



Omoshiro-okashiku
Joy and Fun

おもしろ
あそぶ



HORIBA

ANNUAL REPORT 2012



One past, One future, One HORIBA

Bridging the past and the future with our gratitude.

HORIBA celebrates its 60th anniversary in 2013.

The theme to celebrate HORIBA, Ltd.'s 60th anniversary is "*TASUKI*: Handing on *Omoi*."

A tasuki is the sash worn in an ekiden (long distance relay race). A sash in the corporate color blue, and five colors representing the five business segments, forms a "60." On the sash is the message, "Handing on *Omoi*. From our predecessors to the next generation and the world."

Omoi means an emotional feeling, passion, thoughts, enthusiasm, desire, aspiration, ambition, commitment, mission, and objective.



**HORIBA will continue to expand our business globally
as integrated analysis and measurement solution supplier
with the five business segments.**



What we have changed in **60** years

1953

Number of employees

HORIBA, Ltd. started out with eight employees in Kyoto in 1953 and has now become a global company with more than 5,500 people. To contribute to improving people's health, safety and natural environment in the world through our "measurement technology," we will continue to invest in the development of human resources and R&D.

8

Percentage of non-Japanese employees

HORIBA, which has continued to grow in Japan based on its technological advantage, has accelerated its globalization during the past 20 years. From the second half of the 1990s, we actively engaged in mergers and acquisitions mainly in Europe and succeeded in acquiring many excellent engineers. At present, 57% of the group's employees are non-Japanese.

0%

Sales

HORIBA has constantly maintained growth in the analytical and measurement instruments market for 60 years. From the 1990s, in particular, we actively engaged in M&A activity overseas. HORIBA's net sales reached ¥100 billion in 2005 and increased to ¥144.2 billion in 2007. Currently, overseas sales account for 61% of total net sales. We will continue to grow to promptly meet the needs of customers all over the world.

0.01 billion yen

Number of overseas group companies

Since establishing group companies in the U.S. and Germany in 1972, HORIBA now operates 37 group companies (33 overseas companies and four domestic companies including HORIBA, Ltd.) in 27 countries. We consider all the group companies in the world as one entity, named it as "One Company", and are promoting management efficiency and globalization.

0

Operating income

HORIBA has accelerated its profit growth more than its sales growth. Regardless of economic upturns and downturns, we have strengthened the earning power of our businesses by continually investing in human resources and technology. We maintain an operating income ratio of 10% through well-balanced investment to each business and promoting portfolio management, which reduces dependence on a single business.

0.62 million yen



→ 1973 → 1993 → 2013*

494

1,859

5,530

(including 35 employees of a non-consolidated U.S. subsidiary at the time)

7%

24%

57%

7.2 billion yen

40.8 billion yen

117.6 billion yen

2 companies

6 companies

33 companies

1.6 billion yen

2.3 billion yen

11.7 billion yen

* the amount for fiscal 2012





What we have not changed in 60 years

**Analysis elucidates the unknown in all ages.
HORIBA's quest toward the future will continue based on the spirit of "Joy and Fun"
together with the analysis & measurement technologies, brands cultivated for 60 years,
and the unchanging messages from our predecessors.**



Omoshiro-okashiku
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.



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Notation of HORIBA and HORIBA, Ltd.
 In this annual report, the HORIBA Group of companies is described as "HORIBA" and the parent company as "HORIBA, Ltd."

Disclaimer Regarding Future Plans and Forecasts
 This annual report contains certain statements describing future plans, strategies, and performance forecasts of HORIBA, Ltd. and its affiliated companies. These statements reflect forecasts based on management's assumptions and beliefs in light of currently available information. Actual performance may differ significantly due to unforeseen circumstances in the operating environment.



Change of Fiscal Year-End

HORIBA unified its fiscal year-end as 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. The fiscal year-end of other consolidated HORIBA subsidiaries was December 31. Their 2006 fiscal periods remained unchanged at 12 months.

To Our Stakeholders

We commence new step for next 60 years

HORIBA celebrated the 60th anniversary of its foundation in 2013.

In Japan, especially in Kyoto, there are many companies with a history of 100 years or more. These companies all have similar things in common, such as a firmly established management philosophy, investment in human resources, unceasing innovation, support from customers, or the harmonization with society. We see our 60th anniversary as one stepping stone and will continue to grow so that we can take new leap toward next 60 years.

In fiscal 2012, our balanced management helped us achieve operating income ratio of 10% despite decreased sales and profit.

In fiscal 2012, ending December 31, 2012, HORIBA posted a decline in revenue and profit, consolidated net sales ¥117.6 billion (down 4.7% year-on-year), operating income ¥11.7 billion (down 21.2%) and net income ¥7.3 billion (down 14.6%). The Semiconductor Instruments & Systems segment experienced a slowdown in the second half of fiscal 2012, while the Medical-Diagnostic, Scientific, and Process & Environmental Instruments & Systems segments also recorded a decline in profit due to factors such as the

appreciation of the yen. On the other hand, the Automotive Test Systems segment achieved an improvement in the profitability of automotive emission measurement systems and the MCT (Mechatronics) business turned profitable, which led to a rise in profit, partly absorbing the negative impact of other segments. HORIBA's operating income ratio of 10% is certainly not at a satisfactory level, but it is commendable that this was a year when the effects of balanced management were apparent. Balanced management counterbalances earnings fluctuation in each segment across the entire company through a continued, well-balanced investment in our five businesses.

Our Mid-Long Term Management Plan is progressing; Speed is the challenge

Concentrated investment in highly profitable businesses is one of the strategic policies of our Mid-Long Term Management Plan, which ends in fiscal 2015, and we have steadily invested in the Medical-Diagnostic Instruments & Systems segment, where high growth is expected. In particular, we are making investments to localize reagent production in the BRICs region, where demand for medical-diagnostic instruments and systems is expanding.



Chairman, President & CEO

Furthermore, we strengthened the management team in France and North America, in order to rapidly bring products to the market and clarify and speed up decision-making processes. France is an important core base for HORIBA's product development, while North America has high growth potential. We are also enhancing cooperation between Japan and France in the area of product development.

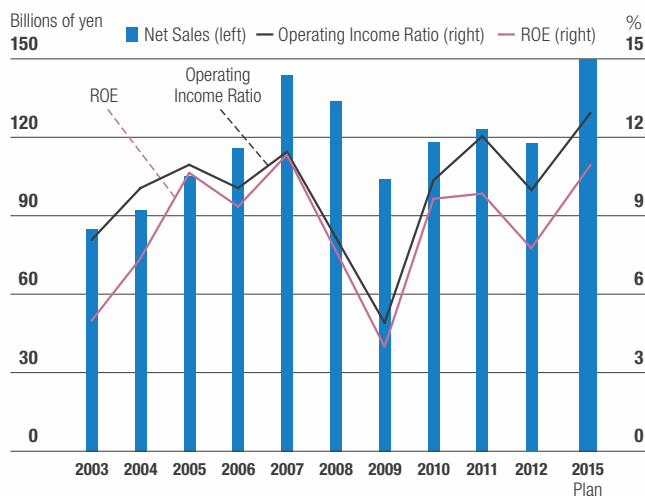
In the Automotive Test Systems segment, we launched MEXA-ONE, HORIBA's first new motor exhaust gas analyzer in 17 years. This has become a highly competitive product with a reduction in testing and maintenance time and production cost reduced by 30% - without impairing the highly accurate measurement property of existing products which sustains our 80% global market share.

Moreover, it introduces the HORIBA ONE PLATFORM, a new software system which enables operation and management of MCT products and automotive emission measurement systems with a single operation screen in the future. Orders for MEXA-ONE are projected to increase with the recovery of investment in automobile industry.

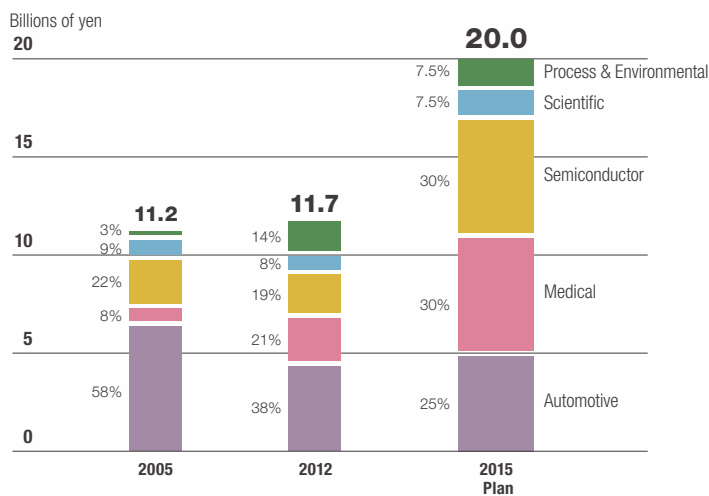
In the Semiconductor Instruments & Systems segment, we have made progress in the establishment of a highly efficient production system at the plant in Aso, Kyushu and at Beijing HORIBA METRON Instruments Co., Ltd. while HORIBA's strength in maintaining new product development has advanced even during downturns in demand. By establishing and maintaining an organization that can meet customers' delivery requirements during phases of expanding demand, we aim to further increase our market share.

In the Process & Environmental Instruments & Systems segment, HORIBA acquired the process measurement equipment business of the U.S. company Cameron in February 2013, aiming to make a full-scale entry into the business of measurement in oil refining processes. We will expand business aimed at the petroleum and chemical industries in the state of Texas, which is benefiting from significant growth in demand for shale gas and oil. Although our investments are steadily advancing in such ways, the progress toward our target for 2015, an operating income ratio of 13%, is still not satisfactory, so I recognize that further acceleration is required.

Aiming to achieve sustainable growth and high profitability



Planning to realize well-balanced growth in operating income



2011-2015 Mid-Long Term Management Plan

Concentrated investment in highly profitable business

- Continued investment and steady growth in the Medical-Diagnostic Instruments & Systems segment

Change from strategy led by "technology development" to one led by "customer viewpoint and business models"

- Business expansion and profitability improvement through restructuring of MCT (Mechatronics) business
- Market share expansion based on proposing solutions from the customer viewpoint
 - Develop applications based on the HORIBA ONE PLATFORM (Automotive Test Systems segment)
 - Expand services through acquisition of the process analytical equipment business in North America (Process & Environmental Instruments & Systems segment)

Complete "one company matrix management"

- Completion of one company in the Americas through reorganization in North America
- Implementation in Europe and Asia

Accelerate global product development and production

- Accelerate opening of reagent plants in the Medical-Diagnostic Instruments & Systems segment
 - Establish stable global supply system
- Develop a sales support organization in Southeast Asia

Numerical targets

Net sales: ¥150 billion
(Fiscal 2012 - ¥117.6 billion)

Operating Income Ratio: 13% or more
(Fiscal 2012 - 10.0%)

ROE: 11% or more
(Fiscal 2012 - 7.8%)

*Estimates by HORIBA

Becoming a stable, highly profitable company

Proposing new analytical applications as a “solution provider”

In order to raise profitability, it is essential not only to increase sales of equipment (hardware) but also to propose solutions from the customer viewpoint about what kind of analysis and measurement is feasible through its use of that hardware. To achieve this, I think it is important for HORIBA itself to become a “solution provider.” This means providing analytical solutions

to current customers while continuing to refine the technology, quality and cost of the instruments.

Based on the new introduction of MEXA-ONE, the Automotive Test Systems segment has been able to propose analytical applications while providing data and tests themselves. At the same time, in the case of the process measurement equipment business newly acquired by the Process & Environmental Instruments & Systems segment in the U.S., the aim is to achieve distinctiveness by embarking on maintenance



Executive Corporate Officer,
Chairman, President & CEO of
HORIBA International Corporation
Dr. Jai Hakhu



Senior Corporate Officer,
General Manager of Research &
Development Division
Dr. Masayuki Adachi



Senior Corporate Officer,
President & CEO of HORIBA Jobin Yvon S.A.S.
Dr. Michel Mariton



Executive Vice President
Dr. Kozo Ishida



Chairman, President & CEO
Atsushi Horiba



Executive Vice President and General Manager of
Corporate & Segment Strategy Division
Juichi Saito



Senior Corporate Officer,
General Manager of Sales Division
Takashi Nagano



Corporate Officer,
General Manager of Sales & Marketing Division of
HORIBA ABX S.A.S.
Bertrand de Castelnaud



Senior Corporate Officer,
General Manager of Finance & Control Division
Sunao Kikkawa

(as of April 1, 2013)

Changes in the management structure

Measures taken so far

- Changed the corporate name and unified our corporate brand
- Restructured group companies in the Americas and Europe, and organized development bases
- Introduced “Shared services*” in the U.S., Japan and the U.K.
- Initiated the HORIBA COLLEGE
- Introduced “Matrix Management”
- Expanded the Blackjack Project globally
- Enhanced head office function

Measures to take from now on

- Expand “Shared services” in Europe and Asia
- Implement ERP (Enterprise Resource Planning) systems in all group companies, making it complete

*“Shared services” refer to the consolidation of certain common services in several divisions and organizations in order to enhance the productivity of the entire company or group companies and achieve cost reductions.

Path of change to achieve transformation

and services that are closely linked to customers. Furthermore, in the Medical-Diagnostic Instruments & Systems segment, consumable testing reagents already account for about 50% of segment sales and have become a major source of earnings for HORIBA. By providing testing equipment in places of Point-of-care testing (POCT)*1 such as a doctor's office for initial diagnosis or a surgery room, we contribute to reduce testing time and improve the quality of medical care which includes adequate diagnosis, nursing care and prevention of diseases. By expanding business fields that provide solutions directly linked to the creation of customer value in such ways, we aim to make HORIBA highly distinct from its competitors, and I believe this will stabilize earnings while increasing growth and profitability.

At present, non-hardware business including services, maintenance, and consumables generates about 13% of HORIBA's sales*2, but we intend to change our focus from a strategy led by "technology development" to one led by "customer viewpoint and business models" so that this ratio rises to around 20% in the medium term.

Continuing to foster human resources and technologies for further growth

HORIBA is promoting management that clarifies "what we will change" and "what we will never change," practices we learned by overcoming several economic crises in the past. What we are striving to change at present is our management balance and globalization. "What we will never change" is our continued investment in "Invisible Values" (assets not visible in the financial statements) such as human resources and technology. While economic cycles of recession and boom have repeatedly occurred, our continued investment has been the driving force behind substantial growth in subsequent recovery phases. Based on this experience, we will continue to invest in human resources and technology as we prepare for future growth. The HORIBA COLLEGE, which began in 2009 to provide educational opportunities to our employees, has built up the number of available courses, and we have adopted various creative measures to enable us to secure human resources with abundant diversity such as the introduction of recruitment of newly graduates in the autumn period and the continual recruitment of students from overseas. These continuing initiatives to create value will steadily bear fruit, even during challenging times, and continue to generate sources of new growth.

The sashes ("Tasuki" in Japanese) to the next 60 years

HORIBA celebrated the 60th anniversary of its foundation in 2013. Some of our group companies have continued to grow for nearly 200 years. I am convinced of the fact that companies with such a history can continue to display a powerful attraction as a member

of HORIBA Group. This also attributes to the fact that we have consistently exercised good management practices based on a unique corporate culture symbolized by the company motto "Joy and Fun." This corporate culture cultivates the "Invisible Values" of human resources and technologies that are valued worldwide. We ultimately provide these "Invisible Values" to customers in the form of real "products" that create corporate value and earnings. We will continue to pursue corporate growth based on the enhancement of our "Invisible Values" and hand over our unique culture to the next generation.

Our headquarters are located in Japan, but HORIBA is not another Japanese company that conducts business around the world. Rather, our objective is to be a truly global company with the understanding of culture, customs, and values of the countries and regions where we conduct business in harmony with the local community and its employees. In 2009 as part of these endeavors, we have welcomed non-Japanese employees with management experience in global blue-chip companies as executive corporate officers of HORIBA, Ltd. Three of these executives are currently involved in our global business management.

I firmly believe that implementing management based on this corporate philosophy will lead to sustained growth while creating a corporate structure that is invulnerable to economic fluctuation. As a global company we will consequently receive a fair market valuation from investors around the world.

To reward our owners (shareholders) in 2012, we paid a record-high annual dividend, including a commemorative dividend for our 60th anniversary since its foundation. (In 2011, we paid an annual dividend per share of ¥40, and in 2012, we paid an annual dividend of ¥50, including the commemorative dividend of ¥10.) For 2013, we have revised our dividend policy that was continually based on non-consolidated net income since HORIBA's public listing to one based on consolidated net income. At the present time, we are forecasting an annual dividend of ¥45.

HORIBA will continue to help overcome various issues associated with social development, such as environmental pollution, by supplying analytical and measurement instruments. We will also continue to supply a wide variety of products in order to provide "assurance" to all people. Furthermore, even at times when our operating environment is uncertain, instead of being complacent and 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 acting bold. 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 2013

Atsushi Horiba
Chairman, President and CEO

*1: Point-of-care testing (POCT) is defined as medical testing at or near the site where patients are located; in places such as examination and surgery by a doctor or a physician, a hospital ward, or a clinic for outpatients
*2: Fiscal 2012 sales excluding sales of testing reagents



Progress of the Mid-Long Term Management Plan

During 2012, the second year of the current Mid-Long Term Management Plan which ends in 2015, HORIBA made significant investment for establishing business bases mainly in reagent plants for the Medical-Diagnostic Instruments & Systems segment, the division in focus, Progress was also achieved in organizational improvement. The state of progress toward achieving profit targets, however, is still not satisfactory and further acceleration is required.

Numerical targets for 2015

Net Sales ¥150.0 billion
Fiscal 2012: ¥117.6 billion

Operating Income Ratio 13% or more
Fiscal 2012: 10.0%

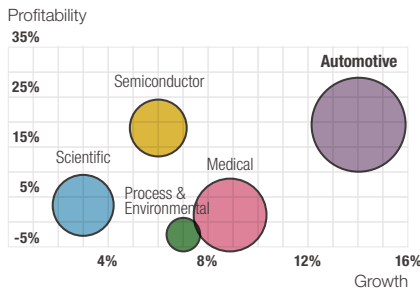
ROE* 11% or more
Fiscal 2012: 7.8%

Assumed exchange rates: ¥80/U.S. dollar, ¥110/Euro * Return on equity

Business portfolios aimed by the Mid-Long Term Management Plan

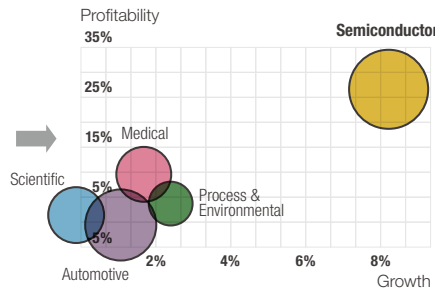
2001 ▶ 2005

Driven by the automotive segment



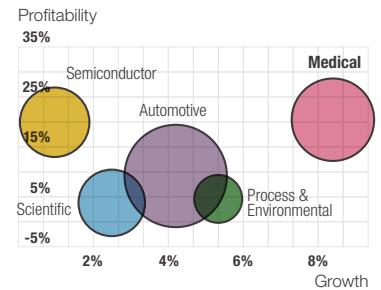
2005 ▶ 2010

Contributed by growth in the semiconductor segment



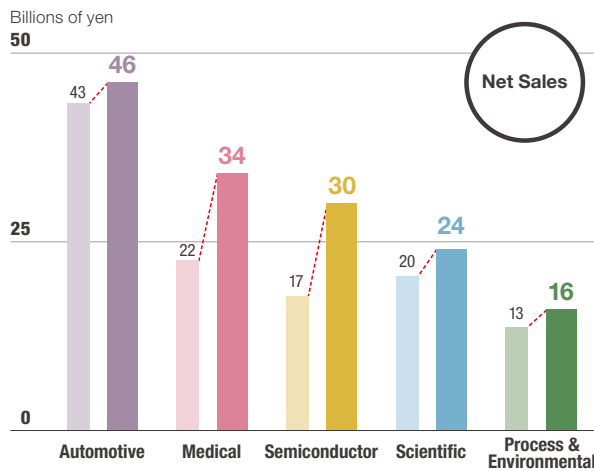
2010 ▶ 2015

More balanced portfolio with growth in the medical segment

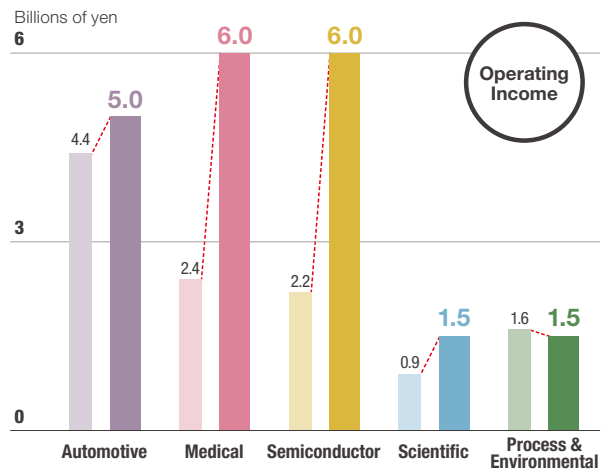


Vertical axis : Operating Income Ratio in the final year Horizontal axis : Compound annual growth rate of Net Sales Size of circle : Net Sales volume

2012 results and 2015 plan targets by business segment



Left: 2012 Results Right: 2015 Plan



Left: 2012 Results Right: 2015 Plan

Key measures initiated or achieved by 2012

Automotive Launched a new emission measurement system
Turned the MCT (Mechatronics) business profitable

Semiconductor Expanded the Aso plant and enhanced production system

Scientific Completed construction of an R&D center in Paris
Acquired electronic beam technologies

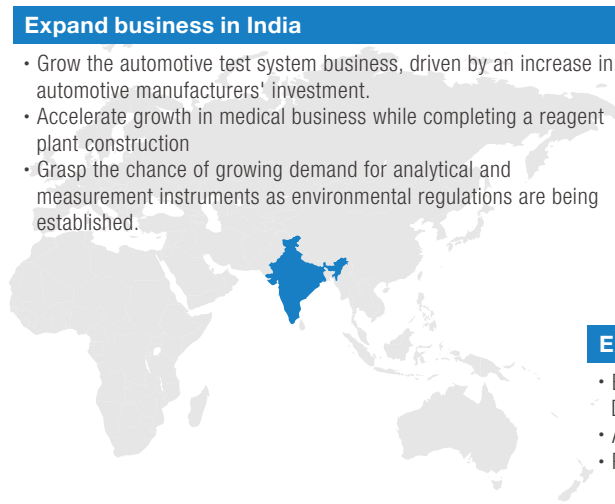
Medical Expanded capacity of a reagent plant in Japan
Began construction of a new reagent plant in India
Began relocation and capacity expansion of a reagent plant in Brazil
Brought products sold in Japan to the Asian market

Process & Environmental Acquired a process measurement equipment business in North America to enhance service business (in February 2013)

Key measures to take in 2013

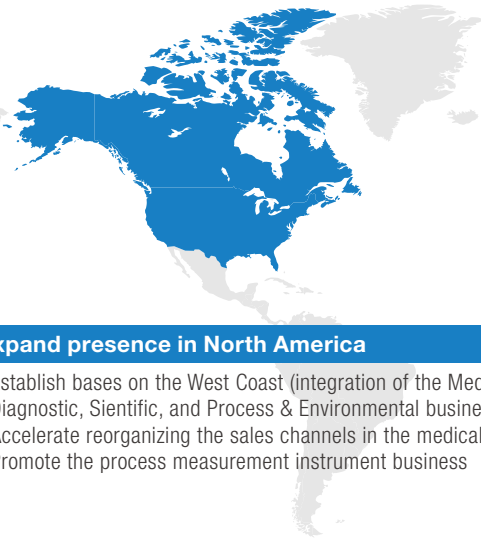
Expand business in India

- Grow the automotive test system business, driven by an increase in automotive manufacturers' investment.
- Accelerate growth in medical business while completing a reagent plant construction
- Grasp the chance of growing demand for analytical and measurement instruments as environmental regulations are being established.



Expand presence in North America

- Establish bases on the West Coast (integration of the Medical-Diagnostic, Scientific, and Process & Environmental business bases)
- Accelerate reorganizing the sales channels in the medical business
- Promote the process measurement instrument business



Aiming to become a “solution provider”



In order to bring values to society and raise profitability, it is essential not only to generate sales of equipment (hardware) but also to propose solutions from the customer viewpoint about what kind of analysis and measurement is feasible through the use of that hardware. In other words, it is to provide value beyond hardware sales. To achieve this, it is important for HORIBA itself to become a “solution provider”. This means providing analytical solutions to customers that use hardware while continuing to refine the properties of the hardware, such as technology, quality and cost. We need to visit our customers frequently and explore their real needs. Then, we will materialize their needs in our products and bring back to them. What we deliver is not simply hardware but also data that they need. By expanding our business arena to include the provision of solutions that are directly linked to customers' value creation, we are determined to differentiate ourselves from our competitors and achieve a small degree of profit fluctuation as well as high growth and profitability.

Feature
Automotive
Test Systems
Segment

Inheriting the no. 1 position in global sales

Since launching the first automotive emission measurement system in 1964, HORIBA has supplied emission measurement systems for engine development in close cooperation with the world's automobile manufacturers for nearly half a century. The new MEXA-ONE product that we launched for the first time in 17 years in 2012 aims to return to the starting point with a fresh approach, as the product name implies. MEXA-ONE possesses a greatly enhanced measurement system and expanded application software performance to respond the evolving needs in automotive development.

Expectations for MEXA-ONE

1 MEXA-ONE will cater to a variety of advanced needs in engine development

The latest trends in engine development, such as hybrid vehicles and downsizing engines, require increasingly advanced exhaust gas measurement capability. Development sites must also support research on motors and batteries, which includes developing an appropriate balance with engines, advanced technologies and higher extensibility. The diffusion of automobiles in emerging countries is accelerating local needs for automobile development. We believe the local demand for emissions measurement in these countries will expand as well. In both cases, the demand for quality, as well as a lower cost of performance, is much higher than that of previous models. MEXA-ONE is a product that can satisfy such needs.

2 MEXA-ONE will greatly reduce total cost of ownership

Fierce competition among automobile manufacturers is generating the need for faster, more efficient development with lower cost. As MEXA-ONE has reduced analyzer response times by 50%, it can substantially shorten customers' analysis time. Moreover, costs associated with overall testing are also sharply reduced. As testing times for emission measurement systems are generally longer than those of other test procedures, even a small reduction in power consumption and a lowered requirement for consumables adds up to a large potential savings. Compared to HORIBA's former model, MEXA-ONE has managed to cut power consumption by 10% and the use of consumables by 30%.

3 MEXA-ONE offers an integrated platform with a high degree of extensibility

What customers need is analysis data. Analytical and measurement instruments need to function more simply and more quickly. Furthermore, to simplify data collection and enhance the functionality of systems, it

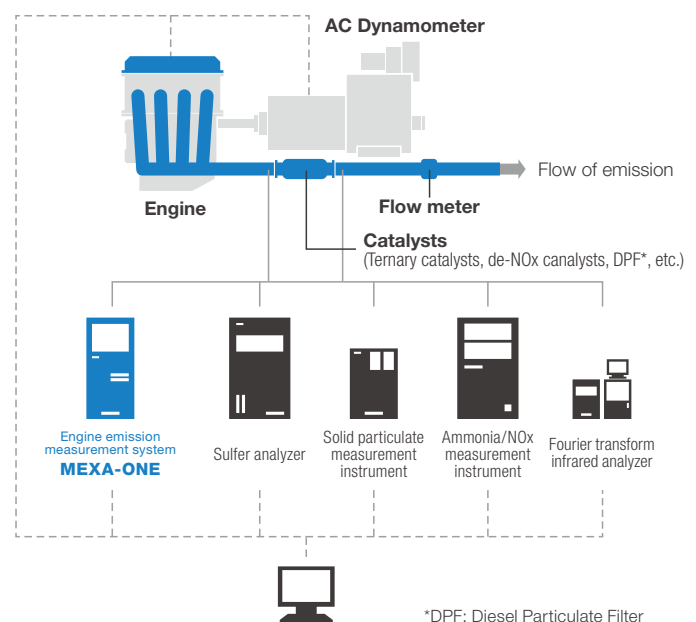
will be necessary to seamlessly link and control other analytical and measurement instruments. Therefore, with the introduction of the "HORIBA ONE PLATFORM," we envisage that HORIBA's Automotive Test Systems segment will make a significant contribution to the enhanced efficiency of engine and automobile development by providing total customer solutions that include combinations with our MCT products.

4 Customers will be supported by a global service network

We have established a 24-hour response maintenance organization for major customers located around the world. This is important for HORIBA to maintain high market share and gain strong customer confidence. HORIBA's global service network provides a high level of assurance at automobile development sites around the world.

■ Image of HORIBA ONE PLATFORM

Integrated control of analytical and measurement instruments





Expanding the MCT business

1 Improving profitability

The MCT business, which HORIBA acquired from Carl Schenck AG (Germany) in 2005, has continued efforts since the acquisition in cost cutting, optimal allocation of personnel, and adjustment of production capacity at factories. As a result, MCT profitability sharply improved in 2012. In addition, sales growth in China mirrored the expanding investment in the automobile industry. The MCT business has also managed to expand its market share among major automobile manufacturers in Japan.

In 2012, we started full-scale operation of the Olomouc factory in the Czech Republic to produce chassis dynamometers. The new factory is designed to substantially boost productivity by optimizing production lines and reselection of suppliers. These efforts have realized cost reductions that contributed to the improved earnings in 2012. We aim to continued improvements in profitability by transferring other MCT production lines to the Olomouc factory.



Olomouc factory (Czech Republic)

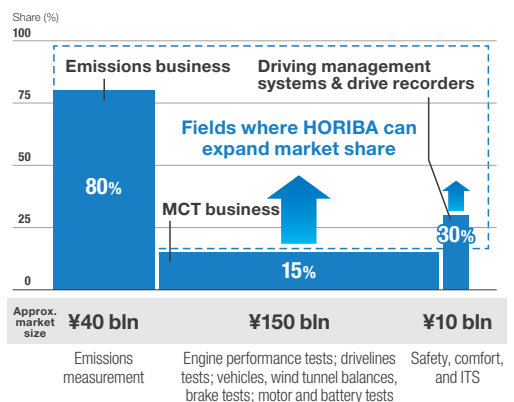
2 Revisiting to the source of automobile development

The MCT business has a total market size of more than ¥150 billion, including engines, chassis dynamometers, driveline test equipment, and brake testers. The market has the potential to expand further with growth into the BRIC countries and investment in electric vehicle development. HORIBA has an 80%* share of the global emission measurement systems market, but only around a 10 to 15% share of the MCT market. We believe we will be able to raise this share through customer relationships fostering the confidence that we have cultivated in the emission measurement systems business and links to our new MEXA-ONE product.

We are reinforcing our testing laboratories to respond to investment in the pursuit of fuel efficiency technologies for automobiles and the introduction of electric vehicles. At the headquarters of HORIBA, Ltd. in Kyoto, we have set up one of four testing laboratories as a drivetrain testing laboratory equipped with a virtual battery system that caters to the need to analyze hybrid systems and electric motor performance. At the newly opened Shanghai Technical Center in China we have installed a drivetrain testing laboratory similar to the one in Kyoto and an engine testing laboratory equipped with MEXA-ONE. We now have the ability in China to test engines that are brought in by our customers, which will expand sales and accelerate new product developments that capture local needs.

*Market share is estimated by HORIBA.

Fields where HORIBA aims to expand market share



Shanghai Technical Center's virtual battery laboratory

Message from the CFO

HORIBA is investing for growth and rewarding shareholders in a balanced manner

Basic capital policy

HORIBA's basic capital policy is as follows.

Implementing shareholder return linked to earnings growth

Up to 2012: Payout ratio of 30% of HORIBA, Ltd.'s net income

2013 onwards: Aiming for payout ratio of 30% of HORIBA's consolidated net income*

*Target a total shareholder return of 30% of consolidated net income combined with the amount of dividend payments and share buybacks

Select an optimal financing method, responding to capital needs and with due consideration to factors such as the equity ratio, capital cost, market interest rates, and credit ratings.

Achieving a high ROE (Return on Equity) based on earnings growth

Mid-Long Term Management Plan (2015): 11% or more

Implement a shareholder return policy linked to earnings growth

HORIBA was the first listed Japanese company to start paying shareholder dividends based on a payout ratio in 1974 when listed in the Second Section of the Tokyo Stock Exchange. This practice has paid dividends to its owners without interruption for 38 years. Since 2013, we have changed from dividend policy targeting at 30% of nonconsolidated net income to the total shareholder return, combined with the amount of dividend payments and share buybacks, targeting at 30% of consolidated net income.

Financial policies

HORIBA maintains an appropriate level of liquidity in hand to ensure efficient funding in response to capital requirements. This is an important guideline for HORIBA's financing activities. We define liquidity in hand to be a sum of cash and cash equivalents and the open amount of the commitment lines that have been negotiated with financial institutions. At the end of fiscal 2012, liquidity in hand amounted to ¥43.8 billion, which was ¥38.8 billion in cash and cash equivalents and a ¥5.0 billion open balance of commitment lines with banks.

Sunao Kikkawa Senior Corporate Officer and General Manager of Finance & Control Division

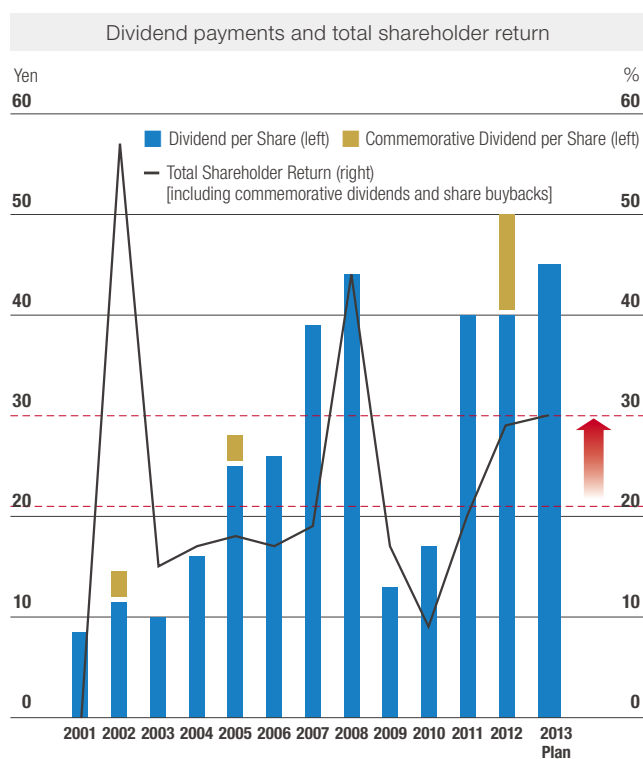
Sunao Kikkawa joined HORIBA, Ltd. in 1974. He was assigned to work at HORIBA Instruments Incorporated (U.S.) in 1982 and returned to HORIBA, Ltd. in 1988. He was appointed General Manager of the Accounting Department in 1996 and Senior Corporate Officer in 2007. He made efforts toward globalizing HORIBA's accounting operations along with the Group's globalization and maintaining compliance with international accounting standards. At present he is engaged in raising efficiency in capital strategy and group administrative operations as Senior Corporate Officer and General Manager of the Finance & Control Division.



Dividend payments and total shareholder return

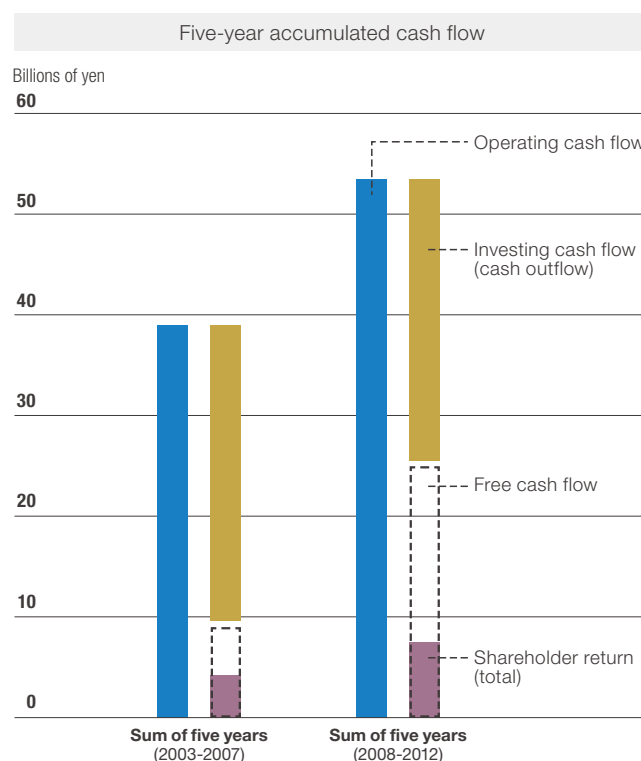
As the economic downturn after the Lehman Brothers Shock in 2008 deteriorated HORIBA's profitability, our dividend per share was depressed in 2009 and 2010. However, thanks to growth in the Medical-Diagnostic Instruments & Systems segment combined with an earnings recovery in the Automotive Test Systems segment and the Semiconductor Instruments & Systems segment, we raised the dividend per share in 2011 and effectively did the same in 2012 including a commemorative dividend of 10 yen per share to celebrate the 60th anniversary of HORIBA, Ltd.

In 2013, we will change the dividend policy to one based on consolidated net income. After adopting the new standard, we are projecting a dividend per share of 45 yen based on our net income forecast of ¥6.3 billion as of February 14, 2013. Based on consolidated net income, the payout ratio in the past 11 years, from 2002 to 2012, can be recalculated to 21.2%. Although this is a retrospective calculation, the change from 30% of HORIBA, Ltd.'s net income to 30% of its consolidated net income increases the shareholder return by about 40%.



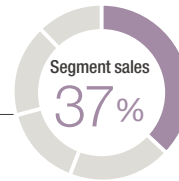
Growth in accumulated free cash flow

HORIBA continuously makes investments in production facilities and systems as well as R&D and human resources from a long-term perspective, rather than based on the operating performance for a single fiscal year. Accumulated free cash flow (FCF; operating cash flow plus investing cash flow) for the five years (from 2003 to 2007) amounted to about ¥9 billion, due to the heavy initial capital investment burden associated with implementing ERP (Enterprise Resource Planning) systems for globalized operations. However, FCF for the subsequent five years (from 2008 to 2012) expanded to around ¥25.0 billion, as our operating cash flow expanded even after investments in plants and an R&D center, in addition to investments in human resources and R&D activities. The shareholder return (the sum of dividend payments and the amount of share buybacks) for the same period grew by close to 70% due to an increase in dividends driven by earnings growth and share buybacks.



Business Overview

Automotive Test Systems Automotive Test Systems



Strong support for automotive development



Emission measurement system

HORIBA's automotive emission measurement systems have been adopted as the primary standard by national certification bodies in many countries. This recognition has led to a commanding top position in the industry with an 80%* global market share. Business acquisitions have expanded our product lineup into complete turnkey systems for automotive development. These test systems are used at the forefront of research and development and quality control. Our test systems are indispensable for developing new types of engines, such as gasoline, diesel, hybrid electric power trains and alternative fuel engines. We expect to experience an increase in demand for our automotive development instruments.

* HORIBA's estimate

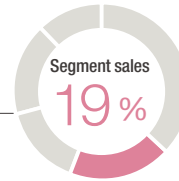
Risk factor | The global automotive industry's shifting R&D investments

Principal products
Emission measurement systems, automotive emission analyzers, onboard emission measurement systems, driveline test systems, engine test systems, break test systems, drive recorders

Major customers
Automobile and motorcycle manufacturers, automotive component manufacturers, multipurpose motor manufacturers, government regulatory agencies, oil companies, automotive maintenance and repair centers

Product applications
Development of new gasoline, diesel and hybrid powertrains, vehicle certification and quality control, in-use vehicle inspections

Medical Medical-Diagnostic Instruments & Systems



Proactive product development in a large stable-growth market



Automatic blood cell counter plus CRP

HORIBA medical products are primarily blood testing instruments and reagents for the in-vitro diagnostics market, with over ¥2 trillion in global annual sales. The segment's business model is based on earnings generated from reagents sales. HORIBA sells its original small and medium-sized blood cell counters in the diagnostic market for point-of-care testing (POCT), which is defined as immediate diagnostic testing during patient care; typically in small hospitals, testing centers, outpatient clinics, and surgery centers. We are endeavoring to boost instrument sales which will lead to expanded sales of testing reagents.

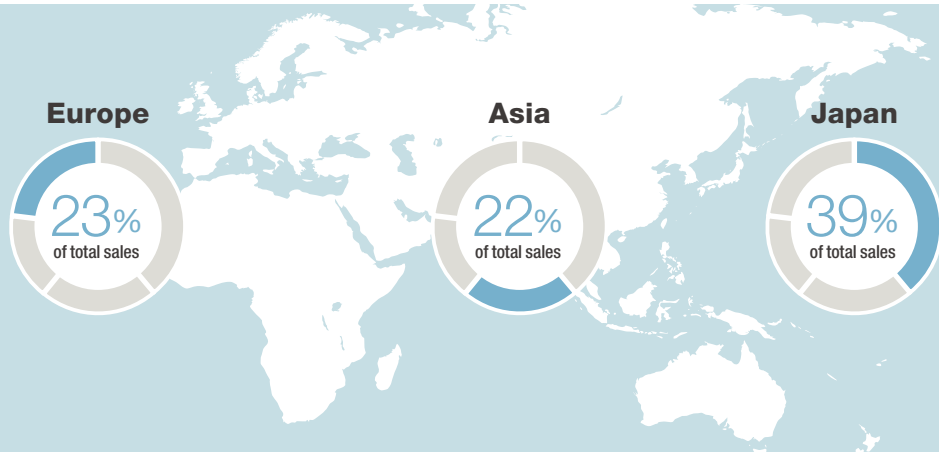
Risk factor | Changes in medical insurance systems in different countries

Principal products
Equipment for blood sample analysis (hematology analyzers, equipment for measuring immunological responses, clinical chemistry analyzers, blood glucose measurement systems)

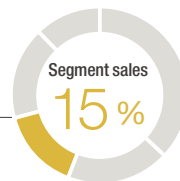
Major customers
Medical testing centers, small to medium-sized hospitals, medical practitioners

Product applications
Health and diagnostic testing, disease diagnosis

Business overview by region



Semiconductor Semiconductor Instruments & Systems



Mass flow controllers

Contributing to improve yield 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, solar cell, and LED (light-emitted diode) manufacturing process. Semiconductor products also include many other types of monitoring equipment for semiconductor production. HORIBA provides customers with high-level solutions that support technical advances in processing, miniaturization, and yield enhancement.

Risk factor | Significant fluctuation in demand caused by the "silicon cycle" in the semiconductor industry and investments related to LEDs, solar cells, and other energy sources

Principal products

Mass flow controllers, chemical concentration monitors, reticle/mask particle detection systems, residual gas analyzers

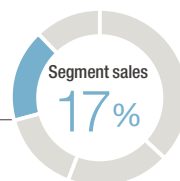
Major customers

Semiconductor production equipment manufacturers, semiconductor device makers, semiconductor cleaning equipment manufacturers

Product applications

Flow control of gases and liquids, monitoring of cleaning fluid concentrations in semiconductor manufacturing processes, semiconductor and LCD quality control inspections

Scientific Scientific Instruments & Systems



pH meters

Achieve a good balance with unique analytical measurement technologies and business operations

HORIBA provides over 500 types of instruments in the leading edge of scientific technology. We command leading market shares thanks to our high-level of analytical technology know-how and enhanced customer support. The Scientific segment develops basic analytical and measurement technologies, which play key roles in providing new technologies to other business segments.

Risk factor | Investment trend of national government agencies and other institutions
Demand fluctuation following changes in environmental regulations

Principal products

Particle-size distribution analyzers, X-ray fluorescence analyzers, Raman spectrophotometers, spectrometers, gratings, pH meters

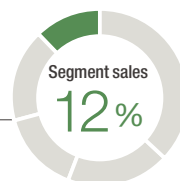
Major customers

Manufacturers, research institutions, universities, government agencies, electric power companies

Product applications

R&D, product quality testing, criminal forensics

Process & Environmental Process & Environmental Instruments & Systems



Stack gas analyzer

Providing analytical and measurement instruments for compliance with environmental regulations

HORIBA provides environmental measurement solution technologies in a wide range of fields for environmental preservation in various parts of the world. Together with the provision of process measurement technologies which fulfill analytical needs in manufacturing development, we ensure public safety, security, and health.

Risk factor | Decline in sales prices caused by pricing competition
Demand fluctuation following changes in environmental regulations

Principal products

Stack gas analyzers, water quality analysis and examination systems, air pollution analyzers, environmental radiation monitor

Major customers

Manufacturers, government agencies, electric power companies

Product applications

Measurement of gaseous emissions, wastewater and water supplies, environmental pollution monitoring, environmental radiation measurement equipment

Americas



Japan

- Steady growth and high market shares for products that are related to R&D applications and environmental regulations.

Asia

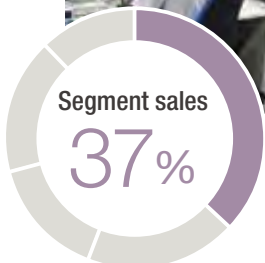
- Expect high growth in China, India, and Southeast Asian countries.
- Use know-how accumulated in developed countries to expand business in Automotive, Medical and Process & Environmental segments.

Americas

- High potential for expanding market share in this market that represents 40% of global demand for analytical and measurement instruments.
- Focus on product development and marketing for the medical and semiconductor markets.
- Expand capacity of a reagent plant in Brazil for the Medical-Diagnostic Instruments & Systems segment.

Europe

- Sales increase with the effects of the corporate acquisition and the business acquisition.
- Opening of R&D Center in Paris as a core facility for product development in Europe.



Automotive Test Systems

MEXA has No. 1 global share in emission measurement systems

Since we developed the first MEXA in 1964, HORIBA has been a pioneer in emission measurement systems and has provided the global market with the latest technologies required for automotive development, meeting requirements that have constantly changed with the times. 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 national certification bodies in many countries and by major global automotive manufacturers. (*HORIBA's estimate)

We have delivered over 8,000 MEXA units to our customers. Going forward, we plan to expand sales of MEXA-ONE, which we introduced in 2012 against the backdrop of renewed investment. We are committed to continuing support for automotive development by responding to rising demand for the measurement of the emission characteristics of alternative fuels such as biofuel, and the requirement to measure emissions in more diverse applications such as construction machinery, ships, locomotives, and general purpose engines.

2013: Anticipate the automotive industry's investment for improvement in fuel efficiency

HORIBA recorded an increase in sales and profit in 2012, thanks to increased investment by automotive

manufacturers globally, and improved profitability led by profit restructuring efforts made by the MCT (Mechatronics) business unit.

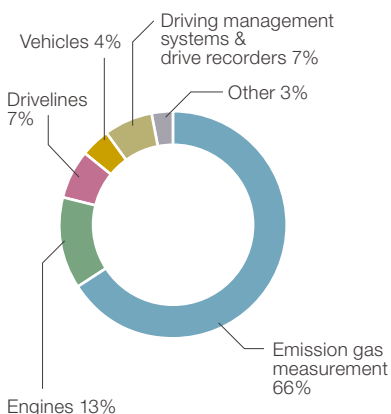
In 2013, we are expecting a strong investment appetite by automakers globally and gradual recovery in demand, triggered by Europe's fuel efficiency requirements and other various new emission standards that are likely to be tightened in 2014-2015.

Providing solutions for hybrid cars (HV), plug-in hybrid cars (PHV) and electric cars (EV)

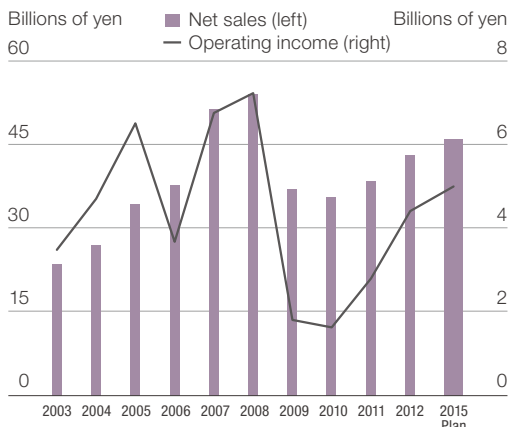
HORIBA's MCT business provides essential measurement systems to evaluate power-train efficiency and aerodynamic performance. These areas are important also for the development of electric cars and related investments are expected to increase. We plan to have a complete product line-up based on the HORIBA ONE PLATFORM at an early stage and aim to expand business and improve profitability by increasing our market share in Japan, Europe, and the Americas and accelerating to capture new demand in emerging markets.

Meanwhile, development of HV or PHV vehicles that use engines, motors and batteries requires new features in emission measurement systems, and also the emission measurement need is increasing, particularly in emerging markets where need for local development is increasing amid accelerated growth in automotive sales.

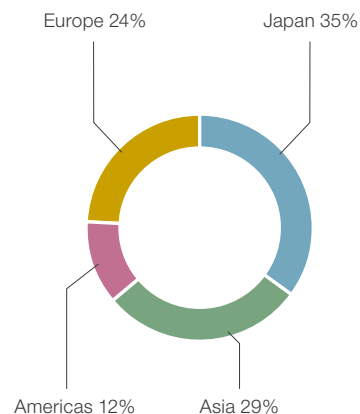
Sales breakdown



Net sales and Operating income



Sales breakdown by region

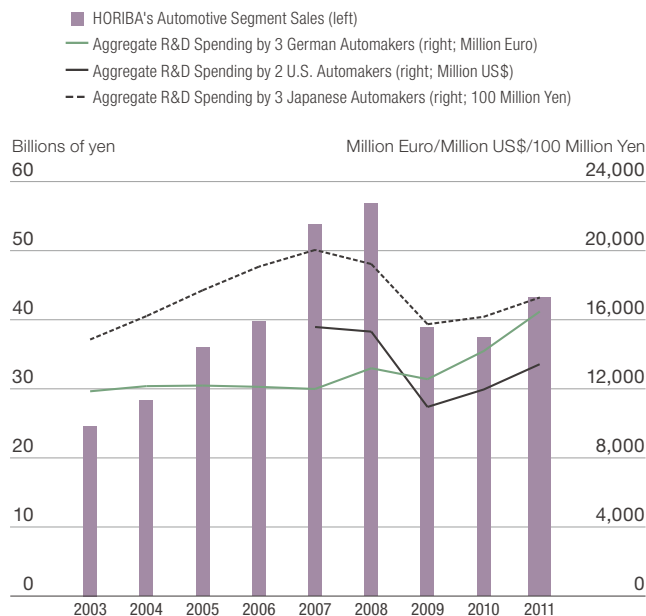


HORIBA'S automotive business

HORIBA aims to expand sales and improve profit by focusing investments in driveline measurement systems.

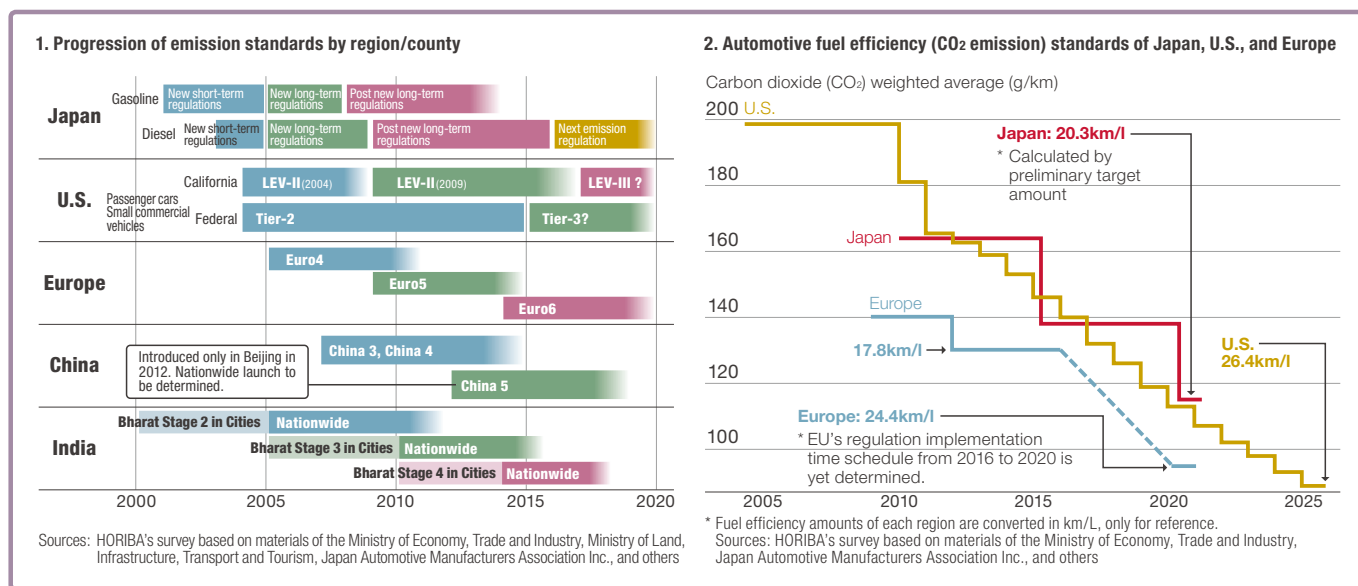
HORIBA business divisions	Gasoline & diesel	Hybrid	Electric	Market size (Billions of yen)
Emissions business	Emissions measurement			40
MCT business	Engine performance tests			100
	Drivelines tests			30-
	Vehicles, wind tunnel balances, brake tests			15
		Motor, battery measurement		
Driving management systems & drive recorders	Safety and IT			10

HORIBA's automotive segment sales and major automakers' R&D spending



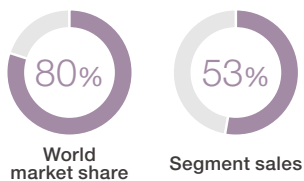
Source: HORIBA's survey based on companies' disclosed materials

Trend of automobile-related regulations



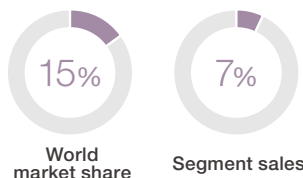
Major products and market shares

Emission Measurement Systems



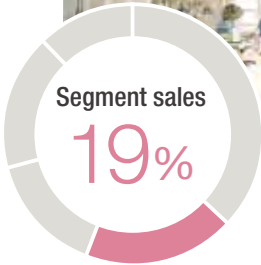
These systems continuously and simultaneously measure chemical components in emission gases over a broad range of concentrations. They are widely used in R&D and product certification in the automotive industry.

Driveline Test Systems



The driveline is an extremely important power train part that transmits energy from engines or motors to the vehicles' tires. HORIBA's driveline test systems use the latest simulation technology for applications in all types of driveline testing. This is HORIBA's strength demonstrated by providing flexible systems for all applications.

Note: Market shares quoted are estimates by HORIBA.



Medical-Diagnostic Instruments & Systems

Stable business model supported by reagent sales

The business model for HORIBA's Medical-Diagnostic Instruments and Systems segment features expansion in the installed base of HORIBA medical-diagnostic and blood sample analysis instruments to generate growing profits from reagent sales. Our products are used in blood testing, biochemical and other areas that are directly linked to assessing personal health. As such, the business is less sensitive to economic fluctuation, when compared to most other industries. Another characteristic of this segment is that currency risk has been diversified by having two bases for development and production, namely, Japan and France. Going forward, we aim to diversify risks and improve profitability by expanding exports of high-share distinctive products from Japan.

2013: Reinforce product supply system for achieving sales growth in Asia

In 2012, Medical-Diagnostic Instruments & Systems segment sales dropped due to a slowdown in the rate of increase of installed equipment in the Japanese market and the restructuring of sales channels in North America. Meanwhile, sales were firm in Europe and grew steadily

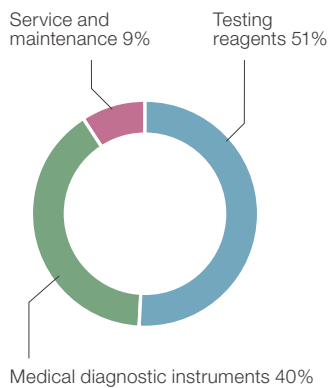
in Asia as the region's increase in the number of hospitals led to growth of demand for medical diagnostic instruments.

In 2013, we aim to improve segment profitability by reinforcing our global reagent supply system in Japan and some emerging countries, and increasing sales of our automatic blood cell counter plus CRP instrument outside Japan.

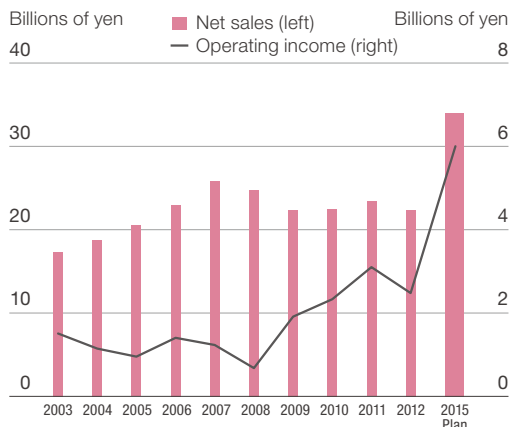
Establish a business base for expansion

Regarding test reagents, which are important profit sources in this segment, our strategy is to initiate local production of reagents in mass-consumption areas. The end result is to reduce costs of distribution and inventory management, to respond promptly to customer needs, and to improve profitability. In 2012, we improved our supply system in Japan upon completion of expanded reagent production capacity in our Japanese plant in Aso, located on the Kyushu island. In 2013, we plan to open a new reagent plant in India, while our reagent plant in Brazil will be relocated and expanded. Moreover, to expand our market share and improve profitability, we will introduce our automatic blood cell counter plus CRP, which has been a strategic product in Japan, in the Asian market including China and India.

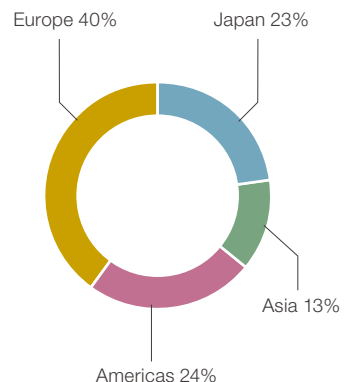
Sales breakdown



Net sales and Operating income



Sales breakdown by region



Business development by testing category

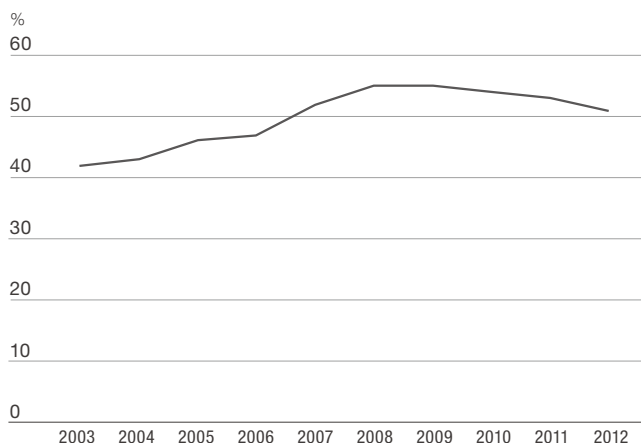
Test category		Clinical chemistry	Hematology	Immunology	Coagulation
Market size		¥1 trillion	¥0.2 trillion	¥1 trillion	¥0.1 trillion
Hospitals	Large hospitals Testing centers		Hematology analyzer systems		
	Small and medium-sized hospitals	Clinical chemistry analyzers	Small and medium-sized hematology analyzers	CRP counters for asthma medication	Coagulation reagents
Private practitioners	Blood glucose measurement systems				
Hospital units and surgery rooms (POCT*)					

*Point-of-care testing (POCT) is defined as medical testing by a physician at or near the site where patients are located such as a surgery ward, a hospital ward, or a clinic for outpatients.

Field in which HORIBA exhibits strength

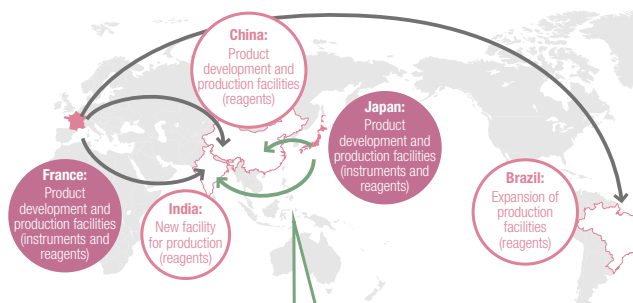
Sales ratio of test reagents in HORIBA's Medical-Diagnostic Instruments & Systems segment

The sales ratio of test reagents has been increasing thanks to the increase in the installed base of instruments. The ratio has become stable at around 50-55%.



Establishing product supply system

Expand supply of instruments and reagents in Asia



Instruments

- Accelerate sale of our automatic blood cell counter plus CRP, a high market share product in Japan, in China and India
- Our operations in France are responsible for medium and large-sized instruments, while Japan produces small-sized instruments.

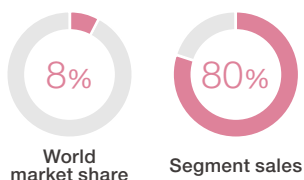
Reagents

- The local reagent supply systems have resulted in cost reductions for distribution and inventory management, thereby improving profitability.

Dispersion of production bases has lessened the impact of currency exchange rate fluctuations and thus protects cost competitiveness.

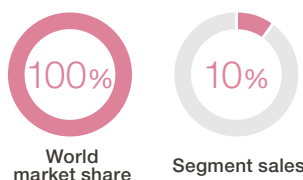
Major products and market shares

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 faster and more accurate diagnosis.

Note: Market shares quoted are estimates by HORIBA.



Semiconductor Instruments & Systems

Products that fulfill the needs of new markets and applications

HORIBA's Semiconductor Instruments & Systems segment manufactures and markets mass flow controllers, essential components in semiconductor manufacturing equipment, chemical concentration monitors, used in semiconductor wafer cleaning processes, plus other essential instruments for the semiconductor manufacturing industry. In particular, our mass flow controllers have a leading 43%* global semiconductor market share. Those highly functional products satisfy customer requirements for improved productivity and performance enhancements in next-generation miniaturized manufacturing processes. (*HORIBA's estimate)

2013: Ability to respond to surges in demand thanks to an increase in semiconductor production capacity

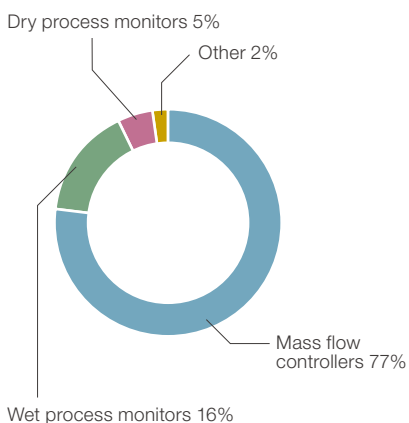
In the first half of 2012, mass flow controller sales were very favorable, following the recovery of production orders by makers of equipment for silicon semiconductor manufacturing and related products. In the second half of 2012 sales dropped sharply due to our customers' downward production adjustment.

In 2013 we expect the low demand will persist for the first six months. Nonetheless, we forecast that the operating income ratio will improve in the second half of 2013 due to a recovery in demand and the appreciation of the yen.

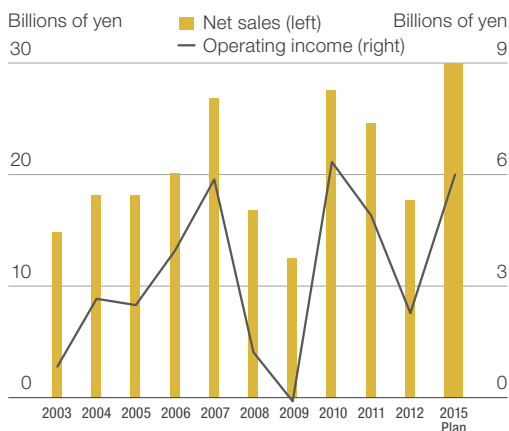
Expansion of sales in Asia, supported by strong trust from global semiconductor makers

Much of HORIBA's service strength lies in its capability to support customers in Asia. Our strategy is to expand our market share by earning more credibility from manufacturing equipment makers of semiconductors, photovoltaics, and LEDs, and by developing enhanced, quality products that satisfy anticipated customer demand. In addition, we have secured additional production capacity for the Semiconductor Instruments & Systems segment in the Aso plant, which recently completed expanded capacity for the Medical Diagnostic Instruments & Systems segment. We are thus prepared to meet our customers' high volume delivery requirements during phases of expanding demand for manufacturing equipment. Moreover, we entered into full-scale production of mass flow controllers at Beijing HORIBA METRON Instruments Co., Ltd., a joint venture established in China in 2011. We expect this factory will be well positioned to meet rising demand in Asia.

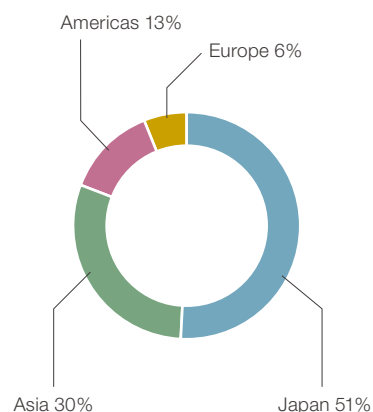
Sales breakdown



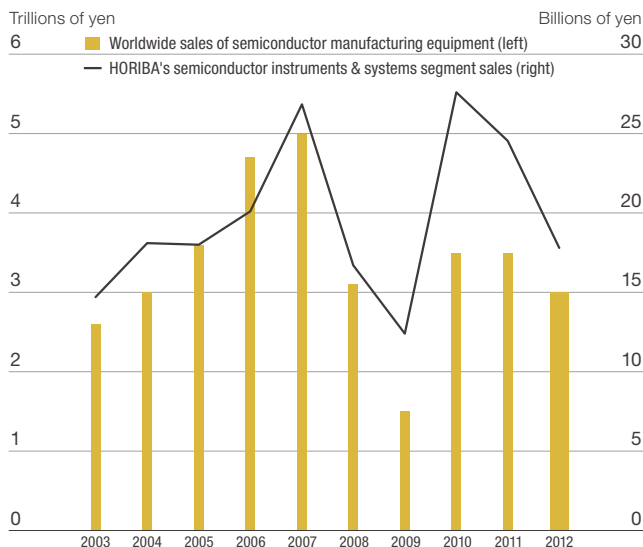
Net sales and Operating income



Sales breakdown by region

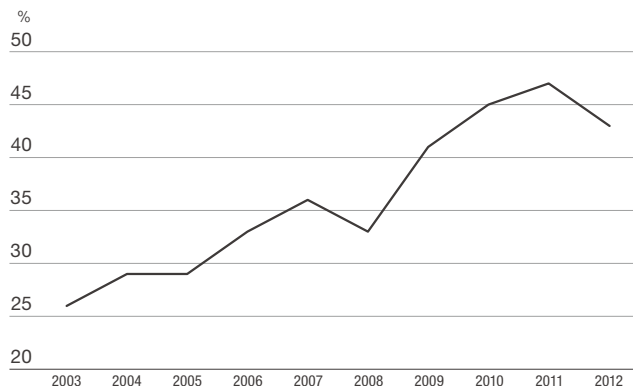


HORIBA's Semiconductor Instruments & Systems segment sales compared to worldwide sales of semiconductor manufacturing equipment

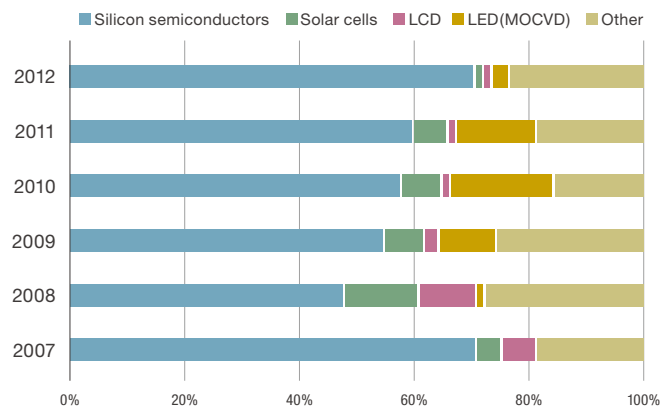


HORIBA has maintained more than 40%* of the global mass flow controller market since 2009.

We successfully met our customers' needs in the semiconductor industry during a downturn phase in investment for manufacturing equipment, which started in 2009 and lasted until a recovery in 2010. During this period we launched new products and expanded production capacity in anticipation of the 2010 market recovery. In our view, this can be attributed to the success of our balanced management, which minimized the reduction in manufacturing investment and production capacity during a significant downturn in the market. (* HORIBA's estimate)



Mass flow controllers' sales breakdown by application



Silicon semiconductors

The sales percentage of mass flow controllers for silicon semiconductor manufacturing equipment temporarily declined due to strong demand for equipment to manufacture LEDs and solar cells. However, a reasonable sales volume was maintained by new investment in equipment to produce the next generation of miniaturized semiconductors.

LED (MOCVD)

Sales for LED manufacturing applications have expanded to include Metal Organic Chemical Vapor Deposition (MOCVD*). Sales for LED manufacturing equipment surged in 2009, thanks to strong growth in LED production capacity. However, sales for LED manufacturing have been affected by a slowdown in production equipment orders since the latter half of 2011.

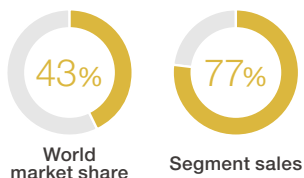
Solar cells

Our sales into the solar cell manufacturing market expanded in 2009 thanks to a strong solar cell market. However, since mid 2011 the sales were affected by the same slow down in production equipment orders as LEDs.

* Metal Organic Chemical Vapor Deposition (MOCVD) is both a method and apparatus that use organic metal and gas to produce crystal. The process is extensively used in manufacturing LEDs.

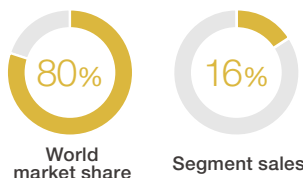
Major products and market shares

Mass Flow Controllers



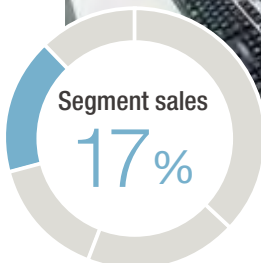
These high-precision gas and liquid controllers regulate flow rates in semiconductor manufacturing processes, typically in thin-film formation processes. They are also indispensable components for high quality semiconductor, LED, and solar cell production.

Chemical Concentration Monitors



These compact units are used in semiconductor manufacturing to monitor concentrations of chemical cleaning agents. They ensure cleansing fluids are precisely delivered and properly used, thereby optimizing the cleaning process and boosting production yields.

Note: Market shares quoted are estimates by HORIBA.



Scientific Instruments & Systems

HORIBA's technology for nano-meter measurements provides essential data analysis solutions

Behavior of nano-meter sized atoms and molecules have been highlighted in microscopic analysis. HORIBA solutions for data analysis support advanced research that ventures into unknown territories where discoveries may lead to new materials or advanced, high-tech products. In addition, HORIBA's analyzers are widely used in foreign-object examinations and defect analysis for food, drugs, electronic components, criminal investigation, and archaeological work.

2013: Expect recovery in industrial sales in step with the upward trend of government spending in many nations

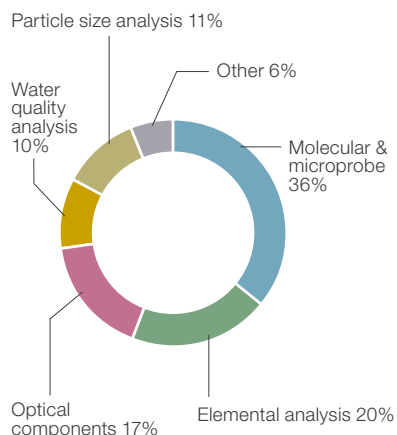
In 2012, despite the Scientific Instruments & Systems segment solid sales of new pH meters and other products in Japan, sales declined from the previous year due to lower government spending in various nations and the appreciation of the yen against foreign currencies. In the beginning of 2013 the yen started depreciating against other currencies, a trend which is expected to

recover the competitiveness of HORIBA's products. In Japan, the implementation of the government's supplementary budget is expected to lead to a growth in sales with stronger investments by our customers.

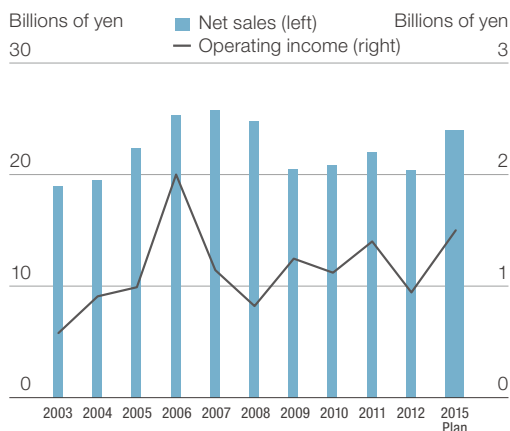
Support for basic research in next-generation energy sources and R&D of HORIBA's other business segments

Global demand is growing for products manufactured by HORIBA Jobin Yvon S.A.S. (France) for data analysis and basic research for organic and inorganic materials such as rare metals and advanced lithium ion batteries, which are expected to become a core component in next-generation automobiles. Specific products include diffraction gratings, fluorescence spectroscopy, and Raman spectrophotometers, which command a No. 1 global market shares (HORIBA estimate). We expect to increase our global sales as the markets respond to tighter regulations and more government spending, especially in the BRIC markets. In addition to product development, the Scientific segment continues to invest in basic research and provide new technologies to our other business segments.

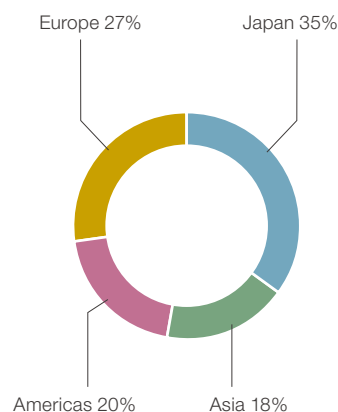
Sales breakdown



Net sales and Operating income



Sales breakdown by region



HORIBA Europe Research Center completed

Construction of our new HORIBA Europe Research Center began in 2011 and was completed in October 2012.

The Center is located next to the École Polytechnique, the renowned French engineering institution. We will use industry, academic, and government joint research opportunities to quickly ascertain future customer needs and accelerate development of new products to meet these new requirements. The sales team of the Medical-Diagnostic Instruments & Systems segment of HORIBA ABX S.A.S. is also located in this facility, which serves as the high technology showcase for our European operations.



Exchange with students at École Polytechnique

The products of HORIBA, Ltd. and HORIBA Jobin Yvon S.A.S. in the global market

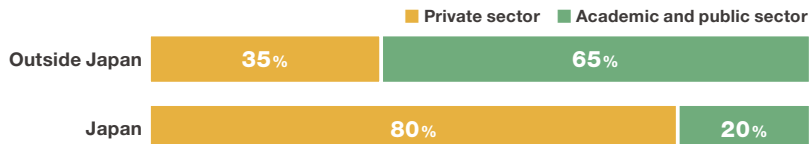
HORIBA's products from the Scientific Instruments & Systems segment have made significant contributions to the R&D of advanced technology. We currently focus on the following four market applications: analysis of organic and inorganic materials, research for lithium ion rechargeable batteries, and material development for drug discovery and biotechnology. We are responding to the need for analysis in these markets with a wide range of products for our customer base in corporate research centers, academic institutions, and universities.

Target market	Application	HORIBA, Ltd.				HORIBA Jobin Yvon				
		pH meter	Particle-size distribution analyzer	X-ray analyzer	Metal analyzer	Grating	Raman spectrophotometer	Fluorescence spectroscopy	Ellipsometer	GDS
Organic material analysis	• Organic EL lighting • Fuel cell electrolytic solutions	■	■		■	■	■	■	■	■
Inorganic material analysis	• Carbon materials • Rare metal materials	■	■	■	■	■	■	■		■
Lithium ion battery	• Positive/negative electrode, separators, electrolytic solutions	■	■	■	■	■	■	■	■	■
Drug discovery	• Drug discovery basic research to quality assessment • Formulation mapping	■	■	■		■	■	■		

Sales balance by client category

Sales of HORIBA Jobin Yvon products in the academic and public sectors outside Japan are proportionally higher. Hence the fluctuation of global sales due to economic conditions in Japan is somewhat limited. We will focus on increasing sales of HORIBA Jobin Yvon products into the Japanese market.

Sales breakdown in 2012

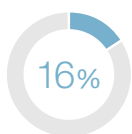


Major products and market shares

Raman Spectrophotometers



World market share



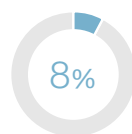
Segment sales



pH Meters



Japan market share



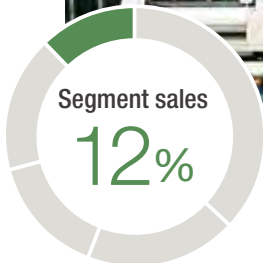
Segment sales



Raman spectroscopy is a spectroscopic technique that effectively identifies the chemical composition of physical materials and analyzes molecular structures. In recent years, Raman spectroscopy has attracted attention for new applications in material research. Raman scattering is typically very weak, so a highly-sensitive and optimal optical design is necessary. HORIBA Jobin Yvon's outstanding know-how in optics-related technology has been successfully applied in the core development of our extremely high performance Raman spectrophotometers.

Note: Market shares quoted are estimates by HORIBA.

HORIBA is recognized as one of the top pH meter brands beginning with a history of its development of Japan's first glass electrode pH meter in the 1950's. HORIBA offers a full pH product line to satisfy diverse customer needs ranging from desk-top models to support laboratory research to rugged instruments for field applications measuring river water, groundwater, and waste water.



Process & Environmental

HORIBA supports global environmental measures and new energy industries

We provide analytical and measurement instruments for a wide variety of applications to measure air, water, and soil constituents. We supply these instruments to various industries whose work is essential for environmental emission reduction and process monitoring. We play an important role in gas measurement and monitoring of industrial liquid waste in the electric power, steel, and chemical industries as well as energy industries including oil refining, and heavy chemicals; purified water management for medical and semiconductor use; and constant monitoring and control of water quality in the pharmaceutical, food, and cosmetic fields. In addition, HORIBA's accurate measuring technology helps ensure public safety through environmental radiological measurement, demand for which has expanded since the Great East Japan Earthquake of March 2011.

2013: Focus on demand trends for stack gas analyzers and environmental radiation monitors

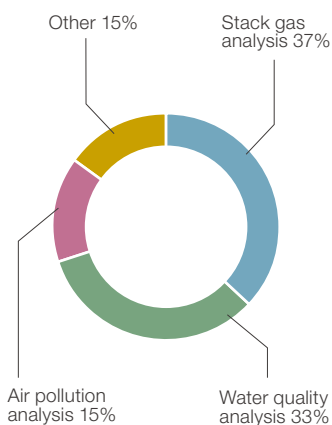
In 2012, demand for environmental radiation monitors gradually declined in Japan after the rapid increase

following the Great East Japan Earthquake, while demand for stack gas analyzers at thermal power plants was firm. In 2013, we are currently forecasting declining profits on higher sales, as demand for environmental radiation monitors is expected to drop further.

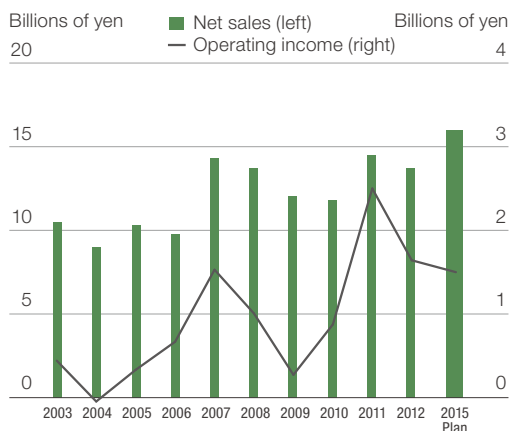
Aiming to become global No. 1 in the environmental regulation business and expand in the process measurement field

HORIBA is determined to grow its market share in the global environmental analytical instrument market, estimated at ¥150 billion, by utilizing its accumulated know-how and experience in Japan, Europe, and the Americas. We also aim to expand our market share in the water quality measurement field, by giving added emphasis to pH measuring technology, a HORIBA's core business since its foundation in the 1950's. Moreover, we will further develop business by leveraging HORIBA's expertise in the environmental and analytical instrument markets in Asia and other emerging nations, where demand is projected to grow rapidly. In addition, the process measurement equipment business we recently acquired will be important for our development of business in energy and chemicals.

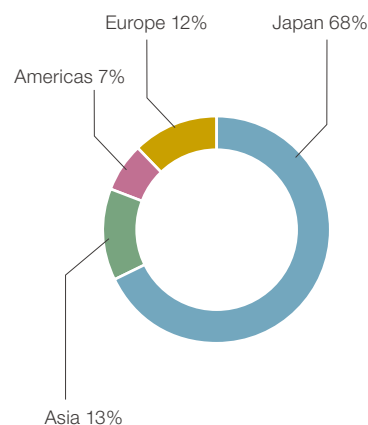
Sales breakdown



Net sales and Operating income



Sales breakdown by region



Target market: Environmental regulation market

HORIBA has a leading market share in Japan in continuous emission monitoring systems used in plants and other facilities that generate gaseous emissions and soot. Our instruments have established extensive credibility for the robust application design of their sampling systems, which are essential in continuous measurement of a variety of gases. The analyzers are used to satisfy regulatory requirements or process control needs in system applications for power generation, petrochemicals, steel, paper, foods and pharmaceuticals.

HORIBA's air pollution analyzers have won high acclaim in the field as highly reliable analyzers that demonstrate excellent precision and long-term stability at ppb* concentrations. They are used in over 50 countries to monitor air quality by municipal governments and industrial companies. Demand has been expanding for PM2.5-related monitoring.

*ppb: parts per billion. One part per billion denotes one part per 1,000,000,000 parts. This notation is mainly used for describing small concentration measurement.

HORIBA's products are used for monitoring and control in water treatment processes. We have a wide-ranging water quality product line to measure pH, the basic water quality indicator, as well as chemical oxygen demand (COD), total nitrogen, and total phosphorous. They have been highly evaluated in the water quality analysis field by municipalities and companies in the electric power, gas, petrochemicals, steel, paper, foods, and pharmaceuticals industries.



Stack Gas Analyzers



Air Pollution Analyzers



Water Quality Analyzers

Acquisition of a process measurement equipment business in North America

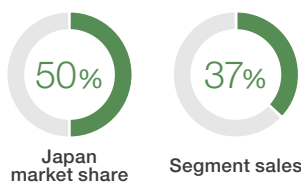
In February 2013, HORIBA acquired the process measurement equipment business of Cameron, a Texas-based U.S. company that mainly focuses on products and services for oil and gas drilling and refining. HORIBA has taken over facilities and personnel of the acquired business and will provide a full range of measuring equipment and maintenance service to customers. Through this acquisition, HORIBA aims to enter the process analytical business and realize synergies by integrating the newly acquired process know-how and technologies with HORIBA's existing expertise. As a result, we are forecasting a six fold growth in combined sales for our Process and Environmental segment sales in the U.S. by 2018.

HORIBA's new facilities integrate gas and liquid measurement devices used for processing of petroleum, ethylene, and other products. The acquired business markets turn-key packages and systems coupled with maintenance and service contracts.

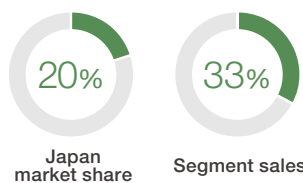


Major products and market shares

Stack Gas Analyzers



H-1 series of industrial water quality analyzers



These analyzers provide highly sensitive and precise measurements of NO_x, SO₂, CO, CO₂, and O₂ constituents in gases emitted by boilers and furnaces in thermal power stations and refuse incineration facilities. A single unit can simultaneously and continuously measure all five gases. HORIBA has a leading market share in this competitive market with over 50 competitors.

The H-1 industrial water quality analyzers perform in a wide range of applications from pure water for semiconductor and food to water treatment to sewage and industrial wastewater. They confirm progress in wastewater treatment processes and control water treatment equipment. Moreover, we have developed pH electrodes that resist damage in harsh environments by strengthening their toughness, thereby reducing the frequency of electrode replacement and maintenance operations. In overseas markets where competition is intense, we will be unifying these products with HORIBA Advanced Techno's brand of water quality analyzers to enhance customer satisfaction while utilizing the strengths of HORIBA, Ltd.

Note: Market shares quoted are estimates by HORIBA.

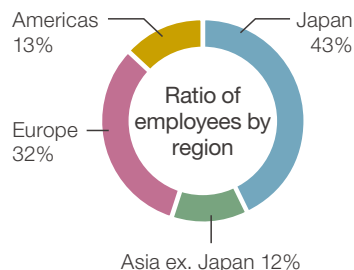


Invisible values

Assets that do not appear in the financial statements

Human resources

HORIBA recognized its employees as the most precious assets. A core objective of acquisitions is to acquire highly competent human resources. Constructive acquisitions have raised HORIBA's ratio of non-Japanese employees to 57%. This high ratio was not achieved by pursuing low-cost overseas labor forces. In fact, HORIBA has acquired very talented people, many holding doctorate degrees, through the acquisitions. This makes us a very unique Japanese company.



Technologies

Technological development is the most important growth driver that will enable HORIBA to achieve the current Mid-Long Term Management Plan targets: ¥150 billion in consolidated net sales and an operating income ratio of 13% or more. We firmly believe that technical development is the lifeline of a manufacturer such as HORIBA. To make an analogy, technical capability is a form of basic physical fitness, which cannot be maintained without continual training and exercise. Using this analogy, HORIBA needs to keep training in order to maintain the power to make a dash forward in a recovery phase of the economy.

Creating value by using our “Invisible values” is one of HORIBA’s important management philosophies.

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 a 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 fruit and the value of the harvest are important, but it is more important that the roots are growing strong.

Customers

HORIBA helps improve people’s quality of life in a sustainable society by supplying products and providing services to customers. We think it is important to provide solutions in addition to supplying hardware (instruments). In order to achieve this goal, we collaborate with suppliers and group companies in Japan and overseas to improve the quality of our products and services.

Organizational structures

HORIBA operates five businesses in 27 countries. We believe it is important that our competent employees in each business and each region take the initiative in promoting their business and that we have the cohesive power to sustain HORIBA as an integrated group. With that aim, we are spreading our “Joy and Fun” corporate culture into our global groupwide operation and promoting “One Company Matrix Management.”

Brands

HORIBA works on growing Invisible Values in human resources, technologies, and its corporate culture. Invisible Values are essential in generating future earnings and enabling enterprise continuity, while achieving numerical targets for net sales, profits, and other indicators. We believe that these efforts are reflected in raising the value of the HORIBA brands.

Value Creation Based on Invisible Values



Without being swayed by economic upturns and downturns HORIBA has consistently invested in human resources, which are precious “invisible values” of the company. The foundation for sustainable value creation is the understanding each HORIBA employee has of our corporate motto “Joy and Fun” and corporate culture that is symbolized by “Open and Fair” and “entrepreneurial spirit”, and puts this heritage into practice in his or in her role. We have established a global personnel development and exchange program for all our employees.



HORIBA COLLEGE

The HORIBA COLLEGE hosted 21 courses for around 430 attendees in 2012 at the training center called “FUN HOUSE”. Since its opening in february 2009, the number of courses has reached about 100 and the total number of attendees is almost equal to the number of employees based in japan. Our employees teach and learn from each other. Our ultimate objective is to ensure that

HORIBA's know-how and skills that have been accumulated over 60 years will be inherited by the next generation. Our belief is that the expert knowledge and experience directly linked to our business operations should be maintained by sharing them within the group. Implanting HORIBA's corporate culture at the same time leads to the effective development of high-quality personnel.

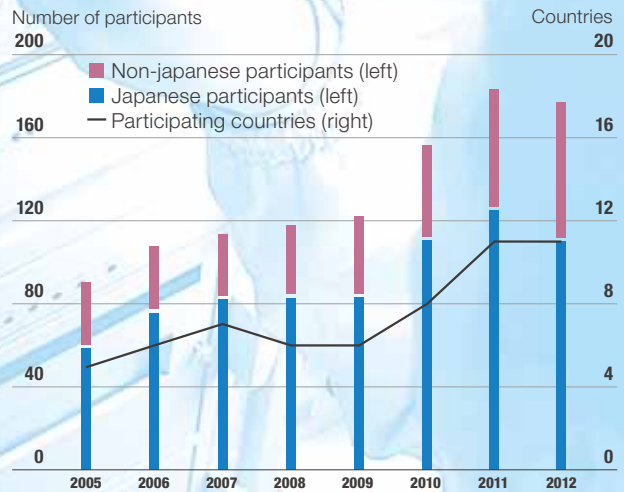
GLOBAL Strategy/Budget MEETING

HORIBA holds Global Strategy/Budget Meetings, where group companies' management and executives get together to discuss business strategies, budget, and various other matters in English. It is held twice a year since 15 years ago with the aim of facilitating smooth global business execution. We believe that face-to-face communication is critical in sharing management issues

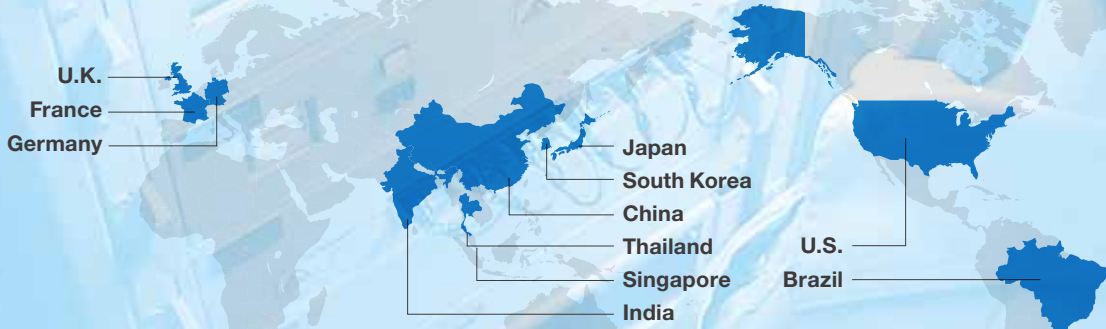
among group companies globally and accelerating the speed of decision making.



Global Strategy/Budget Meeting Participants



Global Strategy/Budget Meetings were attended by participants in as many as 11 countries in 2012.



Value Creation Based on Invisible Values

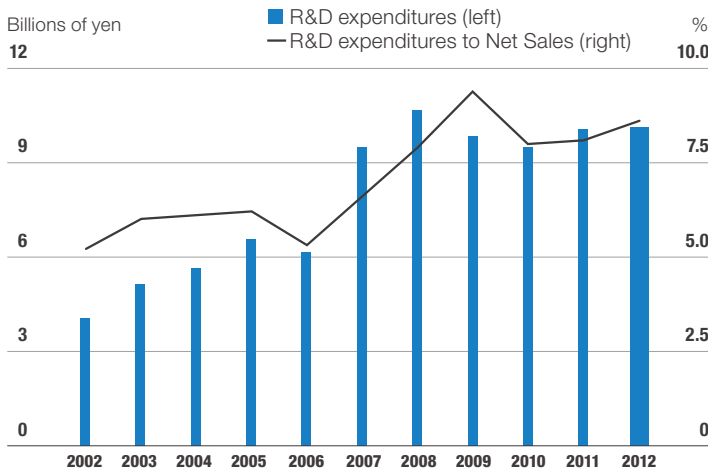


Technical development will accelerate further growth

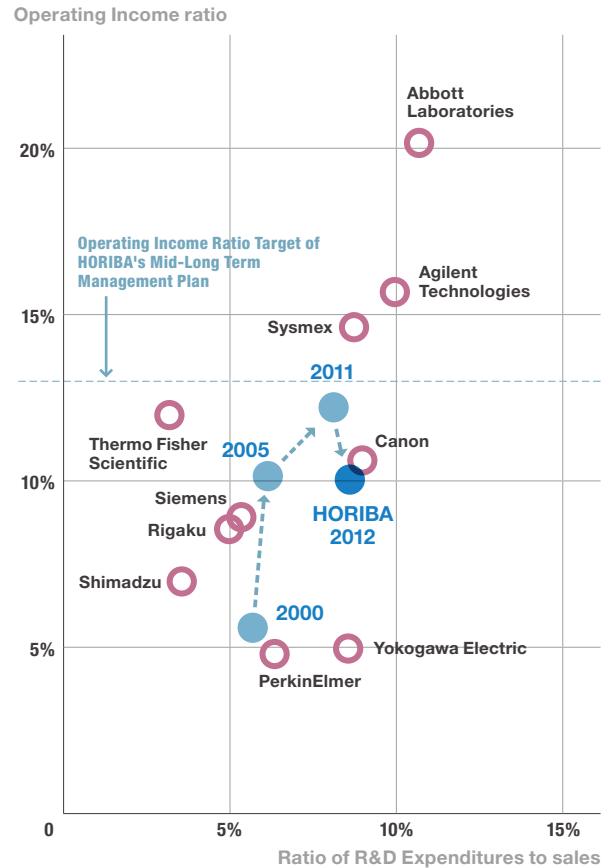
The development of analytical technologies and engineering technologies is the core value of HORIBA as an analytical and measurement equipment manufacturer. Based on the strategy of maintaining R&D investment at 7-8% of sales, we have been continuing to invest during economic downturns, while our competitors have reduced their investments.

This strategy has boosted our market share during subsequent upturn phases. In 2009-2010, our sales declined sharply, but we maintained the same level of R&D investment. We firmly believe this investment will contribute to our future growth. HORIBA aims to improve the efficiency of our R&D investments and realize a higher operating income ratio.

R&D expenditures and R&D expenditures to net sales



Comparison with other companies – operating income ratio and ratio of R&D expenditures to net sales



Other companies' information is extracted from their disclosed materials: Financial result materials of the fiscal year ended December 2012 for non-Japanese companies and Canon and those of the fiscal year ended March 2012 for other Japanese companies

From core technology to product development

HORIBA allocates its R&D resources to specific analytical technologies and apply them to product development in five different business segments and achieves product releases efficiently.

HORIBA's major analysis and control technologies (selected on the basis of sale-size importance)	Automotive	Process & Environmental	Scientific	Medical	Semiconductor
	Infrared measurement Technology for real-time analysis of elements in gases	●	●	●	
Gas flow control Technology to measure and instantly control the flow of gases	●	●			●
Particle-size distribution analysis Technology to measure particle diameter and particle distribution	●		●	●	
Spectroscopic analysis Technology for analysis of visible light			●		●

Aiming for management of global development and services

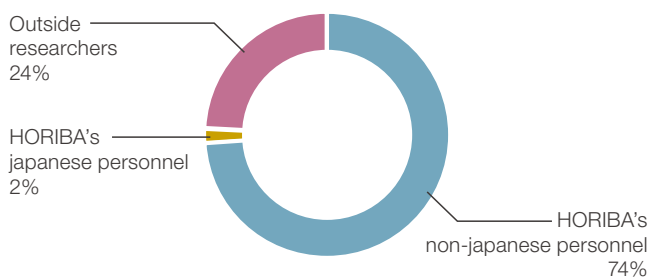
HORIBA's technical journal "READOUT," which has been issued since 1990, publishes variety of technical information and messages globally. Mr. Atsushi Horiba, current president, contributed an article to No. 2 issue in 1991 entitled "Global R&D." "READOUT" featured Asia in 2010, America in 2011, and Europe, the largest base of the HORIBA Group, in 2012 with the No. 39 issue.

These three were originally edited and issued in English. For example, over 70% of technical research papers and articles in the No. 39 issue were written by HORIBA's overseas personnel and over 20% were contributed by our customers in Europe or professors who are engaged in joint research with us. Having global R&D bases which are capable of such publication is one of HORIBA's strengths.

HORIBA, Ltd. implemented an organizational change in 2011, and has been strengthening a function-based across-the-segment R&D activities under a newly-established R&D Division. As the next step, we are focusing on improving the global headquarters' functions of our entire global R&D

activities. Being strongly oriented towards organic integration with our overseas acquisitions, HORIBA sees its technical capabilities extending around the world as a set of values that is not limited to a region or a business domain. The ultimate goal is to enhance the efficiency of HORIBA's global technical assets. We take full advantage of our global collaboration in technology development. This is one of the keys for our growth.

Breakdown of contributors to readout No. 39 issue

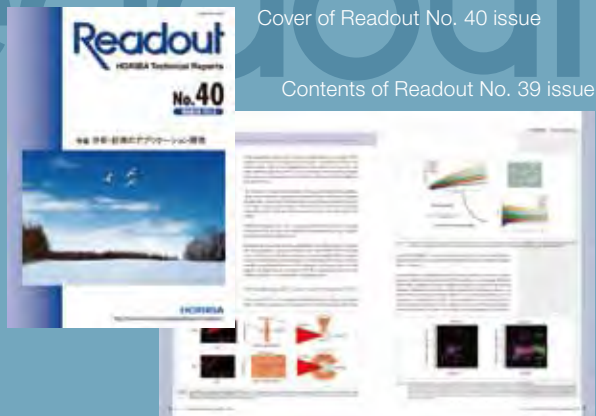


HORIBA's technical journal "READOUT"

"READOUT" is a technical journal issued by HORIBA since 1990. The name "READOUT" represents our sincere desire to offer whatever the necessary information to read because we would like to have our company's proprietary products and technologies well understood. The journal is issued both in English and in Japanese and is widely distributed to variety of people overseas including customers.

The latest No. 40 issue

The latest No. 40 issue focuses on analytical and measurement applications. In order to raise profitability, HORIBA finds it important to make proposals to customers about what kinds of analysis and measurement can be performed by using hardware, rather than simply selling equipment (hardware). This essentially means being a "solution provider". From this perspective, the latest issue introduces what kinds of analysis and measurement can be conducted with HORIBA's various analytical systems and how they can contribute to technological innovation.



Corporate Governance

Corporate governance philosophy

HORIBA fully recognizes the importance of its shareholders as the company's owners. Since the 1950's, when Japanese companies paid little attention to corporate governance, HORIBA has pledged to conduct its corporate affairs by the following policies which focus on our responsibility to the company's owners.

Appointment of outside directors and corporate auditor

To avoid managing with an introverted approach, HORIBA has always appointed directors and corporate auditors from outside the company. This practice started with the company's origin in 1953 and has been continued through to the present day.

Implementing shareholder return linked to earnings growth

HORIBA was the first listed Japanese company to start paying shareholder dividends based on a predetermined payout ratio in 1974 when the company was listed in the Second Section of the Tokyo Stock Exchange. From 2013, we will change the base amount of profit returns to shareholders from 30% of nonconsolidated net income to 30% of consolidated net income combined with the amount of dividend payments and share buybacks, so that shareholder returns are more directly linked to consolidated performance.

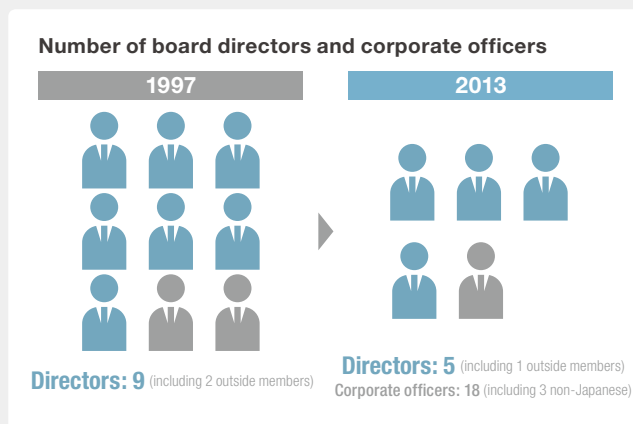
Open general meetings of shareholders

Since its initial stock listing in the Second Section of the Osaka Securities Exchange in 1971, HORIBA has encouraged all shareholders (whom we frequently call owners) to attend the annual General Shareholders Meeting. These meetings are held on Saturdays to facilitate public attendance. An

informal get-together event is held afterwards to enable shareholders to talk directly with the management.

Adoption of a corporate officer system

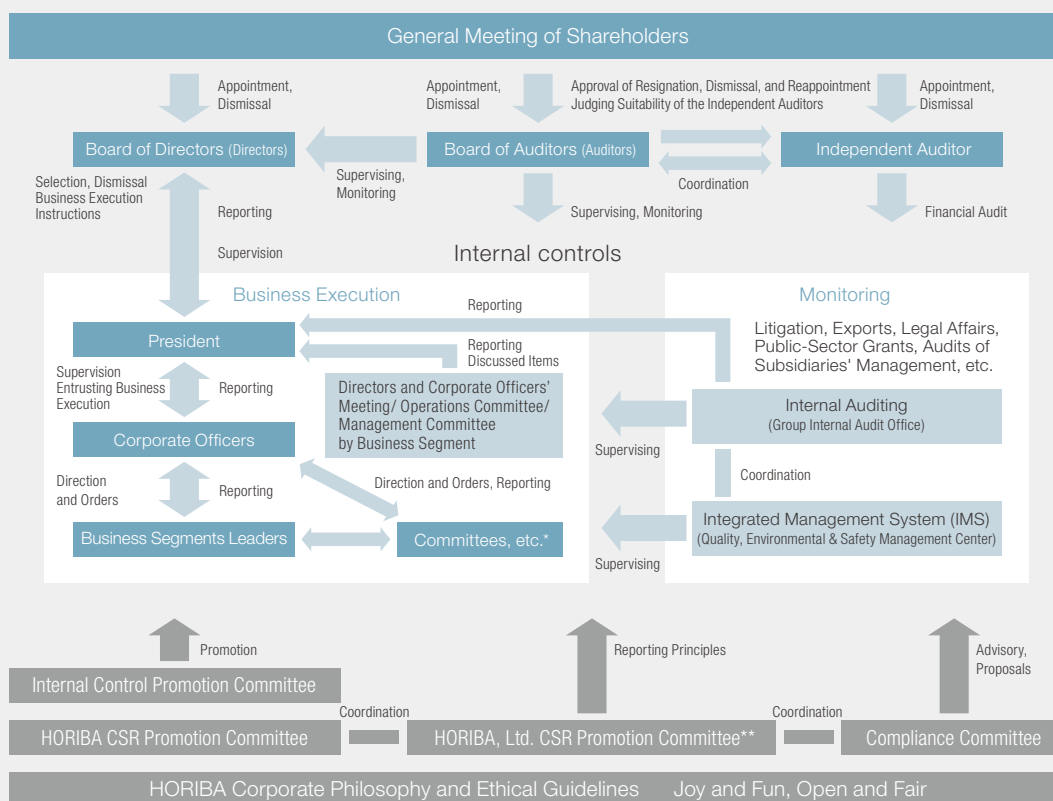
Since 2005, HORIBA has decreased the number of directors to five members to prevent the Board of Directors meetings from becoming inflexible and to promote lively, in-depth discussion. In addition, we introduced a corporate officer system in 1998 to augment managerial capability. At present, HORIBA has 18 corporate officers including three non-Japanese. One of them is Dr. Jai Hakhu, who joined HORIBA in 2010 and now serves as a head of HORIBA's U.S. operation.



(As of April 1, 2013)

Board of directors and auditors			Corporate officer	
Chairman, President & CEO	Atsushi Horiba		Executive Corporate Officer	Dr. Jai Hakhu
Executive Vice President	Dr. Kozo Ishida		Senior Corporate Officer	Dr. Michel Mariton
Executive Vice President	Juichi Saito			Dr. Masayuki Adachi
Managing Director	Fumitoshi Sato			Sunao Kikkawa
Director (Outside)	Masahiro Sugita	Auditor of MSD K.K. Auditor of The 77 Bank, Ltd.		Takashi Nagano
Auditor	Toshihiko Uno		Corporate Officer	Dr. Kiyooki Hara
Auditor (Outside)	Kanji Ishizumi	President of the Law offices of Chiyoda Kokusai, Attorney at Law		Hideyuki Koishi
Auditor (Outside)	Keisuke Ishida	Chairman of the Board, CEO, Shashin Kagaku Co., Ltd. Chairman of the Board, SK-Electronics Co., Ltd.		Bertrand de Castelnaud
			Junior Corporate Officer	Yuichi Muroga
				Atsushi Nakamine
				Seiji Usui
				Hiroshi Kawamura
				Narihiro Oku
				Tadao Nakamura
				Tsukasa Satake
				Yasuo Yamashita
				Kenichi Obori
				Hideyuki Nishibun

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.

An outside director's views on HORIBA's corporate governance

Board meetings

I have been delighted to attend HORIBA's Board of Directors meetings, where lively and constructive small-group discussions are conducted in a casual atmosphere. During the meetings, I tend to ask candid questions from a broader general perspective, rather than from my area of expertise, which is in macro economics and international finance. My goal is to affirm management's attitude and commitments.

Corporate culture that induces innovation

Over 90% of HORIBA's management have lived and worked overseas, and this enables discussions to be from a broader perspective and extend beyond Japan's domestic issues. Every HORIBA division has experts in their respective fields who have a keen eye for what is going in both technical fields and industry markets. In my view, HORIBA has a corporate culture that encourages individuals to take on new challenges that induces innovation, which is embodied in its corporate motto "Joy and Fun" and in good communication within the Group.

Overseas group companies' governance

I see HORIBA is doing well as a Japanese company, in embracing more practices that are a global norm among leading companies overseas. One example is that the group's global meetings have been conducted in English for 15 years. I believe HORIBA can take advantage of its unique corporate philosophy and culture, which was nurtured in Kyoto, to become more formidable. In my view, it is important to use the power of young people and instill governance through its culture. In contrast, Japanese companies tend to have a common challenge to enhance their support functions such as finance, auditing, legal matters, and intellectual properties. HORIBA should improve its corporate power by continuing to look at external institutions and other means.



Outside Director
Masahiro Sugita

Masahiro Sugita served as Director-General of the International Department of the Bank of Japan and Director of the Research Institute of Overseas Investment of the Export-Import Bank of Japan before being appointed as Auditor of the Bank of Japan, a position he held from 1999 to 2003. In 2003, he began to serve as Outside Auditor (full-time) of Banyu Pharmaceutical Co., Ltd., the former MSD K.K. Since 2006, he has been appointed as an outside director of HORIBA, Ltd. He also serves as an auditor of The 77 Bank Ltd.

CSR

Corporate social responsibility (CSR) policy

“Promoting CSR through operations”

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

HORIBA Group CSR policy

Promote CSR through operations

HORIBA helps realize a pleasant and happy society by promoting corporate activities based on the key issues of the global environment, human health, public safety and energy.

CSR promotion committee

HORIBA established the HORIBA Group CSR Promotion Committee in April 2005 in order to promote group-wide CSR activities. The committee, which is chaired by Dr. Kozo Ishida, Executive Vice President of HORIBA, Ltd., and participated in by four directors in charge of CSR from the four group companies in Japan, decides on the CSR policy and priority measures. Each of the group companies has its own CSR Promotion Committee where the policy and measures decided by the HORIBA Group CSR Promotion Committee are reported, and HORIBA's social contributions concerning education, the environment, local communities, and other areas are put together and reported.

Top issues for 2012

HORIBA PREMIUM – Create First Class Value

Realize HORIBA PREMIUM from the perspective of CSR

1. Enhance communication with stakeholders
2. Achieve IMS* targets
3. Adhere to compliance

* IMS (Integrated Management System):

This is a unique service program established by the Japan Quality Assurance Organization (JQA). Various management system standards such as quality (ISO9001), the environment (ISO14001), health and safety (OHSAS18001), and medical (ISO13485) standards, are integrated and JQA assesses how effectively the system is managed within the organization.

CSR Report: Gaiareport

HORIBA publishes the "Gaiareport" as an annual environmental and corporate social responsibility report. Since 2009, the report has been comprised of two parts: a booklet and a Web version. Various statistical data concerning compliance, environmental burden, and other information are disclosed on the web, in order to facilitate the search function. The booklet features select topics and is compact and easier to read, resulting in a significant reduction in paper volume.

Please visit our website for details.

<http://www.horiba.com/gaiareport/>

HORIBA Gaiareport



Gaiareport 2012



Website

FINANCIAL DATA

Year Ended December 31, 2012



Eleven-Year Summary

	2003.3	2004.3	2005.3	2006.3	2006.12	
For the Year						
Net sales	¥78,501	¥85,073	¥92,492	¥105,665	¥116,099	
Operating costs and expenses	73,027	78,223	83,119	94,390	104,392	
Operating income	5,474	6,850	9,373	11,275	11,707	
Net income	786	2,074	3,524	6,473	6,510	
Capital expenditures	3,444	3,501	3,956	5,664	5,059	
Depreciation and amortization	2,915	3,037	2,944	3,173	3,246	
Research and development expenses	4,044	5,129	5,636	6,553	6,136	
At Year-End						
Total assets	¥100,542	¥92,657	¥99,913	¥119,976	¥129,236	
Cash and cash equivalents	22,061	13,603	16,108	14,884	15,673	
Trade notes and accounts receivable	Affiliated companies	-	-	-	-	
	Other	29,594	29,143	30,595	37,408	42,485
Inventories	18,336	19,402	22,012	27,273	30,947	
Property, plant and equipment, net	19,000	18,841	18,481	20,223	21,700	
Trade notes and accounts payable	Affiliated companies	51	58	26	45	44
	Other	9,147	8,700	11,264	13,017	14,917
Liabilities with interest	33,218	21,460	16,042	13,866	16,224	
Shareholders' equity	40,144	43,348	52,263	65,446	72,371	
Share price at end of fiscal period (¥)	765	1,380	1,950	3,690	4,400	
Number of employees (consolidated)	3,691	3,808	3,984	4,461	4,697	
Per Share Information						
Net income - basic	¥22.21	¥62.90	¥98.33	¥154.27	¥154.23	
Net income - diluted	18.31	50.10	83.81	146.97	153.70	
Net assets	1,293.30	1,350.31	1,415.75	1,548.08	1,710.75	
Cash dividends	14.50	10.00	16.00	28.00	26.00	
Financial Ratios						
Operating income to net sales (%)	7.0	8.1	10.1	10.7	10.1	
Return on assets (%)	0.8	2.2	3.7	5.9	5.2	
Return on equity (%)	2.0	5.0	7.4	11.0	9.4	
Shareholders' equity ratio (%)	39.9	46.8	52.3	54.6	56.0	
Consolidated dividend payout ratio (%)	57.2	15.3	16.5	18.1	16.9	
Nonconsolidated dividend payout ratio (%)	40.8	30.3	41.8	33.8	30.0	

Notes: The stated amounts are rounded down to the nearest million yen from the year, ended December 31, 2009, but are rounded (up or down) to the nearest million yen prior to that year.

1. The U.S. dollar amounts are provided solely for convenience at the rate of ¥86.58 to US\$1.00, the rate prevailing on December 31, 2012.
2. Effective from 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.
3. Effective from 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.
4. 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.

2007.12	2008.12	2009.12	2010.12	2011.12	2012.12	2012.12
Millions of yen						Thousands of U.S. dollars (Note 1)
¥144,283	¥134,248	¥104,538	¥118,556	¥123,456	¥117,609	\$1,358,385
127,753	123,290	99,394	106,256	108,549	105,857	1,222,649
16,530	10,958	5,144	12,299	14,906	11,751	135,724
8,691	6,039	3,161	7,927	8,664	7,396	85,423
9,336	6,645	4,534	4,033	4,670	7,882	91,037
4,161	4,955	4,573	4,523	4,146	3,743	43,231
9,474	10,662	9,831	9,480	10,060	10,092	116,562
Millions of yen						Thousands of U.S. dollars (Note 1)
¥154,367	¥133,279	¥129,580	¥137,290	¥144,649	¥153,836	\$1,776,807
20,565	22,660	27,590	34,459	35,767	38,858	448,810
-	63	6	1	126	4	46
45,873	37,330	34,505	36,425	39,249	37,516	433,310
33,734	29,802	23,363	24,843	26,288	28,101	324,566
24,071	23,115	23,602	22,516	22,924	28,179	325,467
53	40	52	60	0	21	242
16,792	11,063	10,515	13,423	13,196	11,807	136,370
25,177	20,984	18,348	17,128	18,358	18,083	208,858
80,377	76,829	79,906	84,019	90,232	99,248	1,146,315
4,100	1,237	2,250	2,303	2,320	2,489	28.74
4,976	5,146	5,133	5,202	5,448	5,530	
Yen (Notes 2, 3, 4)						U.S. dollars (Note 1)
¥205.01	¥142.76	¥74.77	¥187.46	¥204.88	¥174.87	\$2.01
204.39	142.71	74.68	187.11	204.41	174.37	2.01
1,892.64	1,816.96	1,889.58	1,986.77	2,133.44	2,346.45	27.10
39.00	44.00	13.00	17.00	40.00	50.00	0.57
11.5	8.2	4.9	10.4	12.1	10.0	
6.1	4.2	2.4	5.9	6.1	5.0	
11.4	7.7	4.0	9.7	9.9	7.8	
52.1	57.6	61.7	61.2	62.4	64.5	
19.0	30.8	17.4	9.1	19.5	28.6	
30.1	30.0	30.0	30.3	30.5	37.5	

Computations:

Shareholders' equity = net assets - subscription rights to shares - minority interests

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 (¥) = 100 X (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

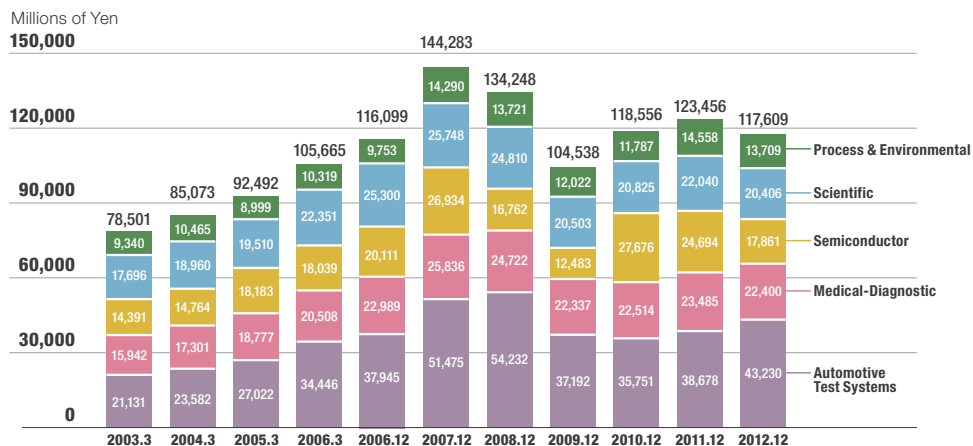
Consolidated dividend payout ratio (%) = 100 x dividends paid / net income (consolidated)

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

*Directors' and corporate auditors' bonuses from the year ended December 31, 2006 are recognized in selling, general and administrative expenses.

Eleven-Year Summary

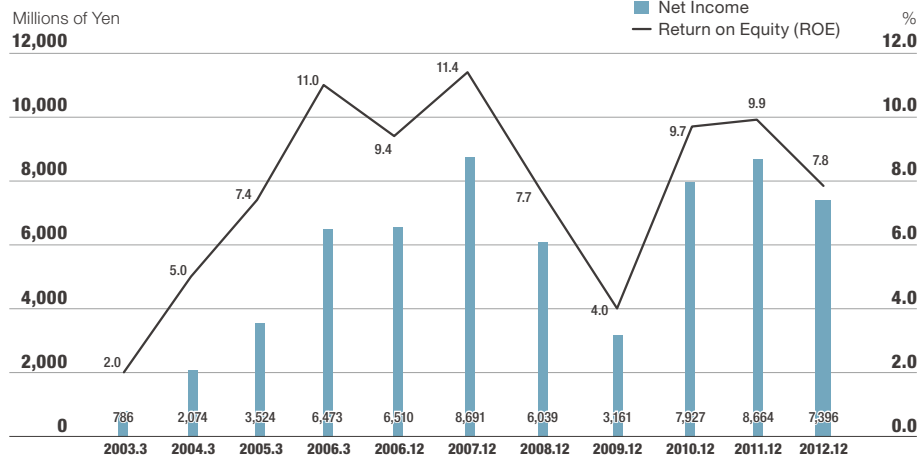
Net Sales by Segment



In fiscal 2012, ended December 31, 2012, HORIBA's net sales decreased for the first time in three years, due to the appreciation of yen, which persisted nearly until the year-end, and the sluggish economy caused by the European debt crisis and other factors.

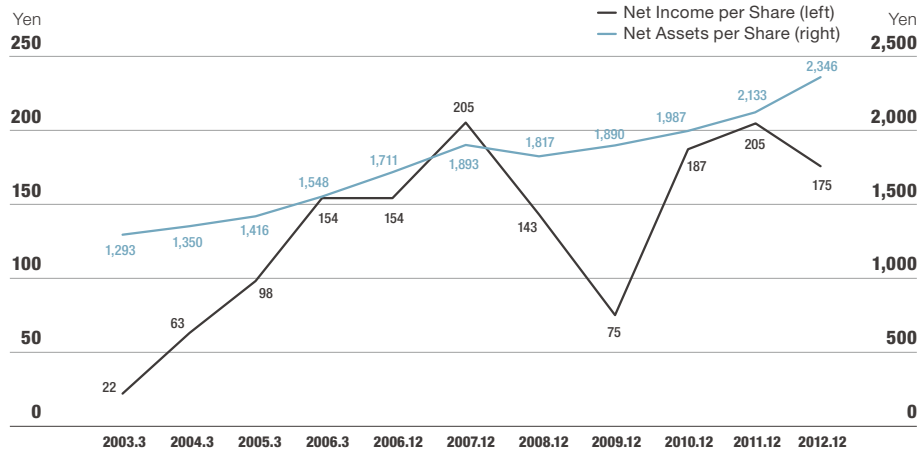
By segment, the Automotive Test Systems segment witnessed a recovery in capital investment and R&D investment by automakers but the Semiconductor Instruments & Systems segment recorded a significant decrease in sales. The appreciation of the yen reduced the value of overseas sales when converted into yen in the Scientific Instruments & Systems segment and the Medical-Diagnostic Instruments & Systems segment.

Net Income and Return on Equity (ROE)



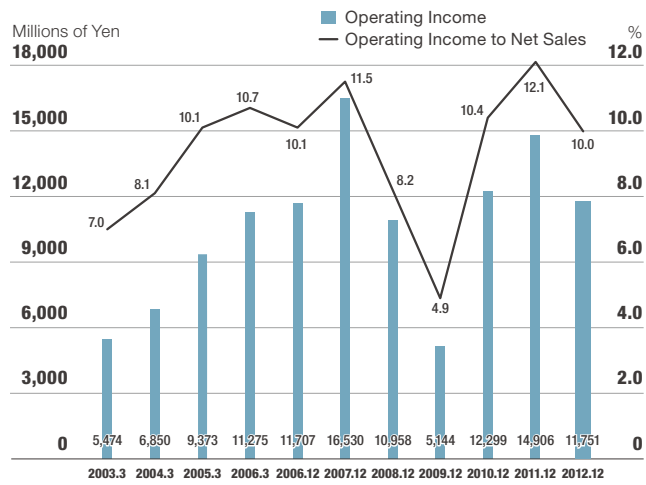
Net income also decreased for the first time in three years, due to a drop in sales in all business segments other than the Automotive Test Systems segment, which achieved improved profitability in response to higher sales and continued cost reduction efforts. This resulted in ROE declining by 2.1 percentage points to 7.8%.

Net Income per Share and Net Assets per Share

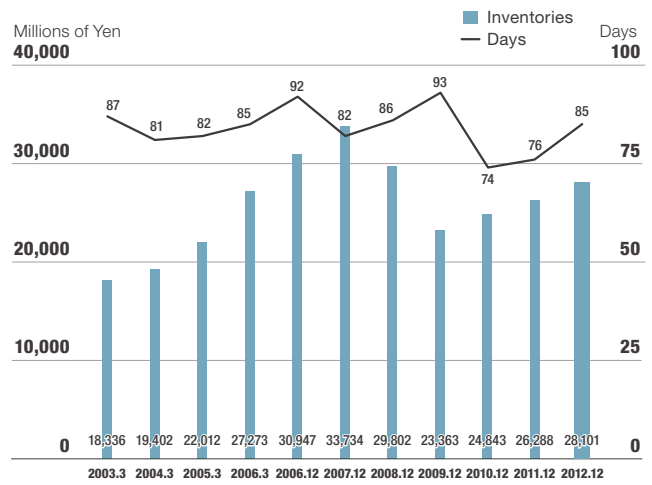


Fiscal 2012 net income per share was ¥175, down ¥30 from the previous year, while net assets per share renewed a record-high of ¥2,346.

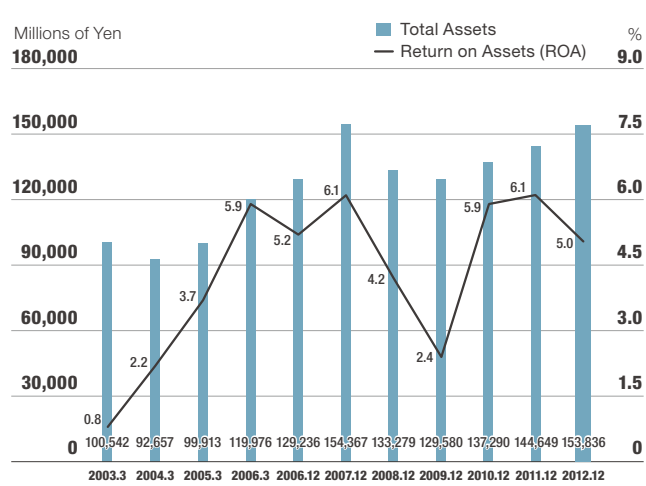
Operating Income and Operating Income to Net Sales



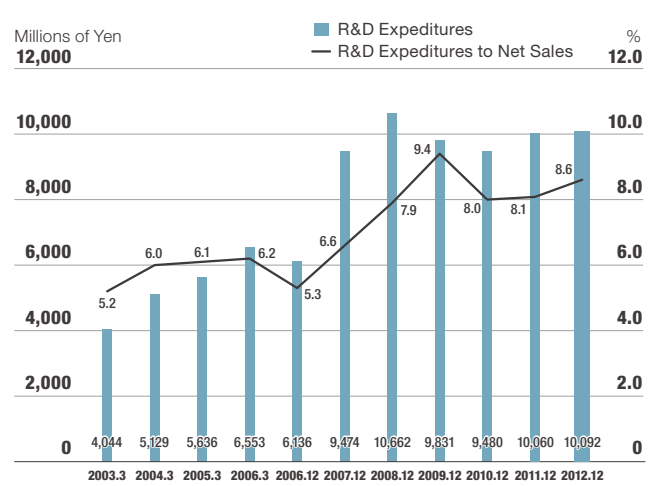
Inventories and Inventory Turnover (Days)



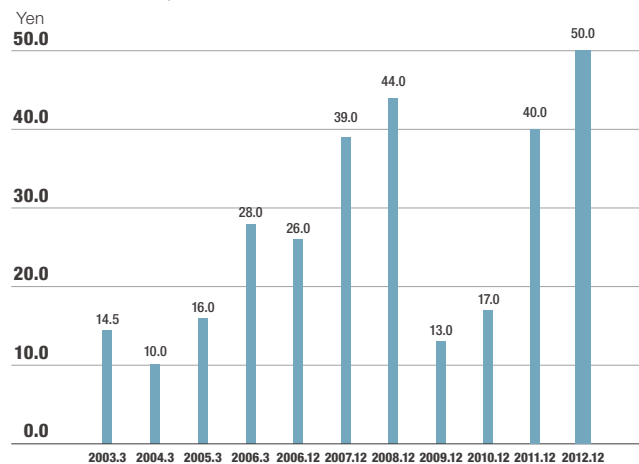
Total Assets and Return on Assets (ROA)



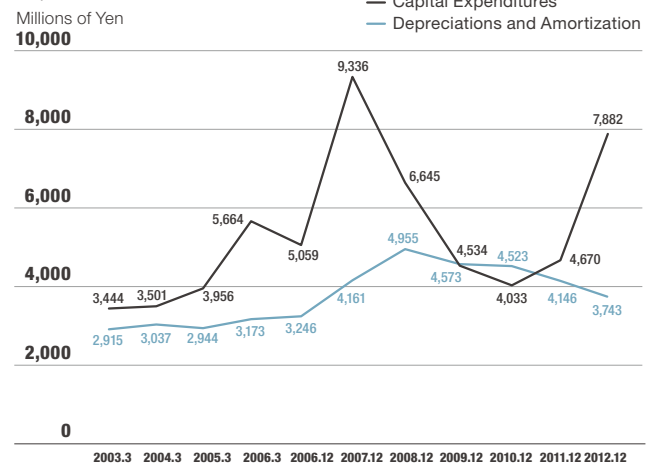
R&D Expenditures and R&D Expenditures to Net Sales



Cash Dividends per Share



Capital Expenditures and Depreciations and Amortization



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During the fiscal year ended December 31, 2012, the US economy saw a moderate recovery mainly in consumer spending and housing construction, but the European economy weakened due to the spreading impact of the debt crisis. Moreover, in emerging countries such as China and India, which continued to grow strongly, economic growth slowed in response to a slowdown in exports to Europe and monetary tightening. The Japanese economy recovered moderately until around spring, on the back of demand for recovery from the Great East Japan Earthquake, but economic activities were weak from summer onward due to the slowdown in the global economy, the persistent strength of the yen and worsening relations with China.

The annual average exchange rates for 2012 were 79.81 yen against the US dollar and 102.55 yen against the euro. While the rate against the dollar did not change from the previous year's level, the yen continued to appreciate against the euro, rising by 8.4% from the previous year.

The analytical and measurement equipment market saw signs of a recovery in capital investment and R&D expenditure by Japanese and overseas automakers. Equipment demand in the semiconductor-related market dropped sharply from summer onward, as semiconductor makers and light-emitting diode (LED) makers had completed a cycle of capital spending. In addition, owing to the stronger yen and intensified competition, the general trend of declining product prices continued in all segments.

In the face of these economic conditions, HORIBA, Ltd. ("the Company") and its consolidated subsidiaries (together "the HORIBA Group" or "HORIBA" as a consolidated group) implemented measures to enhance our businesses. The HORIBA Group promoted business restructuring through the Corporate & Segment Strategy Division, which was newly established in fiscal year 2011 to design and promote overall business strategy, and accelerated the launch of products that met market needs.

By business segment, in the Automotive Test System Segment, MCT (Mechatronics) business, acquired from Carl Schenck AG (Germany) in 2005, turned profitable thanks to the successful transfer of production bases and cost reduction activities and the launch of new engine emission measurement systems, HORIBA's major product. In China, where demand has been expanding, the segment set up demonstration facilities for testing equipment and developed an organization to capture local demand.

In the Process & Environmental Instruments & Systems Segment, sales declined as demand for environmental radiation monitors tapered off, but the segment set up a service office in

Fukushima Prefecture and developed an organization capable of providing fine-tuned services. In addition, the segment responded to increased demand for stack gas analyzers for thermal power plants in various regions of Japan.

In the Medical-Diagnostic Instruments & Systems Segment, with the aim of responding to growing demand for testing reagents in various countries, HORIBA undertook work on a new reagent plant in India. In Japan, HORIBA STEC Co., Ltd. completed the expansion work on the Aso factory in Kumamoto Prefecture in order to enhance the production system for blood cell testing instruments and thereby increased production capacity.

The Semiconductor Instruments & Systems Segment promoted cost cutting by making use of the know-how of Beijing HORIBA METRON Instruments Co., Ltd., revised production processes in tandem with the expansion of the Aso factory and promoted a production system that can respond smoothly to changes in production volume.

In the Scientific Instruments & Systems Segment, owing to the completion of the new R&D center in Europe, which was being constructed in the suburbs of Paris in France, HORIBA aims to develop products that meet the advanced needs of customers in advanced material analysis and other fields by supporting joint research with universities and research institutions.

At the same time, the Group implemented cost reduction measures to improve profitability. Specific measures included promotion of the use of "shared services" (consolidation of common services in several organizations to make them more efficient and specialized) and organizational restructuring of integrating group companies in Brazil under the U.S. operation with the aim of expanding sales in growing markets. Furthermore, in the UK, the Group is accelerating the promotion of One Company management through the consolidation of group companies, curbing fixed costs and speeding up management decisions. In Japan, the Company merged with HORIBA Itec Co., Ltd., which handles driving management systems, at the start of the year and aims to further expand business operations by accelerating the launch of products through the sharing of development resources and creating a fine-tuned support system. Despite such measures and sales efforts, both consolidated sales and profit of HORIBA decreased from a year ago.

Net Sales

In the fiscal year under review, consolidated net sales decreased by ¥5,847 million, or 4.7%, year on year to ¥117,609 million. The

average foreign exchange rate applied in book closings was ¥79.81 to the U.S. dollar, compared with ¥79.80 for the previous year, and ¥102.55 to the euro, compared with ¥111.13 for the previous year. Using the exchange rates for the previous year, consolidated sales for the year under review would have been ¥120,426 million. Thus, ¥2,816 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 ¥2,039 million to ¥68,220 million. The cost of sales ratio deteriorated by 1.1 percentage points from a year ago to 58.0%, due mainly to the under utilization of the plants resulting a decline in production volume. Excluding ¥1,649 million from fluctuations in foreign exchange rates, however, the actual decrease in cost was ¥390 million rather than the nominal decrease of ¥2,039 million.

Selling, general and administrative (SG&A) expenses decreased by ¥652 million from the previous year to ¥37,637 million. The ratio to net sales deteriorated by 1.0 percentage points to 32.0% due mainly to an increase in R&D expenses. Excluding ¥944 million from fluctuations in foreign exchange rates, however, the actual increase in SG&A expenses was ¥291 million rather than the nominal decrease of ¥652 million.

As a result, consolidated operating income decreased by ¥3,155 million, or 21.2%, year on year to ¥11,751 million. The operating income ratio was 10.0%, down 2.1 percentage points from 12.1% for the previous year.

Business Segments

The operating results of each business segment are summarized as follows.

(Automotive Test Systems)

Although sales declined in Europe because of the yen's appreciation for the period, signs of a recovery in capital investment and R&D expenditure by automakers in the US and Japan were evident, and sales grew in Asia in response to increased investment. Moreover, as sales of engine emission measurement systems, HORIBA's major product, increased and cost cutting bore fruit in the MCT business, profitability improved in the second half of the year in particular. Consequently, sales in the segment increased by 11.8% year-on-year to ¥43,230 million and operating income rose by 55.7% to ¥4,412 million.

(Process & Environmental Instruments & Systems)

Stack gas analyzers for thermal power plants, water quality

analyzers and other products that responded to various environmental regulations showed underlying strength. Sales of environmental radiation monitors decreased gradually from the second quarter as the demand for the monitors that soared after the Great East Japan Earthquake tapered off. As a result, sales in the segment decreased by 5.8% year-on-year to ¥13,709 million and operating income declined by 35.1% to ¥1,642 million.

(Medical-Diagnostic Instruments & Systems)

Although sales of blood cell testing instruments were robust in various Asian countries, sales declined in Europe and the US due to the stronger yen. Consequently, sales in the segment decreased by 4.6% year-on-year to ¥22,400 million and operating income declined by 21.7% to ¥2,478 million.

(Semiconductor Instruments & Systems)

In the first half of the year, production recovered at some semiconductor production equipment manufacturers, which are HORIBA's customers, and resulted in an increase in sales of HORIBA's mainstay products such as mass flow controllers and chemical concentration monitors. In the second half of the year, however, sales declined from the impact of customer production adjustments and profitability deteriorated substantially. Sales in the segment decreased by 27.7% year-on-year to ¥17,861 million and operating income declined by 53.9% to ¥2,274 million.

(Scientific Instruments & Systems)

In Japan, sales of products such as newly released pH meters showed underlying strength. However, sales of HORIBA Jobin Yvon's products fell after government budget reductions in various countries and after conversion to the stronger yen. Consequently, sales in the segment decreased by 7.4% year-on-year to ¥20,406 million and operating income declined by 34.2% to ¥943 million.

Net Income

Other income (expenses) improved by ¥678 million from fiscal 2011 to a loss of ¥581 million. (The result in fiscal 2011 was due in part to a loss on valuation of investment securities of ¥370 million and provision for business structure improvement of ¥267 million caused by restructuring MCT business in Germany.) Nevertheless, because of the deterioration in operating income, pretax income decreased by ¥2,476 million, or 18.1%, to ¥11,170 million, and net income decreased by ¥1,268 million, or 14.6%, to ¥7,396 million.

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Financial Position

As of December 31, 2012, total consolidated assets were ¥153,836 million, up ¥9,186 million from December 31, 2011. The main factors contributing to the increase of total assets were an increase in cash and cash equivalents of ¥3,090 million and an increase in capital expenditures that increased buildings and structures by ¥4,766 million.

Total consolidated liabilities increased by ¥110 million from the previous year to ¥54,299 million. The increase in total liabilities was due mainly to an increase of ¥1,548 million in other current liabilities despite a decrease of ¥1,367 million in trade notes and accounts payable.

Total consolidated net assets amounted to ¥99,536 million, up ¥9,076 million from a year ago, due mainly to an increase of ¥5,446 million in retained earnings and ¥3,289 million in foreign currency translation adjustments.

Cash Flows

(Cash Flow from Operating Activities)

Net cash provided by operating activities amounted to ¥13,395 million, compared to ¥6,954 million provided in the previous year. Factors contributing to this amount included an increase of ¥11,170 million in income before tax and an increase in depreciation and amortization expense of ¥3,743 million.

(Cash Flow from Investing Activities)

Net cash used in investment activities amounted to ¥7,891 million, compared to ¥6,145 million used in the previous year, due mainly to payments of ¥6,741 million for purchases of property, plant and equipment.

(Cash Flow from Financing Activities)

Net cash used in financing activities amounted to ¥3,304 million, compared to ¥855 million provided in the previous year. This was mainly attributable to a decrease of ¥2,395 million in short-term borrowings and payment of ¥1,943 million in dividends, while an increase of long-term debt was ¥1,827 million.

As a result, there was a net increase of ¥3,090 million in cash and cash equivalents to ¥38,858 million as of December 31, 2012.

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. The Company pays commemorative dividends celebrating the

anniversary of its foundation and other milestones and pays special dividends on other occasions. 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.

From fiscal 2013, the Company will adopt a dividend policy in which it will maintain a total shareholder return ratio of around 30% of consolidated net income of the Company, combined with the amount of dividend payments and the amount of share repurchases, in response to the Company's expansion and the enhancement in profitability of domestic and overseas group companies and with a view to the flexible repurchasing of shares in accordance with the state of securities markets and the Company's financial condition. The Company will continue to make effective use of internal reserves to improve corporate value through increased profit and focus on investment in growth areas and will make returns to shareholders that are linked to consolidated earnings.

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 and 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 transaction amounts 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 and 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) Repair of Facilities Following Natural Disasters and Associated Delays in Delivery, etc.

The HORIBA Group's manufacturing bases are located in diverse areas, including Japan (Kyoto, Shiga and Kumamoto Prefectures), Europe (France, Germany and the Czech Republic), the U.S. and Asia (China and South Korea). However, it is possible that HORIBA's financial condition and business performance could be affected in the case of a major earthquake or other natural disasters, as HORIBA's manufacturing facilities could be damaged and require expensive repairs or an interruption to HORIBA's supply chain could affect HORIBA's production and/or distribution.

(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 for damages arising from different views of performance or different understandings of business terms between parties. It is possible that such circumstances could result in HORIBA facing a claim for compensation.

(5) Litigation Risks

Arising from HORIBA's violation of the Antimonopoly Law in past bidding, HORIBA has received claims for damages from 36 municipal government agencies as of December 31, 2012. HORIBA found that certain parts of the claims regarding the scope of the transaction and calculation of the damages amounts were unacceptable and has decided to ask for judicial relief. Nevertheless, HORIBA has set aside provisions for possible losses from litigation, and it is possible that the HORIBA Group's financial condition and business performance

could be affected depending on the progress of the litigation.

(6) Other Business Risks

In addition to the above-mentioned risks, other risks include a risk of breakdown or malfunction of information systems, threats related to information security and risks associated with laws and regulations imposed on businesses. HORIBA is taking preventive measures against these risks but they 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

The measuring instruments business in which HORIBA operates 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

HORIBA, Ltd. and Consolidated Subsidiaries | Consolidated Financial Review

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. 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, buildings or other assets occurred in the future, there could be a negative impact on the financial condition and business performance of HORIBA reflected by the application of impairment accounting.

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

It is possible that changes in systems or accounting policies (e.g., reductions in tax rates) could require HORIBA to reverse its deferred tax assets at the end of the fiscal year.

4. Risks by Business Segment

HORIBA operates in five business segments: Automotive Test Systems, Process & Environmental Instruments & Systems, Medical-Diagnostic Instruments & Systems, Semiconductor Instruments & Systems and Scientific 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. The setting of legal limits on exhaust emissions affects the demand for these measurement systems. 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) Process & Environmental Instruments & Systems

Demand for environmental-related products such as analyzers for air pollution and water quality may be affected by changes in environmental regulations. Changes in the demand for these products could have a significant impact on HORIBA Group'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 are small- and medium-sized equipment used by small- and medium-sized hospitals and medical practitioners, the target market. 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 the lead time for these products and quickly respond to customers' needs. Nevertheless, sharp fluctuations in the demand for semiconductors and the investment of semiconductor manufacturers could affect the financial condition and business performance of HORIBA.

(5) Scientific Instruments & Systems

Scientific analysis instruments are the main products of the Scientific Instruments & Systems segment and are used for R&D and product quality testing. There is a risk that the demand for these products could be affected by the R&D budgets of government agencies and the R&D investment and production of private enterprises and have a significant impact on HORIBA Group's financial condition and business performance.

Consolidated Balance Sheets

HORIBA, Ltd. and Consolidated Subsidiaries
For the years ended December 31, 2011 and December 31, 2012

Thousands of
U.S. dollars
(Note 1)

ASSETS	Millions of yen		12/2012
	12/2011	12/2012	
Current assets:			
Cash and cash equivalents.....	¥35,767	¥38,858	\$448,810
Trade notes and accounts receivable (Note 7)			
Affiliated companies.....	126	4	46
Other.....	39,249	37,516	433,310
Allowance for doubtful receivables.....	(750)	(856)	(9,886)
Marketable securities (Note 5).....	1,100	1,501	17,336
Inventories (Note 6).....	26,288	28,101	324,566
Deferred tax assets (Note 15).....	3,201	2,881	33,275
Other current assets.....	3,272	3,980	45,969
Total current assets.....	108,255	111,988	1,293,462
Property, plant and equipment:			
Land.....	7,362	8,172	94,386
Buildings and structures.....	19,443	24,210	279,625
Machinery, equipment and vehicles.....	11,856	12,807	147,920
Construction in progress.....	2,130	1,851	21,379
Other property, plant and equipment.....	12,388	13,386	154,608
Total.....	53,181	60,428	697,944
Accumulated depreciation.....	(30,256)	(32,249)	(372,476)
Net property, plant and equipment.....	22,924	28,179	325,467
Investments and other noncurrent assets:			
Investment securities (Note 5).....	3,423	3,977	45,934
Investments in nonconsolidated subsidiaries and affiliates.....	90	67	773
Deferred tax assets (Note 15).....	2,115	2,030	23,446
Allowance for doubtful accounts.....	(40)	(74)	(854)
Other investments and other assets.....	3,240	3,176	36,682
Total.....	8,829	9,178	106,006
Intangibles:			
Goodwill.....	201	319	3,684
Software.....	4,182	3,488	40,286
Other intangibles.....	256	681	7,865
Total.....	4,640	4,490	51,859
Total assets.....	¥144,649	¥153,836	\$1,776,807
LIABILITIES AND NET ASSETS			
Current liabilities:			
Short-term loans (Note 8).....	¥6,152	¥4,300	\$49,665
Current portion of long-term debt (Note 8).....	660	1,388	16,031
Trade notes and accounts payable:			
Affiliated companies.....	0	-	-
Other.....	13,196	11,829	136,625
Accounts payable - other.....	7,805	9,195	106,202
Accrued income taxes.....	2,459	1,317	15,211
Deferred tax liabilities (Note 15).....	18	6	69
Accrued bonuses to employees.....	755	902	10,418
Accrued bonuses to directors and corporate auditors.....	84	38	438
Reserve for product warranty.....	1,308	1,176	13,582
Provision for business structure improvement.....	174	-	-
Other current liabilities.....	5,956	7,504	86,671
Total current liabilities.....	38,574	37,662	434,996
Long-term debt (Note 8).....	11,544	12,394	143,150
Deferred tax liabilities (Note 15).....	108	153	1,767
Employees' retirement benefits (Note 9).....	1,775	2,066	23,862
Directors' and corporate auditors' retirement benefits.....	221	195	2,252
Provision for compensation losses.....	616	457	5,278
Other noncurrent liabilities.....	1,348	1,370	15,823
Total liabilities.....	54,189	54,299	627,154
Contingent liabilities (Note 13)			
Net assets (Note 10):			
Shareholders' equity:			
Common stock.....	12,011	12,011	138,727
Authorized - 100,000,000 shares			
Issued and outstanding - 42,294,669 shares (excluding treasury stock) at 12/2011			
Issued and outstanding - 42,297,169 shares (excluding treasury stock) at 12/2012			
Capital surplus.....	18,717	18,717	216,181
Retained earnings.....	66,278	71,725	828,424
Treasury stock - 238,083 shares at 12/2011 and 235,583 shares at 12/2012.....	(788)	(780)	(9,009)
Total shareholders' equity.....	96,219	101,674	1,174,335
Accumulated other comprehensive income:			
Unrealized gains (losses) on available-for-sale securities.....	717	987	11,399
Foreign currency translation adjustments.....	(6,703)	(3,413)	(39,420)
Total accumulated other comprehensive income.....	(5,986)	(2,426)	(28,020)
Subscription rights to shares.....	186	245	2,829
Minority interests in consolidated subsidiaries.....	40	42	485
Total net assets.....	90,460	99,536	1,149,641
Total liabilities and net assets.....	¥144,649	¥153,836	\$1,776,807

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, 2011 and December 31, 2012

Thousands of
U.S. dollars
(Note 1)

	Millions of yen		12/2012
	12/2011	12/2012	
Shareholders' equity			
Common stock			
Balance at beginning of current fiscal year.....	¥12,011	¥12,011	\$138,727
Balance at end of current fiscal year.....	¥12,011	¥12,011	\$138,727
Capital surplus			
Balance at end of previous fiscal year.....	¥18,717	¥18,717	\$216,181
Balance at end of current fiscal year.....	¥18,717	¥18,717	\$216,181
Retained earnings			
Balance at beginning of current fiscal year.....	¥58,468	¥66,278	\$765,511
Changes in items during the period:			
Cash dividends.....	(845)	(1,945)	(22,464)
Net income.....	8,664	7,396	85,423
Disposal of treasury stock.....	(8)	(3)	(34)
Total.....	7,810	5,446	62,901
Balance at end of current fiscal year.....	¥66,278	¥71,725	\$828,424
Treasury stock			
Balance at beginning of current fiscal year.....	(¥804)	(¥788)	(\$9,101)
Changes in items during the period:			
Purchase of treasury stock.....	(0)	-	-
Disposal of treasury stock.....	16	8	92
Total.....	16	8	92
Balance at end of current fiscal year.....	(¥788)	(¥780)	(\$9,009)
Shareholders' equity, total			
Balance at beginning of current fiscal year.....	¥88,392	¥96,219	\$1,111,330
Changes in items during the period:			
Cash dividends.....	(845)	(1,945)	(22,464)
Net income.....	8,664	7,396	85,423
Purchase of treasury stock.....	(0)	-	-
Disposal of treasury stock.....	7	4	46
Total.....	7,826	5,455	63,005
Balance at end of current fiscal year.....	¥96,219	¥101,674	\$1,174,335
Accumulated other comprehensive income			
Unrealized gains (losses) on available-for-sale securities			
Balance at beginning of current fiscal year.....	¥897	¥717	\$8,281
Changes in items during the period:			
Net changes in items other than shareholders' equity.....	(179)	270	3,118
Total.....	(179)	270	3,118
Balance at end of current fiscal year.....	¥717	¥987	\$11,399
Foreign currency translation adjustments			
Balance at beginning of current fiscal year.....	(¥5,269)	(¥6,703)	(\$77,419)
Changes in items during the period:			
Net changes in items other than shareholders' equity.....	(1,434)	3,289	37,987
Total.....	(1,434)	3,289	37,987
Balance at end of current fiscal year.....	(¥6,703)	(¥3,413)	(\$39,420)
Accumulated other comprehensive income, total			
Balance at beginning of current fiscal year.....	(¥4,372)	(¥5,986)	(\$69,138)
Changes in items during the period:			
Net changes in items other than shareholders' equity.....	(1,613)	3,560	41,118
Total.....	(1,613)	3,560	41,118
Balance at end of current fiscal year.....	(¥5,986)	(¥2,426)	(\$28,020)
Subscription rights to shares			
Balance at beginning of current fiscal year.....	¥126	¥186	\$2,148
Changes in items during the period:			
Net changes in items other than shareholders' equity.....	60	58	669
Total.....	60	58	669
Balance at end of current fiscal year.....	¥186	¥245	\$2,829
Minority interests in consolidated subsidiaries			
Balance at beginning of current fiscal year.....	¥9	¥40	\$462
Changes in items during the period:			
Net changes in items other than shareholders' equity.....	31	2	23
Total.....	31	2	23
Balance at end of current fiscal year.....	¥40	¥42	\$485
Net assets, total			
Balance at beginning of current fiscal year.....	¥84,155	¥90,460	\$1,044,814
Changes in items during the period:			
Cash dividends.....	(845)	(1,945)	(22,464)
Net income.....	8,664	7,396	85,423
Purchase of treasury stock.....	(0)	-	-
Disposal of treasury stock.....	7	4	46
Net changes in items other than shareholders' equity.....	(1,521)	3,621	41,822
Total.....	¥6,305	¥9,076	\$104,827
Balance at end of current fiscal year.....	¥90,460	¥99,536	\$1,149,641

See the notes to the consolidated financial statements.

Consolidated Statements of Cash Flows

HORIBA, Ltd. and Consolidated Subsidiaries
For the years ended December 31, 2011 and December 31, 2012

Thousands of
U.S. dollars
(Note 1)

	Millions of yen		Thousands of U.S. dollars (Note 1)
	12/2011	12/2012	
Cash flows from operating activities:			
Income before income taxes.....	¥13,647	¥11,170	\$129,013
Adjustments to reconcile income before income taxes to net cash provided by operating activities:			
Depreciation and amortization.....	4,146	3,743	43,231
Loss on impairment of fixed assets.....	98	135	1,559
Increase (decrease) in allowance for doubtful receivables.....	(40)	55	635
Increase (decrease) in provision for business structure improvement.....	192	(177)	(2,044)
Increase (decrease) in employees' retirement benefits.....	87	186	2,148
Increase (decrease) in directors' and corporate auditors' retirement benefits.....	(26)	(26)	(300)
Increase (decrease) in reserve for loss on guarantees.....	(67)	-	-
Increase (decrease) in provision for compensation losses.....	187	(159)	(1,836)
Interest and dividend income.....	(190)	(312)	(3,603)
Interest expense.....	494	478	5,520
Foreign exchange losses (gains).....	(21)	13	150
Loss (gain) on sales of fixed assets.....	(5)	(30)	(346)
Loss on disposal of fixed assets.....	48	143	1,651
Loss (gain) on valuation of investment securities.....	370	2	23
Loss (gain) on sales of investment securities.....	0	-	-
Decrease (increase) in trade notes and accounts receivable.....	(4,080)	4,133	47,736
Decrease (increase) in inventories.....	(2,144)	40	462
Increase (decrease) in trade notes and accounts payable.....	70	(2,345)	(27,084)
Other, net.....	791	1,417	16,366
Subtotal.....	13,560	18,468	213,305
Interest and dividends received.....	184	305	3,522
Interest paid.....	(519)	(499)	(5,763)
Income taxes paid.....	(6,270)	(4,879)	(56,352)
Net cash provided by (used in) operating activities.....	6,954	13,395	154,712
Cash flows from investing activities:			
Increase in time deposits.....	(872)	(2,410)	(27,835)
Decrease in time deposits.....	507	2,410	27,835
Decrease in time deposits restricted for use.....	32	32	369
Payments for purchase of marketable securities.....	(1,908)	(2,904)	(33,541)
Proceeds from sales of marketable securities.....	905	2,509	28,978
Payments for purchase of property, plant and equipment.....	(4,204)	(6,741)	(77,858)
Proceeds from sales of property, plant and equipment.....	51	79	912
Payments for purchase of intangibles.....	(226)	(712)	(8,223)
Payments for purchase of investment securities.....	(136)	(147)	(1,697)
Proceeds from sales or redemption of investment securities.....	12	7	80
Payments for purchase of investments in consolidated subsidiary.....	(44)	(18)	(207)
Other, net.....	(260)	3	34
Net cash provided by (used in) investing activities.....	(6,145)	(7,891)	(91,141)
Cash flows from financing activities:			
Net increase (decrease) in short-term loans.....	1,557	(2,395)	(27,662)
Increase in long-term debt.....	824	1,827	21,101
Repayments of long-term debt.....	(577)	(635)	(7,334)
Repayments on finance lease obligations.....	(135)	(156)	(1,801)
Proceeds from stock issuance to minority shareholders.....	41	-	-
Net decrease (increase) of treasury stock.....	(0)	0	0
Cash dividends paid.....	(847)	(1,943)	(22,441)
Cash dividends paid to minority interests.....	(6)	-	-
Net cash provided by (used in) financing activities.....	855	(3,304)	(38,161)
Effect of exchange rate changes on cash and cash equivalents.....	(356)	891	10,291
Net increase (decrease) in cash and cash equivalents.....	1,308	3,090	35,689
Cash and cash equivalents at beginning of year.....	34,459	35,767	413,109
Cash and cash equivalents at end of year.....	¥35,767	¥38,858	\$448,810

See the notes to the consolidated financial statements.

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.

The accounts of the consolidated overseas subsidiaries have been prepared in accordance with either International Financial Reporting Standards or U.S. generally accepted accounting principles, with adjustments for the five specified items as applicable. 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 Company has applied “Accounting Standard for Accounting Changes and Error Corrections” (ASBJ Statement No. 24, December 4, 2009) and “Guidance on Accounting Standard for Accounting Changes and Error Corrections” (ASBJ Guidance No. 24, December 4, 2009) for accounting changes and/or corrections of past errors which occur from the beginning of fiscal 2012.

Yen amounts are rounded down to the nearest million. Therefore, total or subtotal amounts do not necessarily correspond with the aggregate of such account balances.

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, 2012, which was ¥86.58 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. The U.S. dollars amounts are then rounded down to the nearest thousand.

Certain prior year amounts have been reclassified to conform to the current year’s presentation. Previously, the Company and some consolidated subsidiaries presented freight and shipping expenses as selling, general and administrative (“SG&A”) expenses, but from fiscal 2012, these expenses are presented as cost of sales.

This change was implemented mainly for two reasons. First, in the case of the Mid-Long Term Management Plan that started in fiscal 2011, the Company adopted the development and completion of “One

Company Management” as a high-priority policy to enhance its global management. As part of this, a unified business performance evaluation system that includes the overseas consolidated subsidiaries became necessary. Second, as the ratio of freight and shipping expenses to overall costs has increased due to an increase in international transportation and higher fuel costs caused by globalization, the Company concluded that making freight and shipping expenses correspond directly to sales and included in the cost of sales would result in more an appropriate disclosure of gross income.

To reflect this change in presentation method, the Company has reclassified the consolidated financial statements for fiscal 2011. In the consolidated statements of income for fiscal 2011, the amounts disclosed for cost of sales and SG&A expenses were ¥67,892 million and ¥40,657 million, respectively. However, as a result of change, these amounts have been restated as ¥70,259 million for cost of sales and ¥38,290 million for SG&A expenses.

2. Summary of significant accounting policies

(a) Principles of consolidation

The consolidated financial statements include the accounts of the Company and 36 (35 in fiscal 2011) of its subsidiaries (“HORIBA” as a consolidated group). In fiscal 2012, three companies were newly incorporated and two companies were merged into the Company and another subsidiary.

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 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 that of the consolidated financial statements for fiscal 2011 and fiscal 2012.

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

The Company has four affiliated companies (five in fiscal 2011). The shares of one affiliated company were sold in fiscal 2012. For one of the four affiliates, the equity method was applied. Investments in the other three affiliates (generally 20%–50% ownership) and in one nonconsolidated subsidiary were accounted for on a cost basis, not by the equity method,

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

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 these 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 stated at the lower of average cost or net realizable value. Cost is determined principally by the weighted average method for merchandise, finished goods and work-in-process and by the moving average method for raw materials and supplies.

(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 over the estimated useful life of the asset. The estimated useful lives of buildings and structures range from 3 to 60 years and those of machinery, equipment and vehicles from 2 to 18 years.

(Change in method of depreciation of tangible fixed assets)

Previously, the depreciation of tangible fixed assets other than buildings at the Company and three domestic consolidated subsidiaries was accounted for by the declining-balance method, but this was changed to the straight-line method, the method used by the overseas consolidated subsidiaries from fiscal 2012.

This change was implemented mainly for two reasons: to unify the accounting processes of HORIBA and to ensure the better matching of depreciation expense to earnings. First, in the case of the Mid-Long Term Management Plan that started in fiscal 2011, the Company adopted the development and completion of "One Company Management" as a high-priority policy to enhance its global management. As part of this, a unified business performance evaluation system that included the overseas consolidated subsidiaries became necessary. Second, as a result of an investigation into the actual use of tangible fixed assets at HORIBA and the future business development planned under the Mid-Long Term Management Plan, the Company concluded that the straight-line method would enable expenditure to be allocated more consistently with the actual use of the asset.

The effect of this change in fiscal 2012 was an increase of ¥537 million (\$6,202 thousand) in both operating income and income before income taxes and minority interests.

(Change in estimates regarding residual value of tangible fixed assets)

In accordance with the change in method of depreciation for tangible fixed assets, from fiscal 2012 the Company and three domestic consolidated subsidiaries revised the residual value of their tangible fixed assets using the method that entails depreciation to a residual value of one yen based on the actual use of the asset.

The effect of this change in fiscal 2012 was a decrease of 235 million (\$2,714 thousand) in both operating income and income before income taxes and minority interests.

(f) Goodwill

Goodwill, which represents the excess of the purchase price over the fair value of the net assets acquired, is amortized on a straight-line basis over a period of five years.

(g) Software

Amortization of computer software used by HORIBA is computed by the straight-line method over the estimated useful life of 3 to 10 years.

(h) 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. Finance 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 way that is similar to the method used for operating leases.

(i) 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 made by management.

(j) Accrued bonuses to employees

Accrued bonuses to employees are provided for the expected payment of employee bonuses for fiscal 2012 to those employees employed at the end of the fiscal year.

(k) Accrued bonuses to directors and corporate auditors

Some consolidated subsidiaries provide for accrued bonuses to directors and corporate auditors for the expected payment of director and corporate auditor bonuses for fiscal 2012 to those directors and corporate auditors serving at the end of the fiscal year.

(l) 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 based on estimates made from actual past experience and product warranty records and takes into account individual cases.

(m) 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 and losses are recognized in expenses using the straight-line method over a fixed term of years (5 to 8 years), which is within the average of the estimated remaining service years of employees, 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 of employees, commencing in the period they arise. In some consolidated subsidiaries, they are expensed as incurred.

(n) Retirement benefits for directors and corporate auditors

Some domestic consolidated subsidiaries accrue an amount for retirement benefits for directors and corporate auditors at the balance sheet date based upon internal rules.

(o) Provision for compensation losses

Provision is made for potential losses arising from paying compensation for damages. It is provided for potential compensation for damages to local public agencies and litigation expenses that can be associated with an infringement of the Antimonopoly Law.

(p) Sales and costs of completed construction

Sales and costs of completed construction were recorded using the percentage of completion method when the progress of the construction up to the end of fiscal 2012 was deemed to be certain (estimates of the ratio of completion of construction work are based on the cost-to-cost method). In the case of other construction, sales and costs were recorded using the completed contract method.

(q) 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 presented separately in the consolidated financial statements in "Foreign currency translation adjustments" and "Minority interests in consolidated subsidiaries" in net assets.

(r) Derivatives

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.

(s) Research and development expenses

Research and development expenses are charged to income when incurred. Research and development expenses charged to income for fiscal 2011 and fiscal 2012 were ¥10,060 million and ¥10,092 million (\$116,562 thousand), respectively.

(t) 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/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.

The Company and its consolidated domestic subsidiaries have adopted the consolidated taxation system.

(u) 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 fiscal 2011 and fiscal 2012 was 42,293 thousand and 42,297 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 fiscal 2011 and fiscal 2012 was 42,389 thousand and 42,418 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.

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

3. Accounting standards issued but not yet effective

“Accounting Standard for Retirement Benefits” (ASBJ Statement No. 26, issued on May 17, 2012) and “Guidance on Accounting Standard for Retirement Benefits” (ASBJ Guidance No. 25, issued on May 17, 2012)

(a) Overview

With a viewpoint of improving financial reporting and in consideration of international trends, application of these accounting standards is intended to improve the accounting method for actuarial gains and losses and past service costs that are yet to be recognized and the method of calculation for retirement benefit obligations and service cost and expand disclosure.

(b) Date of application

The Company will apply this accounting standard effective from the end of fiscal year beginning on or after January 1, 2014.

(c) Effect of applying these accounting standards

The Company is currently evaluating the effect of applying these accounting standards on its consolidated financial statements.

4. Financial instruments

(1) Overview of financial instruments

Management policy

HORIBA carries out fund management with an emphasis on security and procures funds mainly through bank borrowings and bond issuances. Derivatives are used to manage foreign exchange fluctuation risk and interest rate fluctuation risk in monetary credits and liabilities related to foreign currency-denominated transactions, and it is HORIBA's policy not to engage in speculative transactions.

Financial instruments, risks and risk management

Notes receivable and accounts receivable, which are operating receivables, are exposed to the credit risk of customers. HORIBA endeavors to reduce this risk by conducting due date control and balance control and by attempting to promptly recognize collection concerns stemming from such factors as a deterioration in the financial condition of a customer.

Most notes payable and accounts payable, which are operating payables, have payment due dates within one year.

Some operating receivables and payables are denominated in foreign currencies and are exposed to foreign exchange fluctuation risk. However, HORIBA endeavors to reduce this risk by offsetting foreign currency denominated operating receivables and payables and by using forward exchange contracts, etc.

Marketable securities are mainly short-term investments with high liquidity such as negotiable deposits. Investment securities are mainly shares of companies that have a business relationships with HORIBA and are exposed to market value fluctuation risk. However, when acquiring or selling shares of a certain value, the Board of Directors considers the details of the transactions and HORIBA endeavors to reduce any risk by ensuring that the market value information regarding the shares is reported to the management team in a timely manner.

Short-term loans are mainly for financing related to operating transactions, while long-term loans and corporate bonds are mainly for financing related to plant and equipment and working capital.

Trade liabilities and loans are exposed to liquidity risk, but HORIBA endeavors to reduce this risk by using methods such as the preparation of cash flow plans.

Regarding derivative transactions, HORIBA conducts exchange agreement transactions within the limit of the balance of foreign currency-denominated receivables and payables and conducts interest rate swap transactions aimed at avoiding interest rate fluctuation risk within the limit of the balance of borrowings. HORIBA's policy is not to engage in speculative transactions. In addition, HORIBA endeavors to reduce risk stemming from default of counterparties by conducting transactions with financial institutions that have high credit ratings.

Supplementary explanation of the estimated fair value of financial instruments

The market value of financial instruments includes values based on market prices and amounts rationally calculated when there are no market prices available. As HORIBA incorporates variable factors when making these calculations, the amounts may change due to the adoption of different assumptions. With regard to contract amounts related to derivative transactions in the Notes to Consolidated Financial Statements item "Derivative transactions," the amounts do not indicate the market risk associated with derivative transactions themselves.

(2) Fair value of financial instruments

The book value and fair value of financial instruments and any difference between the two as of December 31, 2011 and December 31, 2012 are set forth in the table below. Financial instruments whose fair value was extremely difficult to estimate are not included (See Note 2).

	Millions of yen			Millions of yen		
	12/2011			12/2012		
	Book value	Fair value	Difference	Book value	Fair value	Difference
Assets:						
(1) Cash and time deposits.....	¥28,893	¥28,893	-	¥34,685	¥34,685	-
(2) Trade notes and accounts receivable.....	39,375	39,375	-	37,521	37,521	-
(3) Marketable securities and investment securities						
Available-for-sale securities.....	11,514	11,514	-	9,931	9,931	-
Total.....	¥79,783	¥79,783	-	¥82,138	¥82,138	-
Liabilities:						
(1) Trade notes and accounts payable.....	¥13,196	¥13,196	-	¥11,829	¥11,829	-
(2) Short-term loans.....	6,684	6,684	-	5,523	5,523	-
(3) Accounts payable - other.....	7,805	7,805	-	9,195	9,195	-
(4) Accrued income taxes.....	2,459	2,459	-	1,317	1,317	-
(5) Bonds.....	10,000	10,385	385	10,000	10,239	239
(6) Long-term loans.....	1,291	1,294	2	2,113	2,145	32
Total.....	¥41,439	¥41,827	¥388	¥39,979	¥40,251	¥272
Derivative transactions.....	(103)	(103)	-	(190)	(190)	-

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

	Thousands of U.S. dollars		
	12/2012		
	Book value	Fair value	Difference
Assets:			
(1) Cash and time deposits.....	\$400,612	\$400,612	-
(2) Trade notes and accounts receivable.....	433,367	433,367	-
(3) Marketable securities and investment securities			
Available-for-sale securities.....	114,703	114,703	-
Total.....	\$948,694	\$948,694	-
Liabilities:			
(1) Trade notes and accounts payable.....	\$136,625	\$136,625	-
(2) Short-term loans.....	63,790	63,790	-
(3) Accounts payable – other.....	106,202	106,202	-
(4) Accrued income taxes.....	15,211	15,211	-
(5) Bonds.....	115,500	118,260	2,760
(6) Long-term loans.....	24,405	24,774	369
Total.....	\$461,757	\$464,899	\$3,141
Derivative transactions.....	(2,194)	(2,194)	-

Note 1. Method for calculating the fair value of financial instruments and notes regarding securities and derivative transactions.

Assets

(1) Cash and time deposits and (2) Trade notes and accounts receivable

As these are settled in the short term, market value approximates book value and is, therefore, based on the applicable book value.

(3) Marketable securities and investment securities

Market value for these is based on prices on securities exchanges in the case of shares, etc. For bonds, market value is based on prices on securities exchanges or prices indicated by corresponding financial institutions. For marketable securities classified by the purpose for which they are held, see Note 5.

Liabilities

(1) Trade notes and accounts payable, (2) Short-term loans, (3) Accounts payable – other and (4) Accrued income taxes

As these are settled in the short term, market value approximates book value and is, therefore, based on the applicable book value.

(5) Bonds

Market value for bonds issued by HORIBA is calculated based on market prices.

(6) Long-term loans

Borrowings based on variable interest rates reflect market interest rates, and as the creditworthiness of HORIBA has not changed significantly since execution, market value is considered to be approximate book value and is, therefore, based on applicable book value. The value of borrowings with fixed interest rates is based on the total amount of principal and interest discounted at an interest rate of a similar new loan.

Derivative transactions

See Note 14 for derivative transactions.

Net receivables (payables) derived from derivative transactions are displayed in the table above. Total net payables are shown in parenthesis.

Note 2. The following table summarizes financial instruments whose fair value was extremely difficult to estimate.

	Millions of yen		Thousands of
	12/2011	12/2012	U.S. dollars
			12/2012
Non-listed equity securities.....	¥259	¥146	\$1,686
Investments in nonconsolidated subsidiaries and affiliates.....	90	67	773

The above financial instruments were not included in “(3) Marketable securities and investment securities” because they did not have market values and the fair value was extremely difficult to estimate.

Note 3. Repayment schedule of monetary claims, available-for-sales securities with maturities and bonds held to maturity.

	Millions of yen			
	12/2011			
	Within one year	Over one year but within five years	Over five years but within ten years	Over ten years
Cash and time deposits.....	¥28,893	-	-	-
Trade notes and accounts receivable.....	39,375	-	-	-
Marketable securities and investment securities				
Available-for-sale securities with maturities				
(1) Bonds.....	1,599	-	-	-
(2) Other.....	500	2	5	-
Total.....	¥70,369	¥2	¥5	-

	Millions of yen			
	12/2012			
	Within one year	Over one year but within five years	Over five years but within ten years	Over ten years
Cash and time deposits.....	¥34,685	-	-	-
Trade notes and accounts receivable.....	37,521	-	-	-
Marketable securities and investment securities				
Available-for-sale securities with maturities				
(1) Bonds.....	1,498	200	-	-
(2) Other.....	1,000	18	7	-
Total.....	¥74,706	¥219	¥7	-

	Thousands of U.S. dollars			
	12/2012			
	Within one year	Over one year but within five years	Over five years but within ten years	Over ten years
Cash and time deposits.....	\$400,612	-	-	-
Trade notes and accounts receivable.....	433,367	-	-	-
Marketable securities and investment securities				
Available-for-sale securities with maturities				
(1) Bonds.....	17,301	2,310	-	-
(2) Other.....	11,550	207	80	-
Total.....	\$862,855	\$2,529	\$80	-

Note 4. Repayment schedule of bonds and long-term debt
See Note 8 for short-term loans and long-term debt.

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

5. Securities

The following table summarizes acquisition costs and book values (fair values) of available-for-sale securities as of December 31, 2011 and December 31, 2012.

	Millions of yen			Millions of yen		
	12/2011			12/2012		
	Book value	Acquisition cost	Difference	Book value	Acquisition cost	Difference
Securities with book values exceeding acquisition costs:						
Equity securities.....	¥2,351	¥1,120	¥1,231	¥2,470	¥860	¥1,609
Corporate bonds.....	-	-	-	600	599	1
Other bonds.....	-	-	-	-	-	-
Other.....	500	500	0	1,010	1,010	0
Subtotal.....	2,852	1,620	1,231	4,081	2,470	1,611
Securities with book values not exceeding acquisition costs:						
Equity securities.....	805	996	(191)	1,151	1,310	(158)
Government bonds.....	6	7	(0)	-	-	-
Corporate bonds.....	1,599	1,601	(2)	498	499	(0)
Other bonds.....	-	-	-	599	600	(0)
Other.....	6,250	6,250	-	3,598	3,598	-
Subtotal.....	8,662	8,856	(194)	5,849	6,008	(159)
Total.....	¥11,514	¥10,476	¥1,037	¥9,931	¥8,479	¥1,451

	Thousands of U.S. dollars		
	12/2012		
	Book value	Acquisition cost	Difference
Securities with book values exceeding acquisition costs:			
Equity securities.....	\$28,528	\$9,933	\$18,583
Corporate bonds.....	6,930	6,918	11
Other.....	11,665	11,665	0
Subtotal.....	47,135	28,528	18,607
Securities with book values not exceeding acquisition costs:			
Equity securities.....	13,294	15,130	(1,824)
Government bonds.....	-	-	-
Corporate bonds.....	5,751	5,763	(0)
Other bonds.....	6,918	6,930	(0)
Other.....	41,556	41,556	-
Subtotal.....	67,556	69,392	(1,836)
Total.....	\$114,703	\$97,932	\$16,759

Note. Non-listed equity securities, etc. of ¥259 million and ¥146 million (\$1,686 thousand) for the fiscal year ended December 31, 2011 and December 31, 2012, respectively, are not included in the above table because they did not have market values and the fair value was extremely difficult to estimate.

The following table summarizes available-for-sale securities sold for the fiscal year ended December 31, 2011 and December 31, 2012.

	Millions of yen		Thousands of
	12/2011	12/2012	U.S. dollars
			12/2012
Total sales of available-for-sale securities.....	¥0	-	-
Related gains.....	-	-	-
Related losses.....	(0)	-	-

Impairment loss on marketable securities

The Company recognized an impairment loss of ¥370 million and ¥2 million (\$23 thousand) in fiscal 2011 and fiscal 2012, respectively, on available-for-sales securities. When applying impairment accounting, if the market value at the end of the term has fallen by more than 50% from the acquisition price, an impairment loss is applied to the entire amount. If the market value has fallen by approximately 30% to 50%, an impairment loss is applied to the amount recognized as necessary after considering the possibility of recovery, etc.

6. Inventories

Inventories at December 31, 2011 and December 31, 2012 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	12/2011	12/2012	12/2012
Merchandise and finished goods.....	¥9,015	¥10,099	\$116,643
Work-in-process.....	9,127	10,053	116,112
Raw materials and supplies.....	8,144	7,947	91,787
Total.....	¥26,288	¥28,101	\$324,566

7. Notes receivable maturing on December 31, 2011 and December 31, 2012, which were bank holidays

December 31, 2011 and December 31, 2012, 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 ¥936 million were included in the ending balance at December 31, 2011 and notes in the amount of ¥318 million (\$3,672 thousand) were included in the ending balance at December 31, 2012.

8. Short-term loans and long-term debt

Short-term loans are generally represented by bank notes with annual interest rates ranging from 0.75% to 14.20% and 0.49% to 12.24% at December 31, 2011 and December 31, 2012, respectively.

Long-term debt at December 31, 2011 and December 31, 2012 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	12/2011	12/2012	12/2012
Unsecured:			
1.98% bonds due in 2014.....	¥10,000	¥10,000	\$115,500
Loans from banks due serially from 2013 to 2022 at rates from 0.76% to 8.00% per annum.....	1,824	3,335	38,519
Lease obligations at 7.4% maturing serially through 2017	381	447	5,162
Total.....	12,205	13,783	159,193
Current portion.....	(660)	(1,388)	(16,031)
Long-term debt, less current portion.....	¥11,544	¥12,394	\$143,150

The aggregate annual maturities of long-term debt outstanding at December 31, 2012 were as follows:

Year ending December 31	Millions of yen	Thousands of U.S. dollars
2013.....	¥1,388	\$16,031
2014.....	10,597	122,395
2015.....	519	5,994
2016.....	328	3,788
2017.....	237	2,737
Thereafter.....	712	8,223
Total.....	¥13,783	\$159,193

As of December 31, 2012, the Company and its 11 subsidiaries had entered into agreements for bank overdrafts or loan commitments with 12 banks as follows:

	Millions of yen	Thousands of U.S. dollars
The maximum aggregate principal.....	¥17,388	\$200,831
Amount utilized.....	1,424	16,447
Balance available.....	¥15,964	\$184,384

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

9. Employees' severance and pension benefits

Outline of adopted retirement pension fund

The Company and domestic consolidated subsidiaries have adopted a defined contribution pension plan and a defined benefit pension plan (cash balance type). The Company and some domestic consolidated subsidiaries have been members of the Employees' Pension Fund of the Kyoto Machinery & Metal Industry (comprehensive type). The Company and some domestic consolidated subsidiaries use both defined contribution and defined benefits plans.

(1) The funded status of the multi-employer pension plan at December 31, 2011 and December 31, 2012 (available information as of March 31, 2011 and 2012), 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
	12/2011	12/2012	12/2012
Fair value of plan assets.....	¥49,245	¥46,533	\$537,456
Pension benefits obligation recorded by pension fund.....	77,991	77,138	890,944
Net balance.....	(¥28,745)	(¥30,604)	(\$353,476)

(b) The ratio of pension premiums expensed from March 1, 2012 to March 31, 2012 by the Company and its subsidiaries to the total premium amount was 15.55% (14.31% from March 1, 2011 to March 31, 2011).

Note 1. Net balance resulted from the prior service cost of ¥20,805 million and ¥20,604 million (\$237,976 thousand), the addition to the valuation of plan assets of ¥3,340 million and ¥0 million (\$0 thousand), and the shortage of reserve for plan assets of ¥4,599 million and ¥10,000 million (\$115,500 thousand) for the years ended December 31, 2011 and December 31, 2012, respectively.

Note 2. Prior service cost is amortized over 20 years.

Note 3. The percentage of HORIBA's contribution to the multi-employer pension plan described above in (1)(b) should not be construed as the percentage of HORIBA's actual obligation.

(2) Liabilities for employees' retirement benefits at December 31, 2011 and December 31, 2012 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	12/2011	12/2012	12/2012
Projected benefit obligation.....	(¥5,832)	(¥6,432)	(\$74,289)
Pension assets.....	3,281	4,240	48,972
Unfunded projected benefit obligation.....	(2,550)	(2,191)	(25,306)
Unrecognized actuarial differences.....	536	1	11
Unrecognized prior service costs.....	238	123	1,420
Employees' retirement benefits.....	(¥1,775)	(¥2,066)	(\$23,862)

Employees' retirement benefits expense for the years ended December 31, 2011 and December 31, 2012 comprised the following:

	Millions of yen		Thousands of U.S. dollars
	12/2011	12/2012	12/2012
Service cost.....	¥744	¥845	\$9,759
Interest expense on projected benefit obligation.....	142	145	1,674
Expected return on plan assets.....	(67)	(71)	(820)
Amortization of actuarial differences.....	163	209	2,413
Amortization of prior service costs.....	117	117	1,351
Other.....	396	438	5,058
Retirement benefits expense.....	¥1,497	¥1,684	\$19,450

Note 1. Premiums on the contributory funded retirement plan in the amount of ¥387 million and ¥447 million (\$5,162 thousand) expensed for the year ended December 31, 2011 and December 31, 2012, 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:

	12/2011	12/2012
Discount rate (mainly).....	2.00%	2.00%
Expected rate of return on plan assets (mainly).....	1.50%	1.50%

The estimated amount of all retirement benefits to be paid at future retirement dates is allocated equally to each service year using the estimated total number of service years. Actuarial differences are recognized in the income statement using the straight-line method mainly over 5 years. Prior service costs are recognized in the income statement using the straight-line method mainly over 10 years.

10. Net assets

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 Japanese Corporate Law ("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.

Additional paid-in capital and legal earnings reserve may not be distributed as dividends. 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. Both of these appropriations generally require a resolution of the shareholder's meeting.

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 14, 2013, the Board of Directors approved cash dividends in the amount of ¥1,480 million (\$17,094 thousand). The appropriation had not been accrued in the consolidated financial statements as of December 31, 2012. Such appropriations are recognized in the period in which they are approved by the Board of Directors.

11. Stock options

(1) Expenses and items related to stock options

	Millions of yen		Thousands of
	12/2011	12/2012	U.S.dollars
Selling, general and administrative expenses.....	¥68	¥63	\$727

(2) Scale and movement (fluctuation) of stock options

Information regarding stock options outstanding. The number of stock options is stated after conversion into an equal number of shares.

(a) Details of stock options

	No. 1 Stock-based Compensation Type Stock Option	No. 2 Stock-based Compensation Type Stock Option	No. 3 Stock-based Compensation Type Stock Option	No. 4 Stock-based Compensation Type Stock Option
Persons granted options	4 directors and 13 corporate officers of the Company	4 directors and 14 corporate officers of the Company	4 directors and 16 corporate officers of the Company	4 directors and 16 corporate officers of the Company
Number of shares by type of stock (Note 1)	Common stock 54,200 shares	Common stock 26,400 shares	Common stock 31,000 shares	Common stock 28,200 shares
Date of grant	April 16, 2009	April 23, 2010	April 21, 2011	April 24, 2012
Vesting conditions	(Note 3)	(Note 3)	(Note 3)	(Note 3)
Service period	(Note 4)	(Note 4)	(Note 4)	(Note 4)
Exercise period	April 17, 2009 to April 16, 2039	April 24, 2010 to April 23, 2040	April 22, 2011 to April 21, 2041	April 25, 2012 to April 24, 2042

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 circumstances 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) as a director or corporate officer of the Company.

Note 4. The service period is not stipulated.

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(b) Number, movement and price of stock options

Stock options are convertible into an equal number of shares.

(i) Number of shares

	No. 1 Stock-based Compensation Type Stock Option	No. 2 Stock-based Compensation Type Stock Option	No. 3 Stock-based Compensation Type Stock Option	No. 4 Stock-based Compensation Type Stock Option
Options before vesting (number of shares)				
Balance at December 31, 2011	-	-	-	-
Granted	-	-	-	28,200
Forfeited	-	-	-	-
Vested	-	-	-	28,200
Balance at December 31, 2012	-	-	-	-
Options after vesting (number of shares)				
Balance at December 31, 2011	48,700	24,800	31,000	-
Granted	-	-	-	28,200
Forfeited	1,300	600	600	-
Vested	-	-	-	-
Balance at December 31, 2012	47,400	24,200	30,400	28,200

(ii) Price per share

	No. 1 Stock-based Compensation Type Stock Option	No. 2 Stock-based Compensation Type Stock Option	No. 3 Stock-based Compensation Type Stock Option	No. 4 Stock-based Compensation Type Stock Option
Option price (yen)	1	1	1	1
Weighted average stock price (yen)	2,317	2,317	2,317	-
Fair value at grant date (yen)	1,091	2,628	2,208	2,245

(3) Method to estimate fair unit value of stock options

The grant date fair value of No. 4 Stock-based Compensation Type Stock Option in the year ended December 31, 2012 was estimated using the Black-Scholes option pricing model as follows:

	No. 4 Stock-based Compensation Type Stock Option
Stock price volatility (Note 1)	36.8%
Expected remaining period (Note 2)	15 Year
Expected dividend (Note 3)	¥40/share
Risk free interest rate (Note 4)	1.53%

Note 1. Stock price volatility was calculated based on actual weekly stock prices over 15 years (from the week of April 21, 1997 to the week of April 16, 2012).

Note 2. As it was difficult to estimate the expected remaining period without sufficient relevant data, it was determined to be exercised at the mid-point of the exercise period.

Note 3. Expected dividend was calculated by using the actual dividend paid for the year ended December 31, 2011.

Note 4. Risk free interest rate represents the comparable compound interest rate of strip government bonds whose remaining period corresponds to the expected remaining period of the stock options.

(4) Condition regarding the estimate of the fair unit value of stock options

Retirement from the office of director is a condition to exercise stock options, but continuous employment is not. Accordingly, the initial number of stock options granted is used as an estimate of the number of vested shares.

12. Leases

Finance leases which do not transfer ownership at December 31, 2011 and December 31, 2012 consisted of leases for office equipment and software. The method of depreciation and amortization of lease assets is described in Note 2(h), "Summary of significant accounting policies – Leases."

With respect to finance lease transactions that do not transfer ownership and in which the lease transaction began before December 31, 2008, the Company has continued to account for them in the same manner as operating leases, as stated above.

At December 31, 2011 and December 31, 2012, 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
	12/2011	12/2012	12/2012
Machinery, equipment and vehicles.....	¥229	¥109	\$1,258
Other property, plant and equipment.....	184	117	1,351
Other intangibles.....	4	4	46
Less accumulated depreciation and amortization.....	(315)	(181)	(2,090)
Total.....	¥102	¥50	\$577

Note. The above depreciation and amortization was calculated by the straight-line method over the term of the lease. If the above leases had been capitalized, interest of ¥4 million and ¥1 million (\$11 thousand) and depreciation and amortization of ¥91 million and ¥52 million (\$600 thousand) would have been recorded for the years ended December 31, 2011 and December 31, 2012, respectively. Lease payments under non-capitalized finance leases were ¥98 million and ¥56 million (\$646 thousand) for the years ended December 31, 2011 and December 31, 2012, respectively. Obligations under finance leases at December 31, 2011 and December 31, 2012 were as follows:

Payments remaining:	Millions of yen		Thousands of U.S. dollars
	12/2011	12/2012	12/2012
Payments due within 1 year.....	¥54	¥25	\$288
Payments due after 1 year.....	54	29	334
Total.....	¥108	¥54	\$623

Payments remaining under operating leases at December 31, 2011 and December 31, 2012 were as follows:

Payments remaining:	Millions of yen		Thousands of U.S. dollars
	12/2011	12/2012	12/2012
Payments due within 1 year.....	¥536	¥626	\$7,230
Payments due after 1 year.....	1,055	1,846	21,321
Total.....	¥1,591	¥2,472	\$28,551

13. Contingent liabilities

The Company and certain consolidated subsidiaries were contingently liable as guarantors of loans to affiliated companies and nonconsolidated subsidiaries in the amounts of ¥148 million and ¥116 million (\$1,339 thousand) at December 31, 2011 and December 31, 2012, respectively.

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14. Derivative transactions

Outstanding derivative transactions at December 31, 2011 and December 31, 2012 were as follows:

Currency related:

	Millions of yen				Millions of yen			
	12/2011				12/2012			
	Amount	Over 1 year	Market value	Gain (loss)	Amount	Over 1 year	Market value	Gain (loss)
Forwards								
Selling								
US dollar	¥2,130	-	(¥31)	(¥31)	¥1,797	-	(¥32)	(¥32)
Euro	993	-	80	80	1,018	193	(98)	(98)
Pound	127	-	5	5	95	-	(6)	(6)
Baht	36	-	(0)	(0)	-	-	-	-
Zloty	90	-	0	0	-	-	-	-
Buying								
US dollar	363	238	(21)	(21)	-	-	-	-
Euro	92	-	(7)	(7)	-	-	-	-
Pound	119	-	0	0	-	-	-	-
Yen	2	-	0	0	-	-	-	-
Options								
Selling								
Call								
US dollar	310	-	-	-	-	-	-	-
Option cost	-	-	0	0	-	-	-	-
Buying								
Put								
US dollar	269	-	-	-	-	-	-	-
Option cost	-	-	(18)	(18)	-	-	-	-
Total	-	-	¥8	¥8	-	-	(¥136)	(¥136)

Note. Market value is determined by banking institutions.

	Thousands of U.S. dollars			
	12/2012			
	Amount	Over 1 year	Market value	Gain (loss)
Forwards				
Selling				
US dollar	\$20,755	-	(\$369)	(\$369)
Euro	11,757	2,229	(1,131)	(1,131)
Pound	1,097	-	(69)	(69)
Baht	-	-	(0)	(0)
Zloty	-	-	-	-
Buying				
US dollar	-	-	-	-
Euro	-	-	-	-
Pound	-	-	-	-
Yen	-	-	-	-
Options				
Selling				
Call				
US dollar	-	-	-	-
Option cost	-	-	-	-
Buying				
Put				
US dollar	-	-	-	-
Option cost	-	-	-	-
Total	-	-	(\$1,570)	(\$1,570)

Interest rate related:

	Millions of yen				Millions of yen			
	12/2011				12/2012			
	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	¥1,920	¥1,725	(¥112)	(¥112)	¥1,957	-	(¥53)	(¥53)
Total	¥1,920	¥1,725	(¥112)	(¥112)	¥1,957	-	(¥53)	(¥53)

Note. Market value is determined by banking institutions.

	Thousands of U.S. dollars			
	12/2012			
	Amount	Over 1 year	Market value	Gain (loss)
Interest rate swap contracts				
Receiving floating rates				
and paying fixed rates	\$22,603	-	(\$612)	(\$612)
Total	\$22,603	-	(\$612)	(\$612)

15. 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 40.6% for the years ended December 31, 2011 and December 31, 2012.

The following table summarizes the significant differences between the statutory tax rate and HORIBA's effective tax rate for financial statement purposes for the years ended December 31, 2011 and December 31, 2012.

	12/2011	12/2012
Statutory tax rate.....	40.6%	40.6%
Expenses not qualifying for permanent deduction, e.g. entertainment expenses.....	1.7	1.2
Nontaxable dividend income.....	(2.5)	(0.2)
Per capita inhabitants tax.....	0.3	0.4
Increase/decrease in valuation allowance for deferred tax assets.....	1.3	0.0
Amortization of goodwill.....	0.0	0.1
Consolidated elimination of dividend income from consolidated subsidiaries.....	0.4	0.2
Differences in tax rate between foreign subsidiaries and the Company.....	(3.5)	(3.3)
Tax credits.....	(3.1)	(4.3)
Other.....	1.3	(0.9)
Effective tax rate.....	<u>36.5%</u>	<u>33.8%</u>

Significant components of HORIBA's deferred tax assets and liabilities at December 31, 2011 and December 31, 2012 were as follows:

	Millions of yen		Thousands of U.S. dollars
	12/2011	12/2012	12/2012
Deferred tax assets			
Accrued enterprise tax.....	¥258	¥162	\$1,871
Loss on write-down of inventory.....	935	829	9,574
Allowance for doubtful receivables.....	76	66	762
Accrued bonuses.....	235	200	2,310
Loss carryforwards.....	1,473	1,463	16,897
Unrealized gains.....	925	999	11,538
Employees' retirement benefits.....	520	608	7,022
Depreciation.....	617	644	7,438
Loss on valuation of investment securities.....	474	103	1,189
Retirement benefits for directors and corporate auditors.....	344	319	3,684
Loss on impairment of fixed assets.....	98	115	1,328
Other.....	2,998	2,033	23,481
Total deferred tax assets.....	<u>8,957</u>	<u>7,546</u>	<u>87,156</u>
Valuation allowance.....	(2,261)	(1,206)	(13,929)
Net deferred tax assets.....	<u>6,696</u>	<u>6,339</u>	<u>73,215</u>
Deferred tax liabilities			
Reserve for deferred gains on property, plant and equipment.....	(127)	(134)	(1,547)
Unrealized losses.....	(390)	(390)	(4,504)
Net unrealized holding gains on securities.....	(315)	(463)	(5,347)
Other.....	(673)	(599)	(6,918)
Total deferred tax liabilities.....	<u>(1,506)</u>	<u>(1,587)</u>	<u>(18,329)</u>
Net deferred tax assets.....	<u>¥5,189</u>	<u>¥4,751</u>	<u>\$54,874</u>

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

	Millions of yen		Thousands of U.S. dollars
	12/2011	12/2012	12/2012
Current assets.....	¥3,201	¥2,881	\$33,275
Investments and other noncurrent assets.....	2,115	2,030	23,446
Current liabilities.....	(18)	(6)	(69)
Deferred tax liabilities (noncurrent).....	(108)	(153)	(1,767)
Net deferred tax assets.....	<u>¥5,189</u>	<u>¥4,751</u>	<u>\$54,874</u>

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

16. Loss on impairment of fixed assets

HORIBA reviewed its long-lived assets for impairment, and, as a result, impairment losses were recognized by the Company for the following asset groups as other expenses for the year ended December 31, 2011.

Location	Use	Type	Millions of yen
Tokyo, Japan	Assets for disposal	Buildings and structures	¥67
Kyoto, Japan	Idle	Land	¥17
Montpellier, France	Idle	Machinery and equipment	¥12

(Background)

In the case of assets for disposal, disposal of equipment was determined following a transfer of a branch or sales office of the Company or some of its consolidated subsidiaries. In the case of idle assets, there was no concrete plan to use the assets for business. Thus, the book value of these assets was lowered to the recoverable value, and the resultant impairment loss was recognized as other expenses.

(Method used for grouping)

In connection with the use of impairment accounting, business assets are grouped on a reporting segment basis. Assets for disposal and idle assets which are not expected to be used in the future are grouped on a property-by-property basis.

(Method used for calculating a recoverable amount)

The recoverable amount of idle assets was measured by the estimated net realizable value. As it is difficult to sell or divert machinery and equipment elsewhere, the recoverable amount was estimated at zero, while the recoverable amount for land was estimated based on publicly announced market values for land. The recoverable value of assets for disposal was measured at reasonable estimates and was not discounted as the disposal period was expected to be short.

HORIBA reviewed its long-lived assets for impairment, and, as a result, impairment losses were recognized by the Company for the following asset groups as other expenses for the year ended December 31, 2012.

Location	Use	Type	Millions of yen	U.S. dollars
Montpellier, France	Idle	Machinery and equipment, Other equipment	¥104	\$1,201
Neuhausen, Germany	-	Goodwill	¥21	\$242
Kyoto, Japan	Idle	Land	¥8	\$92

(Background)

In the case of idle assets, there was no concrete plan to use the assets for business. In the case of goodwill, income that HORIBA had assumed in the business plan that it considered at the time of stock acquisition was no longer projected. Thus, the book value of these assets was lowered to the recoverable value, and the resulting impairment loss was recognized as other expenses.

(Method used for grouping)

In connection with the use of impairment accounting, business assets are grouped on a reporting segment basis. Idle assets which are not expected to be used in the future are grouped on a property-by-property basis.

(Method used for calculating a recoverable amount)

The recoverable amount for idle assets was measured according to estimated net realizable value. As it is difficult to sell or divert machinery and equipment and other equipment elsewhere, the recoverable amount was estimated at zero, while the recoverable amount for land was estimated based on publicly announced market values for land. Furthermore, in regard to goodwill, the unamortized balance for which it was acknowledged that income was unlikely to be obtained in the future was recognized as an impairment loss.

17. Business combinations

(Transactions under common control)

The Company resolved at its Board of Directors meeting held on September 20, 2011 to merge its consolidated subsidiary HORIBA ITEC Co., Ltd., (HORIBA ITEC) and pursuant to the merger agreement signed on the same date, the Company absorbed HORIBA ITEC on January 1, 2012.

1. Summary of the transaction

(1) Merged company, nature of its business and objective of transaction

HORIBA ITEC was the Company's wholly-owned consolidated subsidiary and was engaged in manufacturing and sales of in-vehicle driving management systems such as digital tachograph and drive recorders. The Company has absorbed and merged HORIBA ITEC with the aim of enhancing customer services and management efficiency and raising the competitive strength of its business by utilizing HORIBA's management resources.

(2) Date of business combination

January 1, 2012

(3) Legal form of business combination

Absorption-type merger, with the Company as the surviving entity and HORIBA ITEC as the dissolving entity.

(4) Name of the company after the combination

HORIBA, Ltd.

2. Summary of accounting treatment

This merger was treated as a transaction under common control as defined in the Accounting Standard for Business Combinations (ASBJ Statement No. 21, issued December 26, 2008), and the "Revised Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures" (ASBJ Guidance No. 10, issued December 26, 2008).

18. Asset retirement obligations

The note for asset retirement obligations has been omitted as there were no significant amount of asset retirement obligations.

19. Investment and rental property

The note for investment and rental property has been omitted as there were no significant amount of investment or rental property.

20. Consolidated statement of comprehensive income

Components of other comprehensive income for the year ended December 31 2012, consisted of the following

	Millions of yen	Thousands of U.S. dollars
Unrealized gains (losses) on available-for-sale securities:		
Increase (decrease) during the year.....	¥413	\$4,770
Reclassification adjustment.....	—	—
Subtotal, before tax.....	413	4,770
Tax (expense) or benefit.....	(143)	(1,651)
Subtotal, net tax.....	270	3,118
Foreign currency translation adjustments		
Increase (decrease) during the year.....	3,297	38,080
Share of other comprehensive income of associates accounted for using the equity method		
Increase (decrease) during the year.....	(2)	(23)
Total other comprehensive income.....	¥3,565	\$41,175

21. Segment information

General information regarding reportable segments

(1) Calculation method for reportable segments

HORIBA's reportable segments are components of the Company about which separate financial information is available and that are evaluated regularly by the management in deciding how to allocate resources and in assessing performance.

The Company has established the segment strategy office for each product and service at its headquarters which draws a comprehensive plan for Japan and overseas markets for business development.

The Company thus is composed of business segments by product and service that are determined at the head office. The Automotive Test Systems, Process & Environmental Instruments & Systems, Medical-Diagnostic Instruments & Systems, Semiconductor Instruments & Systems and Scientific Instruments & Systems comprise five reportable segments.

Major products of each segment are described below.

(a) Automotive Test Systems

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

(b) Process & Environmental Instruments & Systems

Environmental Measuring Instruments (Stack Gas Analyzers, Water Quality Analysis and Examination Systems, Air Pollution Analyzers), Environmental Radiation Monitors

(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

(e) Scientific Instruments & Systems

Scientific Analysis Instruments (pH Meters, Particle-Size Distribution Analyzers, X-Ray Fluorescence Analyzers, Raman, Spectrophotometers, Diffraction, Gratings)

(2) Method of measurement regarding income (loss), assets and other material items by reportable segment

The accounting methods applied for reportable segments are identical with those stated in Note 2, "Summary of significant accounting policies." Income for each reportable segment is the amount based on operating income.

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

(3) Information regarding income (loss), assets and other material items by reportable segment

	Millions of yen						Consolidated
	12/2011						
	Automotive	Process & Environmental	Medical-Diagnostic	Semiconductor	Scientific	Adjustment	
Sales							
Sales to outside customers.....	¥38,678	¥14,558	¥23,485	¥24,694	¥22,040	-	¥123,456
Intersegment sales and transfers.....	-	-	-	-	-	-	-
Total.....	38,678	14,558	23,485	24,694	22,040	-	123,456
Segment income (loss).....	¥2,834	¥2,532	¥3,166	¥4,939	¥1,433	-	¥14,906
Segment assets.....	¥31,383	¥13,065	¥17,458	¥22,010	¥16,388	¥44,342	¥144,649
Other items:							
Depreciation.....	1,207	478	1,206	693	525	-	4,111
Amortization of goodwill.....	5	-	10	-	18	-	34
Investments in affiliates accounted for using the equity method.....	24	-	-	-	-	-	24
Increase in tangible and intangible fixed assets.....	705	232	1,527	848	1,399	-	4,713

	Millions of yen						Consolidated
	12/2012						
	Automotive	Process & Environmental	Medical-Diagnostic	Semiconductor	Scientific	Adjustment	
Sales							
Sales to outside customers.....	¥43,230	¥13,709	¥22,400	¥17,861	¥20,406	-	¥117,609
Intersegment sales and transfers.....	-	-	-	-	-	-	-
Total.....	43,230	13,709	22,400	17,861	20,406	-	117,609
Segment income (loss).....	¥4,412	¥1,642	¥2,478	¥2,274	¥943	-	¥11,751
Segment assets.....	¥37,755	¥12,313	¥18,277	¥18,963	¥17,661	¥48,865	¥153,836
Other items:							
Depreciation.....	1,133	385	1,131	547	447	-	3,645
Amortization of goodwill.....	44	-	-	37	16	-	98
Investments in affiliates accounted for using the equity method.....	-	-	-	-	-	-	-
Increase in tangible and intangible fixed assets.....	2,031	720	1,486	1,855	1,788	-	7,882

	Thousands of U.S. dollars						Consolidated
	12/2012						
	Automotive	Process & Environmental	Medical-Diagnostic	Semiconductor	Scientific	Adjustment	
Sales							
Sales to outside customers.....	\$499,306	\$158,339	\$258,720	\$206,294	235,689	-	\$1,358,385
Intersegment sales and transfers.....	-	-	-	-	-	-	-
Total.....	499,306	158,339	258,720	206,294	235,689	-	1,358,385
Segment income (loss).....	\$50,958	\$18,965	\$28,620	\$26,264	10,891	-	\$135,724
Segment assets.....	\$436,070	\$142,215	\$211,099	\$219,022	\$203,984	\$564,391	\$1,776,807
Other items:							
Depreciation.....	13,086	4,446	13,063	6,317	5,162	-	42,099
Amortization of goodwill.....	508	-	-	427	184	-	1,131
Investments in affiliates accounted for using the equity method.....	-	-	-	-	-	-	-
Increase in tangible and intangible fixed assets.....	23,458	8,316	17,163	21,425	20,651	-	91,037

Note 1. Details of adjustment amounts are as follows:

- (1) Unallocated amounts to be included in the adjustment amount of segment profits was not generated.
- (2) The adjustment amount of ¥48,865 million (\$564,391 thousand) of segment assets for the year ended December 31, 2012 represent corporate assets that are not allocated to each business segment. They include cash and cash equivalents, short-term investments, investment securities, idle land, etc.

Note 2. Depreciation and increases in tangible and intangible fixed assets include long-term prepaid expenses and the amount of amortization associated with the expenses.

Changes in depreciation method for property, plant and equipment

Previously, depreciation of tangible fixed assets other than buildings at the Company and three domestic consolidated subsidiaries was accounted for by the declining-balance method, but this was changed to the straight-line method, the method used by the overseas consolidated subsidiaries from fiscal 2012.

As a result of this change, compared to the amounts that would have been reported with the previous method, segment income for the Automotive Test Systems, Process & Environmental Instruments & Systems, Medical-diagnostic Instruments & Systems, Semiconductor Instruments & Systems and Scientific Instruments & Systems increased by ¥165 million (\$1,905 thousand), ¥65 million (\$750 thousand), ¥47 million (\$542 thousand), ¥208 million (\$2,402 thousand) and ¥49 million (\$565 thousand), respectively.

Change in estimates regarding residual value of tangible fixed assets

In accordance with the change in the method of depreciation for tangible fixed assets, the Company and three domestic consolidated subsidiaries revised the residual value of tangible fixed assets.

As a result of this change, compared to the amounts that would have been reported with the previous method, segment income for the Automotive Test Systems, Process & Environmental Instruments & Systems, Medical-diagnostic Instruments & Systems, Semiconductor Instruments & Systems and Scientific Instruments & Systems decreased by ¥71 million (\$80 thousand), ¥28 million (\$323 thousand), ¥20 million (\$231 thousand), ¥92 million (\$1,062 thousand) and ¥21 million (\$242 thousand), respectively.

<Related Information>

1. Information regarding geographic areas

(1) Net sales

	Million of yen		Thousands of
	2011	2012	U.S. dollars
			2012
Japan.....	¥48,986	¥45,777	\$528,724
United States.....	14,988	14,170	163,663
Europe.....	32,207	27,421	316,712
Asia.....	22,293	26,270	303,418
Others.....	4,980	3,969	45,841
Total.....	¥123,456	¥117,609	\$1,358,385

Note. Net sales are categorized by country or geographic area based on the location of the customer.

(2) Property, plant and equipment

	Million of yen		Thousands of
	2011	2012	U.S. dollars
			2012
Japan.....	¥13,811	¥15,649	\$180,746
France.....	4,250	5,624	64,957
Others.....	4,861	6,904	79,741
Total.....	¥22,924	¥28,179	\$325,467

2. Information regarding major customers

There is no customer who represents more than 10% of the consolidated sales.

3. Information regarding loss on impairment of fixed assets by reporting segment

	Million of yen		Thousands of
	2011	2012	U.S. dollars
			2012
Automotive Test Systems.....	¥30	¥21	\$242
Process & Environmental Instruments & Systems.....	12	-	-
Medical-Diagnostic Instruments & Systems.....	20	104	1,201
Semiconductor Instruments & Systems.....	2	-	-
Scientific Instruments & Systems.....	14	-	-
Others.....	17	8	92
Total.....	¥98	¥135	\$1,559

Note. The "Others" amount is that of the Company's idle assets.

4. Information regarding the amortized amount and unamortized balance of goodwill

	Million of yen		Thousands of
	2011	2012	U.S. dollars
			2012
Automotive Test Systems.....	¥46	-	-
Medical-Diagnostic Instruments & Systems.....	0	-	-
Semiconductor Instruments & Systems.....	-	164	\$1,894
Scientific Instruments & Systems.....	154	154	1,778
Total.....	¥201	¥319	\$3,684

Note. Information regarding the "Amortized amount of goodwill" is omitted as similar information is disclosed in "Segment Information."

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

22. Related party transactions

(1) Related party transactions with the Company

Directors and major shareholders (individuals only) of the Company

The year ended December 31, 2011

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		3.0% (direct)	
Relationship		Consulting contract	
Transaction	Transaction amount	Consulting fee (Note 2)	¥24 million
Account	Balance at December 31, 2011	-	-

The year ended December 31, 2012

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		3.0% (direct)	
Relationship		Consulting contract	
Transaction	Transaction amount	Consulting fee (Note 2)	¥24 million (\$277 thousand)
Account	Balance at December 31, 2012	-	-

Note 1. The above transaction amounts do not include consumption taxes, while the balance at December 31, 2011 and December 31, 2012 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

The year ended December 31, 2011

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		3.0% (direct)	
Relationship		Consulting contract	
Transaction	Transaction amount	Consulting fee (Note 2)	¥12 million
Account	Balance at December 31, 2011	-	-

The year ended December 31, 2012

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		3.0% (direct)	
Relationship		Consulting contract	
Transaction	Transaction amount	Consulting fee (Note 2)	¥25 million (\$288 thousand)
Account	Balance at December 31, 2012	-	-

Note 1. The above transaction amounts do not include consumption taxes, while the balance at December 31, 2011 and December 31, 2012 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.

23. Subsequent events

There are no significant subsequent event.

Independent Auditor's Report

To the Board of Directors of HORIBA, Ltd.:

We have audited the accompanying consolidated financial statements of HORIBA, Ltd. and its consolidated subsidiaries, which comprise the consolidated balance sheets as at December 31, 2012 and 2011, and the consolidated statements of income, statements of comprehensive income, statements of changes in net assets and statements of cash flows for the years then ended and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatements, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to 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 comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, while the objective of the financial statement audit is not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of HORIBA, Ltd. and its consolidated subsidiaries as at December 31, 2012 and 2011, and their financial performance and cash flows for the years then ended in accordance with accounting principles generally accepted in Japan.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 2(e) to the consolidated financial statements, which describes that HORIBA Ltd. and its domestic consolidated subsidiaries have changed the depreciation method of tangible fixed assets other than buildings.

Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended December 31, 2012 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 LLC

April 4, 2013
Kyoto, Japan

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

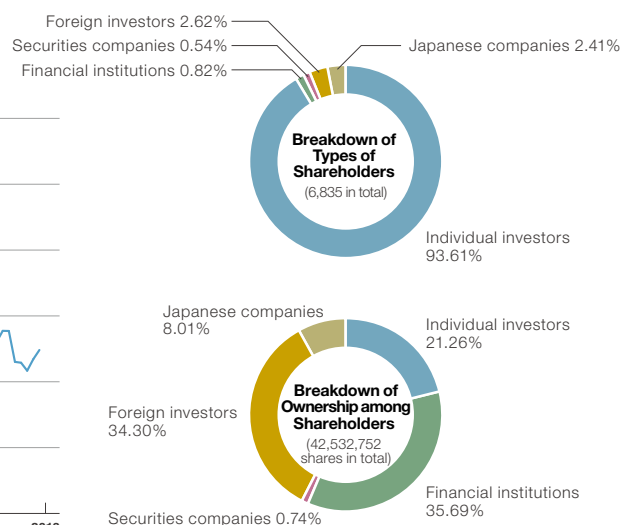
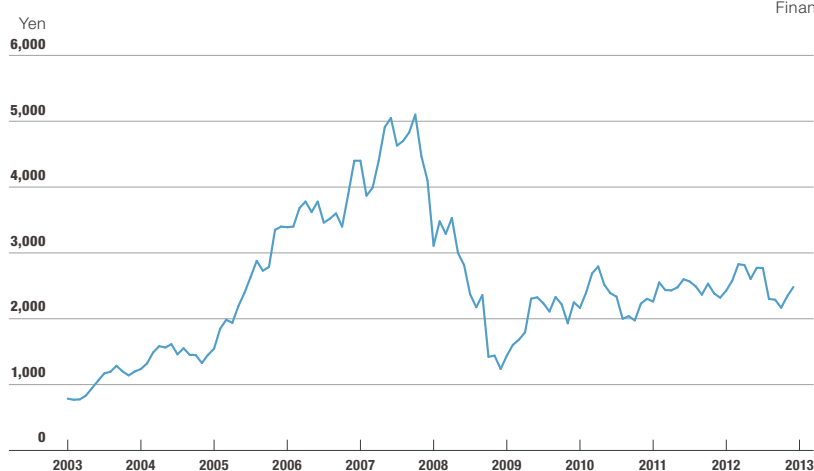
Head Office	2, Miyanohigashi-cho, Kisshoin, Minami-ku, Kyoto 601-8510, Japan	
Founded	October 17, 1945	
Incorporated	January 26, 1953	
Paid in Capital	12,011 million yen	As of December 31, 2012
Number of Employees	5,530(Consolidated)	As of December 31, 2012
Fiscal Closing Date	December 31, annually	
Annual Meeting of Shareholders	Held in March	
Transfer Agent	Sumitomo Mitsui Trust Bank, Limited	
Independent Auditor	KPMG AZSA LLC	
Stock Listings	Tokyo Stock Exchange, First Section Osaka Securities Exchange, First Section Securities Code: 6856	

Major Shareholders

As of December 31, 2012

Name of Shareholders	Shares (Thousands)	Percentage (%)
Japan Trustee Service Bank, Ltd.	3,366	7.91
The Master Trust Bank of Japan, Ltd.	2,551	5.99
Taiyo Fund, L. P.	2,169	5.09
National Mutual Insurance Federation of Agricultural Cooperatives	1,287	3.02
Masao Horiba	1,275	2.99
NOMURA BANK (LUXEMBOURG) S.A. S/A NOMURA MULTI CURRENCY JAPAN STOCK LEADERS FUND	901	2.11
JP MORGAN CHASE BANK 385174	840	1.97
The Bank of Kyoto, Ltd.	828	1.94
Atsushi Horiba	809	1.90
HORIBA Raku-Raku Kai	808	1.90

Stock Price Trend





HORIBA, Ltd.

2, Miyanohigashi-cho, Kisshoin, Minami-ku,
Kyoto 601-8510, Japan

Phone: +81-75-313-8121 Fax: +81-75-312-7389

E-mail : ir-info@horiba.com