems was changed to automotive test systems effective March 21, 2006.
2. Unallocated assets of ¥21,728 million and ¥23,052 million for the years ended March 20, 2005 and 2006, respectively, mainly include cash and cash equivalents and marketable and investment securities.

Geographical Segment Information

2. Geographical Segment Information

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

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

Results for the Year ended March 20, 2005 (March 21, 2004 – March 20, 2005)

	Japan	America	Europe	Asia	Total	Elimination and/or unallocated	Consolidated
	¥ million	¥ million	¥ million	¥ million	¥ million	¥ million	¥ million
Net sales							
(1) Sales to outside customers	45,288	9,965	35,529	1,709	92,492	–	92,492
(2) Intersegment sales and transfers	9,888	261	2,102	626	12,879	(12,879)	–
Total	55,177	10,226	37,631	2,336	105,371	(12,879)	92,492
Operating expenses	47,812	10,099	36,199	2,089	96,200	(13,081)	83,119
Operating income	7,364	127	1,432	246	9,170	201	9,372
Assets	45,824	5,709	25,567	1,083	78,185	21,728	99,913

Note:
Unallocated assets of ¥21,728 million and ¥23,052 million for the years ended March 20, 2005 and 2006, respectively, mainly include cash and cash equivalents and marketable and investment securities.

3. Overseas Sales

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

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

Results for the Year ended March 20, 2005 (March 21, 2004 - March 20, 2005) ¥ million

	America	Europe	Asia	Total
Overseas sales	17,705	24,925	10,971	53,602
Consolidated sales	—	—	—	92,492
Overseas sales to consolidated sales (%)	19.1	27.0	11.9	58.0

Note: Overseas sales comprise sales of HORIBA, Ltd and it's subsidiaries in countries or regions other than Japan.

Orders, Backlog

	Segment	Year ended March 20, 2006		Year ended March 20, 2005	
		Amount	%	Amount	%
Orders		¥ million		¥ million	
	Automotive Test Systems	35,212	32.3	28,601	30.0
	Analytical Instruments & Systems	34,660	31.7	29,546	31.0
	Medical/Diagnostic Instruments & Systems	21,172	19.4	18,916	19.9
	Semiconductor Instruments & Systems	18,087	16.6	18,152	19.1
	Total	109,133	100.0	95,217	100.0
Backlog	Automotive Test Systems	20,059	62.1	8,825	48.1
	Analytical Instruments & Systems	8,627	26.7	6,638	36.2
	Medical/Diagnostic Instruments & Systems	1,995	6.2	1,330	7.2
	Semiconductor Instruments & Systems	1,615	5.0	1,566	8.5
	Total	32,297	100.0	18,361	100.0

Notes:
1. The segment name of engine measurement instruments & systems was changed to automotive test systems effective March 21, 2006.
2. Automotive test systems took over the backlog of ¥10,466 million of seven subsidiaries of Carl Schenck AG as of the acquisition of shares.