Omoshiro-okashiku

Joy and Fun

おもしろおかしく

HORIBA

ANNUAL REPORT 2011

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.

Omoshiro-okashiku

Joy and Fun

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HORIBA celebrates its 60th anniversary in 2013.

One past, One future, One HORIBA

In 2013, HORIBA, Ltd. will celebrate its 60th anniversary since its foundation in 1953. The logo mark above is designed with sashes (*TASUKI* in Japanese), representing that HORIBA's people transmit messages from their predecessors to the next generation to contribute to keeping HORIBA well prepared for new times.

HORIBA at a Glance

Consolidated Net Sales and Operating Income

What we have changed

Management balance
(business segments and regional expansion)

Globalization
(operations and human resources)

Distance from customers
(promotion of direct sales)

Corporate scale
(sales, profits, and number of employees)

What we will never change

Company motto
“Joy and Fun”

Corporate culture
“Open and Fair”
“Venture Spirit”

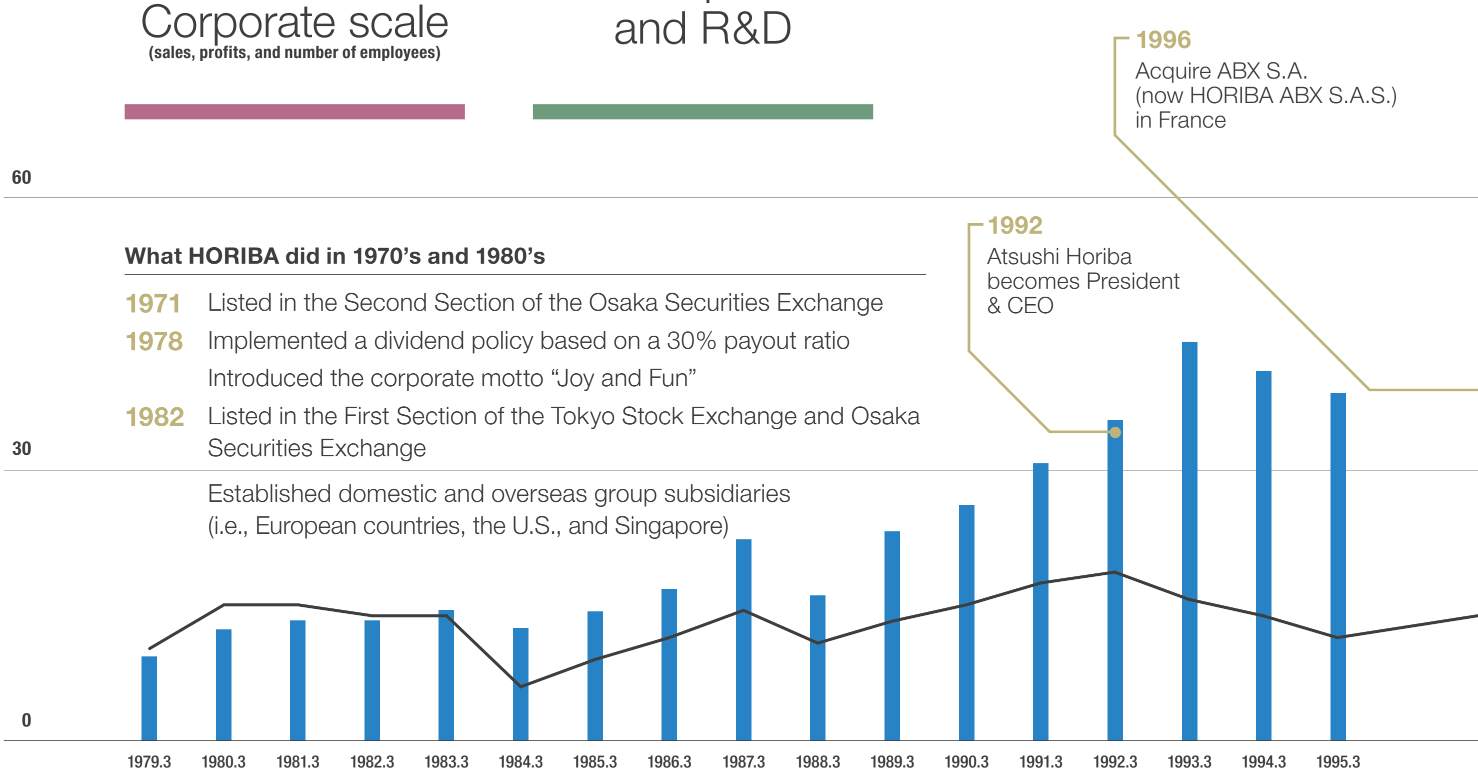
Continued efforts in
Human resources development and R&D

What HORIBA did in 1970’s and 1980’s

1971 Listed in the Second Section of the Osaka Securities Exchange

1978 Implemented a dividend policy based on a 30% payout ratio
Introduced the corporate motto “Joy and Fun”

1982 Listed in the First Section of the Tokyo Stock Exchange and Osaka Securities Exchange
Established domestic and overseas group subsidiaries (i.e., European countries, the U.S., and Singapore)

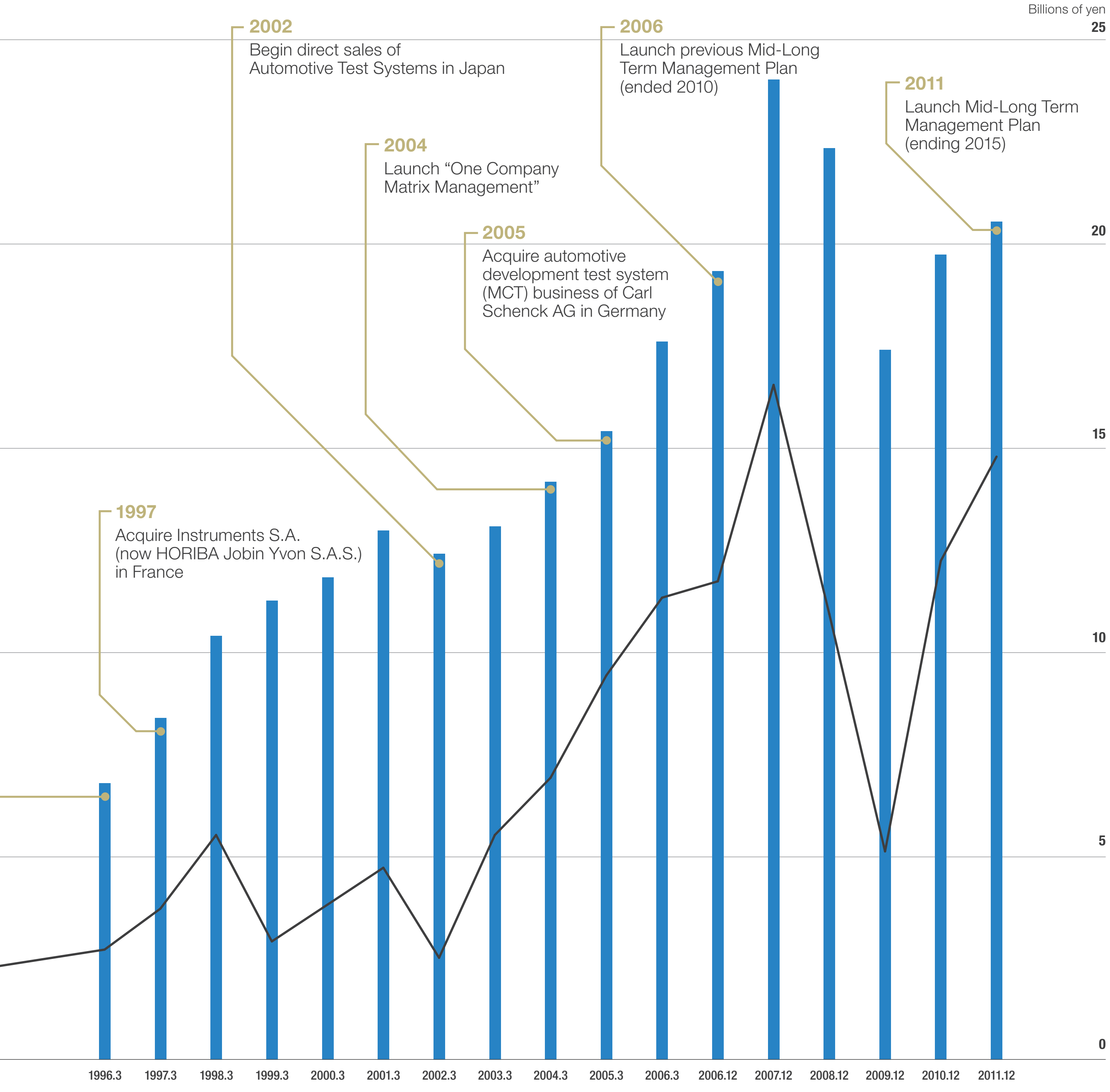


Notation of HORIBA and HORIBA, Ltd.

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 management’s assumptions and beliefs based on currently available information. Actual performance may differ significantly from the forecast due to unforeseen circumstances in the operating environment.



Change of Fiscal Year-End

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

To Our Stakeholders

Our continued goals are to be a highly profitable company invulnerable to economic fluctuation and to raise corporate value through change

Chairman, President & CEO

Reconfirm HORIBA's mission in response to the Great East Japan Earthquake

The year 2011, which saw damage on an unimaginable scale, was certainly a year when we unexpectedly reconfirm HORIBA's role as a manufacturer of analytical and measurement instruments as well as reconfirm the great expectations that our shareholders place on us. We keenly feel as a manufacturer of analytical and measurement instruments, that supporting the safety and security of society is one of our most important missions. To this end, we supply lifeline infrastructure assistance, which includes equipment for power generation facilities and radiation measurement.

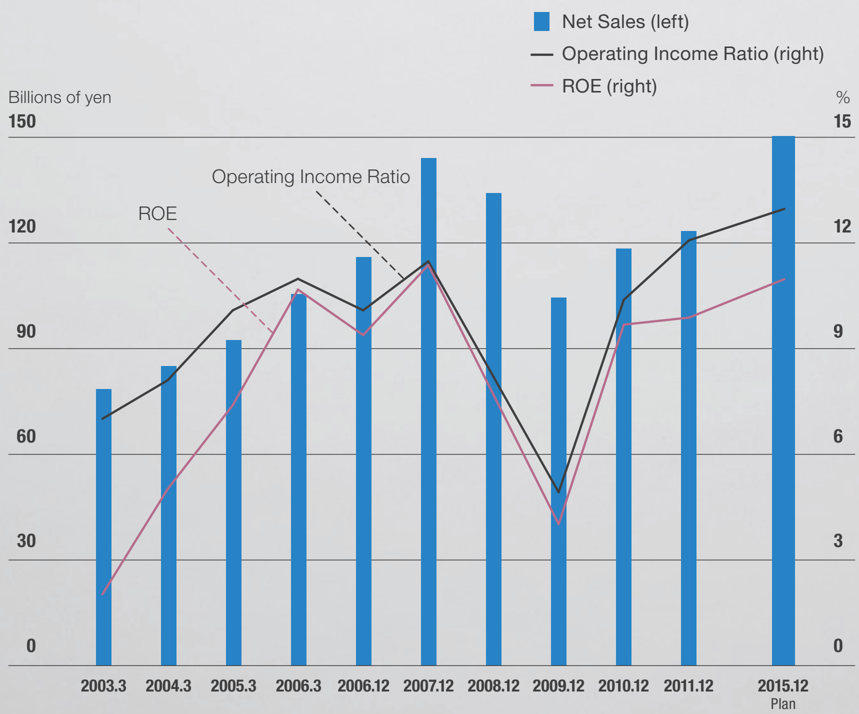
Revenue and profit growth achieved in Fiscal 2011

In fiscal 2011, ended December 31, 2011, HORIBA posted its third highest consolidated net sales and second highest operating income and net income. Consolidated net sales totaled ¥123.4 billion (up 4.1% year-on-year), operating income ¥14.9 billion (up 21.2%), and net income ¥8.6 billion (up 9.3%). In addition, our operating income ratio of 12.1% was the highest ever recorded. Earnings were supported by steady growth in the Semiconductor Instruments & Systems segment, which performed well from 2010 through the first half of 2011, and the Medical-Diagnostic Instruments & Systems segment. Earnings made a moderate recovery in the Automotive Test Systems segment. Another contributor to earnings was an improvement in the profitability of the Process & Environmental Instruments & Systems segment driven by an increase in sales of environmental radiation monitor that benefited from a surge in demand after the Great East Japan Earthquake.

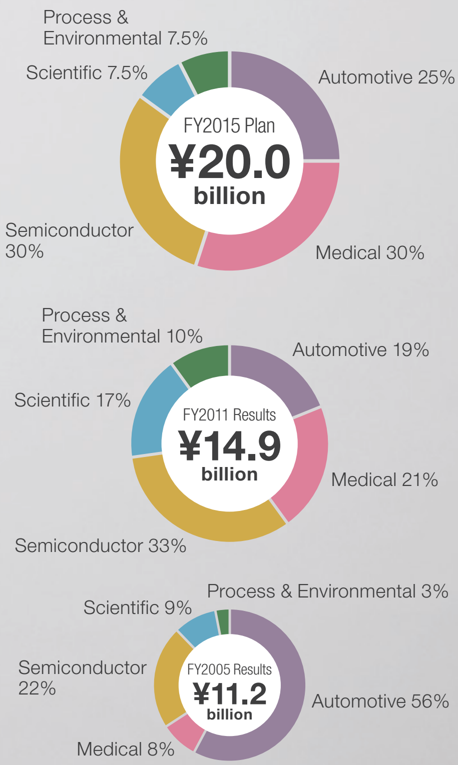
Steady progress in the Mid-Long Term Management Plan

In 2011, the first year of the Mid-Long Term Management Plan that ends in 2015, we implemented early investment measures and steadily moved forward with preparations

Aiming to achieve sustainable growth and high profitability



Planning to realize well-balanced growth in operating income



aimed at achieving the plan's targets in four years. In the Medical-Diagnostic Instruments & Systems segment, a focused business, we expanded our reagent manufacturing by building new reagent manufacturing plants in several global locations. In the Scientific Instruments & Systems segment, we started construction of new development center in the suburbs of Paris, France.

In the Americas, we have reorganized our North American group companies with the aim to facilitate timely management decision-making by incorporating the Brazilian base of HORIBA ABX S.A.S. (France) into the North American holding company. Furthermore, in Japan, we have promoted restructuring aimed at improving the profitability of HORIBA, Ltd. and restoring its guidance abilities as the group's headquarters. To this end we have built an organization that will ensure high profitability even during a prolonged phase of yen appreciation.

Numerical targets

Net Sales: ¥150 billion (Fiscal 2011 - ¥123.4 billion)
Operating Income Ratio: 13% or more (Fiscal 2011 – 12.1%)
ROE: 11% or more (Fiscal 2011 – 9.9%)

Strategic Policies of the 2015 Mid-Long Term Management Plan

Concentrated investment in highly profitable businesses
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 through restructuring of MCT business (automotive development test systems)
Expansion of market share based on proposing solutions from the customer viewpoint

Complete "One Company Matrix Management"
Completion of One Company in the Americas through restructuring in North America

Accelerate global product development and production
Accelerate establishment of reagents plants in the Medical-Diagnostic Instruments & Systems segment
Develop a sales support organization in Southeast Asia

To Our Stakeholders

Becoming a stable, highly profitable company Path of change to achieve transformation

Investment in the Medical-Diagnostic Instruments & Systems segment and Launch of new products in the Automotive Test Systems segment

Thanks to aggressive investment during the span of the previous Mid-Long Term Management Plan, the profitability of the Medical-Diagnostic Instruments & Systems segment and the Semiconductor Instruments & Systems segment substantially improved. These segments have grown into businesses that contribute high profit margins to group wide profits. In particular, since we entered the medical-diagnostic market with the acquisition of ABX S.A. (now HORIBA ABX S.A.S.) in 1996, the Medical-Diagnostic Instruments & Systems segment business has expanded due to the synergies of our development resources located in Japan and France. This business model generates stable earnings as the segment experiences a rising demand for HORIBA's blood testing instruments from new hospitals in the BRICs (Brazil, Russia, India, and China) countries and a shift in demand to compact instruments in Japan.

Earnings in the Automotive Test Systems segment, the historical driver of HORIBA's earnings, are finally recovering after a temporary shortfall in demand following the global financial crisis of 2008. In this sector, as it is essential to make investments to protect our absolute position, we will introduce new competitive products to accelerate our distinctive brand in 2012.

Continuing to foster human resources and technologies that create 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 will change" is our management balance and globalization. "What we will never change" is our continued investment in "Invisible Values" (assets that do not appear in the financial statements) such as human resources and technology. While economic cycles of recession and boom have repeatedly occurred, our continued investment has, without fail, been the driving force behind substantial growth in subsequent recovery phases. Based on this experience, we will continue to invest in technology and human resources as we prepare for future growth. The HORIBA COLLEGE, which began offering educational opportunities to our human resources in 2009, has steadily increased the number of available courses, and we have adopted a series of creative measures such as year-round recruitment to enable us to secure human resources with abundant diversity, even when hiring new graduates. These continuing initiatives to create value will steadily bear fruit, even during challenging times.

Path of change to achieve transformation to a highly profitable company

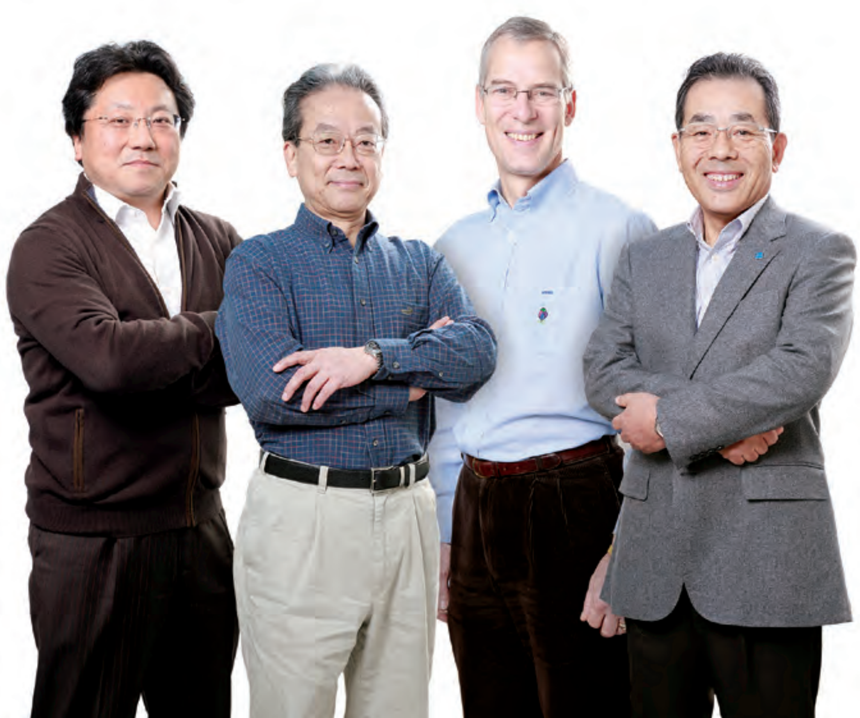
Measures Taken So Far

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

Measures to Take from Now on

- Introduce "Shared services" in Europe, Asia and South America
- 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.



2013 will mark HORIBA's 60th anniversary

HORIBA will celebrate the 60th anniversary of its foundation in 2013. HORIBA, Ltd. has a history of 60 years, but the group now includes companies that have continued to grow while continuously expanding their operations for nearly 200 years. I am convinced of the fact that companies with such history can continue to display a powerful attraction as they are carefully folded into the HORIBA Group. This is also attributable to the fact that we have consistently practiced management based on a unique corporate culture symbolized by the company motto "Joy and Fun." This corporate culture cultivates "Invisible Values," that are valued worldwide. We ultimately deliver these "Invisible Values" to customers in the form of real "products" that create corporate value and earnings. Without being influenced by economic cycles, we will continue to pursue corporate growth based on the enhancement of our "Invisible Values."

Our headquarters are located in Japan, but HORIBA is not simply another Japanese company that conducts business around the world. Rather, our objective is to be a first-class, global company that understands the culture, customs, and values of the countries and regions where we do business, and conducts business in harmony with the local 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 officer 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.

HORIBA has helped society attack formidable development problems, such as pollution and global warming, through the provision of analytical and measurement instruments. To provide "assurance" to all peoples, we will continue to supply a wide variety of products to assist social development. Our operating environment is uncertain in many regions of the world, including the financial and fiscal problems in Europe and the appreciation of the yen. However, 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 boldly acting.

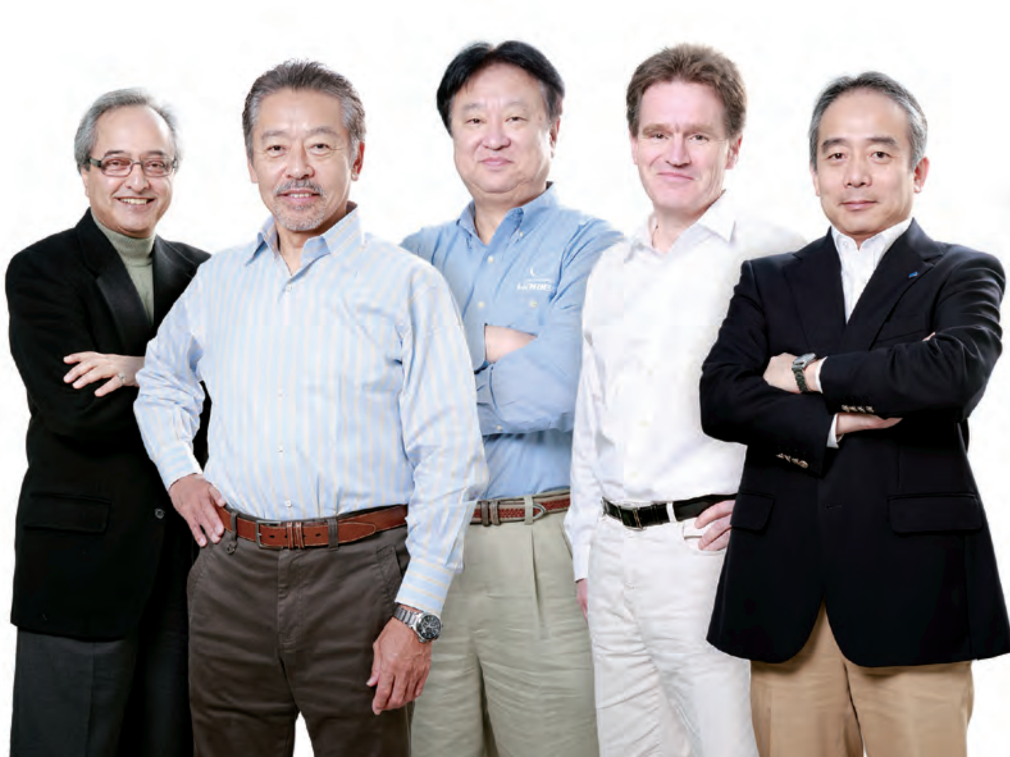
To reward our owners (shareholders), we were able to increase dividends in 2011 by paying an annual dividend of ¥40 compared to ¥17 in 2010. For 2012, although it is very difficult to predict our business performance, we are planning to increase the annual dividend by ¥3 to ¥43, which includes a commemorative dividend for our 60th anniversary (an ordinary dividend of ¥33 and a commemorative dividend of ¥10).

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 2012

Atsushi Horiba

Chairman, President and CEO



From left	as of April 1, 2012
Senior Corporate Officer, General Manager of Sales Division	Takashi Nagano
Senior Corporate Officer, General Manager of Finance & Control Division	Sunao Kikkawa
Senior Corporate Officer, President & CEO of HORIBA ABX S.A.S.	Bertrand de Castelnau
Executive Vice President	Dr. Kozo Ishida
Executive Corporate Officer, Chairman, President & CEO of HORIBA International Corporation (U.S.)	Dr. Jai Hakhu
Chairman, President & CEO	Atsushi Horiba
Director and General Manager of Corporate & Segment Strategy Division	Juichi Saito
Senior Corporate Officer, President & CEO of HORIBA Jobin Yvon S.A.S.	Dr. Michel Mariton
Senior Corporate Officer, General Manager of Research & Development Division	Dr. Masayuki Adachi

Progress of the Mid-Long Term Management Plan

From 2011 to 2015
Mid-Long Term Management Plan

During 2011, the first year of the current Mid-Long Term Management Plan, HORIBA made major investments in reagent plants for the Medical-Diagnostic Instruments & Systems segment, and achieved significant progress in organizational improvement.

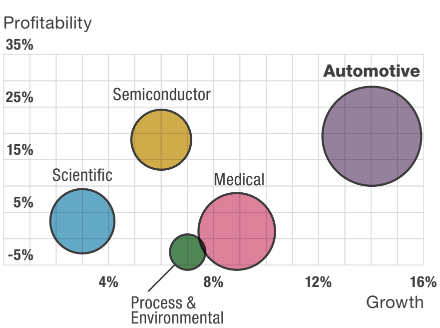
Numerical targets for 2015
Assumed exchange rates:
U.S. dollar:¥80, Euro:¥110
*Return on equity

Net Sales:	Operating Income Ratio:	ROE*:
¥150.0 billion	13.0% or more	11.0% or more
Fiscal 2011 - ¥123.4 billion	Fiscal 2011 – 12.1%	Fiscal 2011 – 9.9%

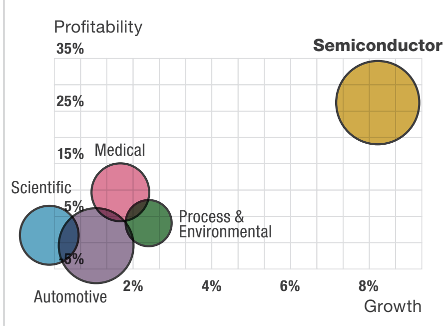
Business Portfolios Aimed by the 2011-2015 Management Plan

Vertical axis : Operating income ratio in the final year **Horizontal axis :** Compound annual growth rate of net sales **Size of circle :** Net sales volume

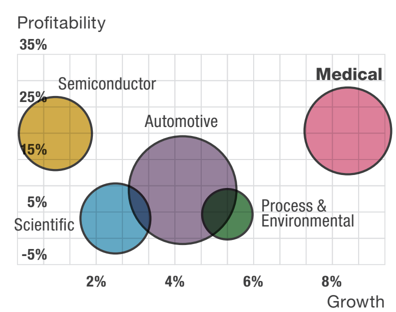
2001 ▸ 2005
Driven by the automotive segment



2005 ▸ 2010
Contributed by growth in the semiconductor segment

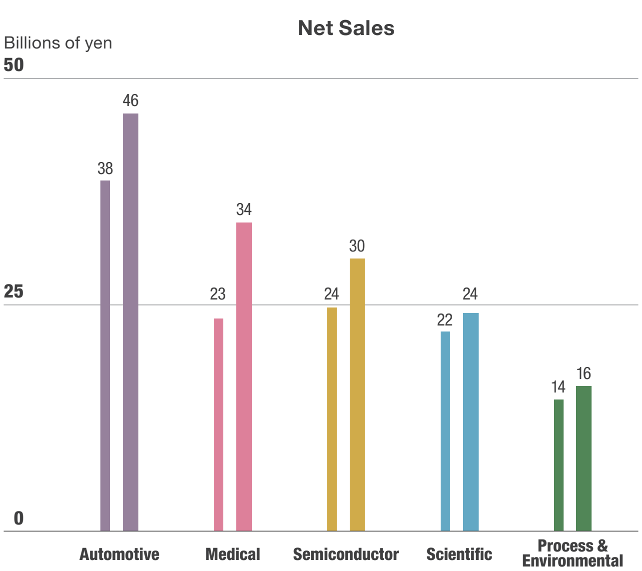


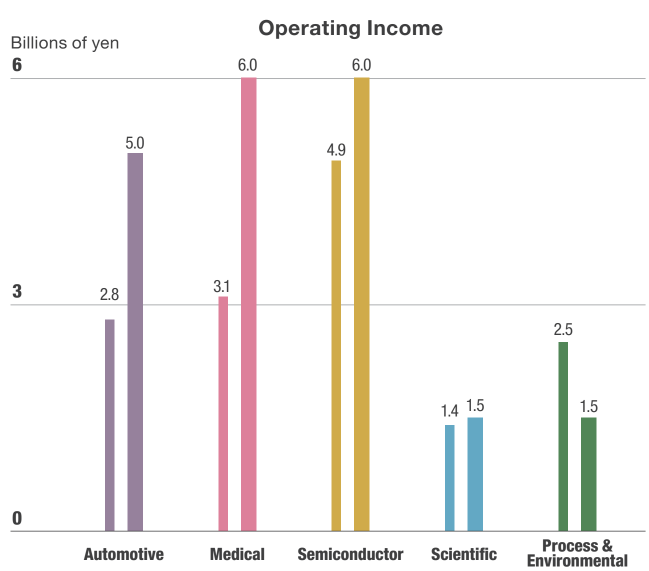
2010 ▸ 2015
More balanced portfolio with growth in the medical segment



Mid-Long Term Management Plan Goals and Present Results

Left: 2011 Results **Right:** 2015 Plan





Evolving and completing "One Company Management"

Organizational Restructuring in the Americas to Accelerated Business Expansion

In January 2012, HORIBA's subsidiaries in the U.S. and Brazil were restructured. These subsidiary companies were consolidated into two companies, which became subsidiaries of HORIBA International Corporation, HORIBA's U.S. holding company. Specifically, the four U.S. subsidiaries of HORIBA International Corporation were consolidated into a single operating company, HORIBA Instruments Inc., with the objective of capitalizing on their new synergy to gain market share in the largest analytical and measuring instrument market in the North American region by achieving business efficiency and speeding up investment decisions. The Brazilian subsidiary of HORIBA ABX S.A.S., HORIBA's core company in the medical-diagnostic instrument business, is now a subsidiary of HORIBA International Corporation, and is re-named HORIBA Instruments Brasil Ltda. The move speeds up management's ability to make decisions in the Americas and should expand the medical-diagnostic business in small or medium-sized hematology analyzers where HORIBA has the top market share in Brazil. The Brazilian business consolidation into HORIBA International Corporation will also facilitate preparations for business expansion in the promising South American markets for Automotive Test Systems and Scientific Instruments & Systems.

Consolidated 5 companies into 2 companies and placed them under a holding company in the U.S.

5 companies before reorganization

HORIBA International Corporation
1. HORIBA Instruments Inc.
2. HORIBA ABX Inc.
3. HORIBA/STEC Inc.
4. HORIBA Jobin Yvon Inc.

HORIBA ABX S.A.S.
5. HORIBA ABX Brasil

2 companies after reorganization

HORIBA International Corporation
- **HORIBA Instruments Inc.**
- **HORIBA Instruments Brasil Ltda**

Key Measures

Progress of key measures implemented in 2011 by business segment

Segment	Key Measures Implemented by Country	
HORIBA Automotive Test Systems — Automotive	**India** Increased bases	**Germany** Reorganization in MCT business
HORIBA Medical — Medical	**Japan** The reagent plant will add capacity by summer of 2012 (plan). Investment plan: ¥1,500 million (¥400 million in 2011)	**Brazil** The reagent plant will expand by 2012 (plan). Investment plan: ¥700 million (¥200 million in 2011)
	China A new reagent plant began operation in February 2011 (Shanghai). Investment: ¥300 million in 2010	**Indonesia** Representative office Opened in October 2011
	India Increased bases	
HORIBA Semiconductor — Semiconductor	**China** Beijing HORIBA METRON Instruments Co., Ltd. (joint venture) Semiconductor Segment's production base (mass flow controllers)	**Taiwan** A subsidiary was established. (Had a branch office previously.) Mainly for the semiconductor business
HORIBA Scientific — Scientific	**France** R&D center under construction to be completed by autumn of 2012. Investment plan: ¥2 billion (¥1.1 billion in 2011)	
HORIBA Process & Environmental — Process & Environmental	**Vietnam** Representative office	**India** Increased bases

Feature

Business to Focus Upon in the Mid-Long Term Management Plan

Medical Medical-Diagnostic Instruments & Systems

Medical-Diagnostic Instruments & Systems Net Sales and Operating Profit

	Net Sales	Operating Income
2011 Results	¥23.4billion	¥3.1billion
2015 Plan	¥34.0billion	¥6.0billion

HORIBA is working on various investment projects, mainly in the businesses identified as having special importance in the Mid-Long Term Management Plan, which was announced in February 2011.
In this annual report, we feature the medical business, presenting its characteristics by region and strategies.

Medical Business as a Driver for Growth

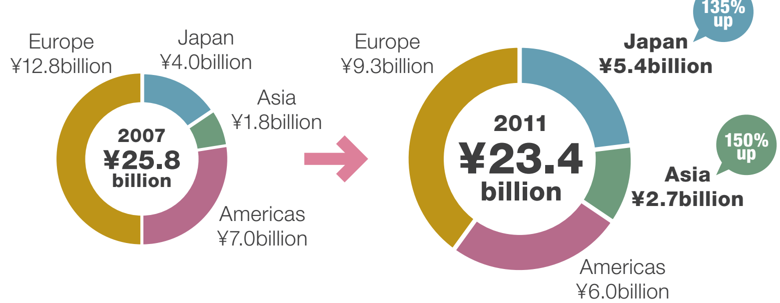
1. Global development of highly competitive small and medium-sized blood cell counters
2. Reagent production expansion worldwide
3. Enhanced sales in North America and Asia

Please refer to pages 15-16 for Business Overview.

Sales by Region

Compared to seven years ago, HORIBA's Medical-diagnostic Medical-Diagnostic Instruments & Systems sales grew well in Asia and Japan, where the markets expanded and our products which fulfilled the needs of the markets were well received.
In Europe and Americas, sales decreased primarily due to the impact of the stronger yen. In local currency terms, sales increased.

Consolidated Sales by Region



For reference Foreign exchange fluctuation impact: The average exchange rate for the euro in 2007 was 161 yen. If the rate were at 161 yen in 2011, HORIBA's sales in Europe could have been ¥13.5 billion, suggesting that the actual sales were lowered by ¥4.2 billion by the stronger yen. If the exchange rates in 2011 were the same as in 2007, total sales could have amounted to ¥27.6 billion.

Milestones of HORIBA's Medical Business

	HORIBA, Ltd.	HORIBA ABX S.A.S.
1977	Began development of SERA, Potassium Ion Specific Electrodes	
1983	Launched SERA in the market	ABX S.A. was established in Paris, France
1987	HORIBA entered into a business alliance with ABX. (Began business in Japan.)	
1996	HORIBA acquired ABX.	
1997	Established sales bases in North America and Brazil.	
2004	Established a sales base in Thailand.	
2008	A new reagent plant in France began operation.	
2011	Opened a representative office in Indonesia. The Aso reagent plant in Kumamoto Prefecture began adding capacity. The reagent plant in Brazil began adding capacity. A new reagent plant began operation in China (Shanghai).	

Characteristics by Region

HORIBA's Medical-Diagnostic Instruments & Systems segment has a core base of product development and reagent supply in France. By combining unique technologies developed in Japan, competitive products are supplied to the global market. We will make vigorous marketing and sales efforts in the U.S., the largest medical market, as well as in Asia, the market with high growth potential.

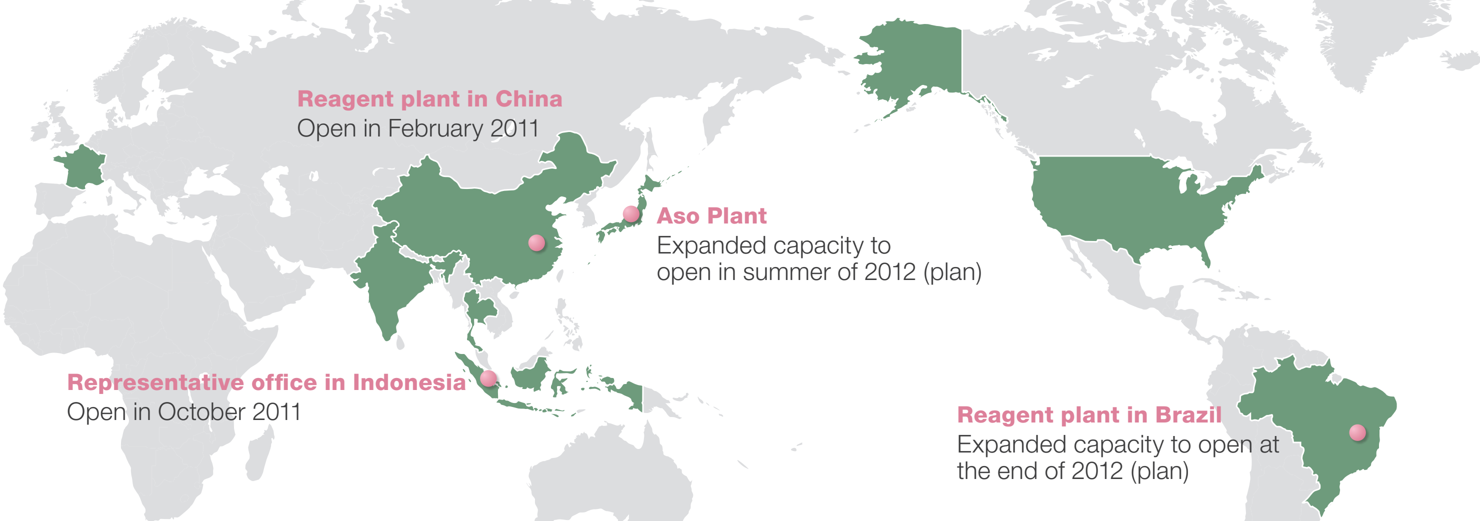
Region	Market Size	Market Share	Market Growth Potential	Major Equipment	Features	HORIBA's Key Measures
Europe	¥50.0 billion	19%	→	Small to large-sized blood cell counters Clinical chemistry analyzers	R&D center Large-scale reagent plant	
Americas	¥90.0 billion	7%				
North America	—	—	→	Small to large-sized blood cell counters	Mega market	Reorganized sales company connections. Expand OEM business.
South America (Brazil)	—	30%	↗	Small to medium-sized blood cell counters	Began in 1997 and has maintained high shares. The market is expanding with more hospitals.	Expanded capacity of the reagent plant for efficient supply of reagent and higher margin.
Japan	¥25.0 billion	20%	→	Small-sized blood cell counters Blood glucose measurement systems	Highly profitable thanks to the blood cell counter plus CRP. High share in the market for private practitioner clinics.	The Aso reagent plant in Kumamoto Prefecture added capacity. Blood cell counters for animals were introduced. Shifted to direct sales of blood glucose measurement systems.
Asia (ex. Japan)	—	17%				
China	¥25.0 billion	—	↗	Small to medium-sized blood cell counters	The market of small-sized products for large hospitals is expanding. The challenging issue is to raise adoption of original reagents.	Aim to raise margin of reagents, as the reagent plant was constructed in February 2011.
Other Asian countries	¥16.0 billion	—	↗	Small to medium-sized blood cell counters	Market growth is accelerating with more hospitals.	Opened a representative offices in Indonesia. Enhanced supports to sales companies.

Total ¥200 billion

*HORIBA's estimate

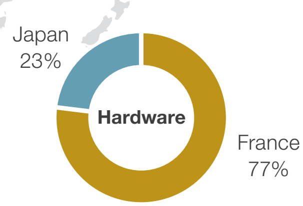
Accelerating global expansion

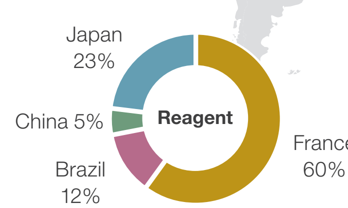
We aim to reduce costs of distribution and inventory management, respond promptly to customer needs, and improve profitability by installing local reagent production facilities in mass-consumption areas. In 2011, in addition to installing bases in China and Indonesia, we started construction of added capacity in the reagent plants in Japan and Brazil, in order to be prepared for reagent demand growth in the future.



Product development	France, Japan
Reagent plant	France, Japan, China, Brazil
Sales bases	European countries, Japan, U.S.A., Brazil, China, Thailand, India, Indonesia

Globalizing production bases





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.

Implement a dividend payment linked to earnings growth	Maintain the standard payout ratio at 30% of HORIBA, Ltd. net income
Select the optimal financing method, depending on capital needs and with due consideration to factors such as the equity ratio, capital cost, market interest rates, and credit ratings	
Achieve high ROE (Return on equity)	Mid-Long Term Management Plan (2015): 11% or more

Implement a Dividend Payment Linked to Earnings Growth

HORIBA was the first listed Japanese company to start paying shareholder dividends based on a payout ratio (30% of parent company's net income). This practice, which began in 1978, has paid dividends to its owners without interruption for 33 years.

Financial Policies

HORIBA maintains an appropriate level of liquidity in hand to ensure efficient funding in accordance with capital requirements. This is an important guideline for HORIBA's financing activities. We define liquidity in hand to be the sum of cash and cash equivalents plus the open amount of the credit lines negotiated with financial institutions.

At the end of 2011, liquidity in hand amounted to ¥40.7 billion, which was ¥35.7 billion in cash and cash equivalents and a ¥5.0 billion open balance from bank credit lines.

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 participates in globalizing HORIBA's domestic accounting operations and maintaining compliance with international accounting standards. At present, he is engaged in strategies to raise capital and boost the efficiency of group administrative operations as Senior Corporate Officer and General Manager of the Finance & Control Division.

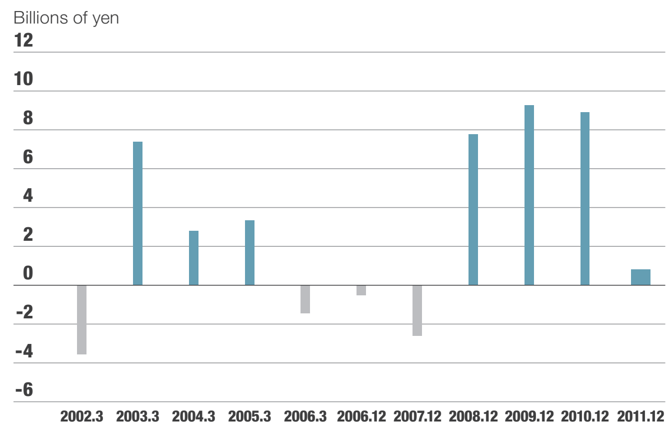
Free Cash Flow Extension

HORIBA had negative free cash flow for three consecutive years from 2005 to 2007, primarily due to the acquisition of the MCT business in September 2005 and capital investments for a new ERP implementation in 2006-2007. Since 2008, when our business results deteriorated due to the economic slowdown, we have recorded positive free cash flow for four consecutive years with total assets reduced by inventory reduction and earnings generated by cost reduction.

In 2011, positive free cash flow was ¥800 million, primarily due to an increase in tax payments related to income growth in 2010, plus higher capital expenditures for projects including construction of a new R&D center in France, and construction and capacity expansion of reagent plants for the Medical-Diagnostic Instruments & Systems segment.

Free cash flow is the combined amount of operating cash flow and investing cash flow.

Free Cash Flow

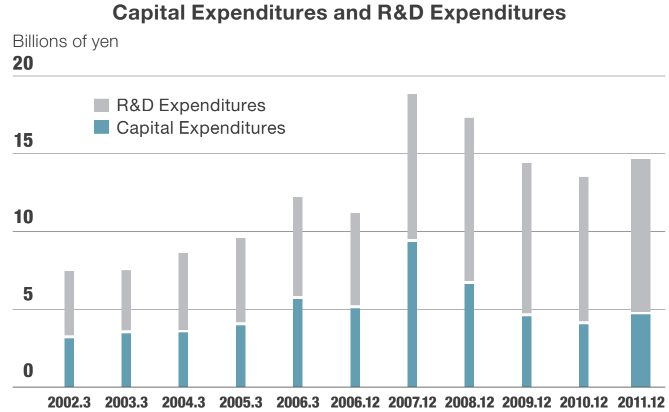


Continued Investment for Growth

HORIBA has continued to invest in production facilities as well as R&D and human resources during both good times and economic downturns. This strategy has contributed to increased market share during recovery phases from economic downturns.

*Capital expenditures are a sum of investments in tangible and intangible fixed assets.

Capital Expenditures and R&D Expenditures

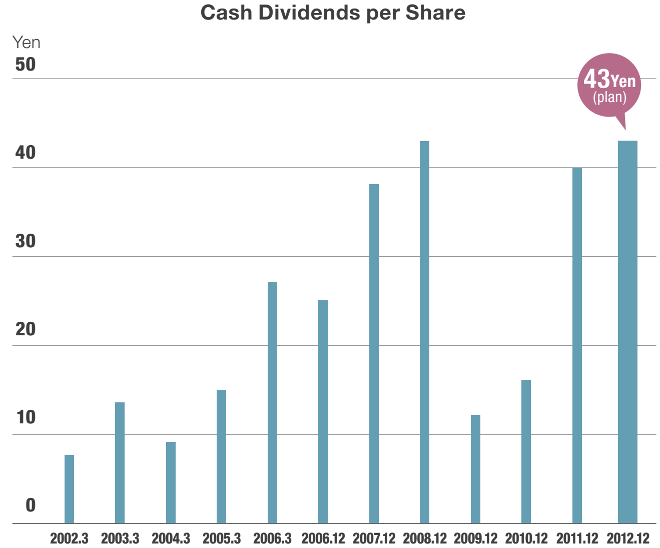


Dividend Payment of the Past 11 Years

The Automotive Test Systems segment, the core business of HORIBA, Ltd., experienced several years of low profitability, due to the economic downturn triggered by the Lehman Brothers Shock in 2008. During this period HORIBA's per-share dividend was depressed to 13 yen and 17 yen in 2009 and 2010 respectively. For 2011 we raised the per-share dividend by 23 yen to 40 yen, thanks to higher incomes from the Automotive Test Systems segment, the Medical-Diagnostic and Process & Environmental Instruments & Systems segments.

In 2012, we are projecting a severe scenario of less than desirable profitability caused by a stronger yen in the Automotive Test Systems segment and lower income in the Process & Environmental Instruments & Systems segment. Nevertheless, as we are celebrating the 60th anniversary of HORIBA, Ltd. in 2013, we plan to pay a commemorative dividend of 10 yen per share, meaning a real dividend increase to 43 yen (ordinary dividend of 33 yen and commemorative dividend of 10 yen).

Cash Dividends per Share

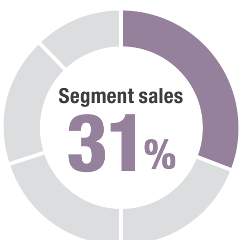


Business Overview

Business Overview by Segment

Automotive Test Systems

Automotive Test Systems



Segment leader

L Hiroshi Nakamura

R Jean Pierre Surin

Strong support for automotive development

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 line-up 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 powertrains and alternative fuel engines. We expect to experience an increase in demand for our automotive development instruments.

Risk factor

The global automotive industry's shifting R&D investments

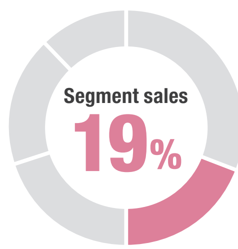
Principal products Emission measurement systems, automotive emission analyzers, on-board emission measurement systems, driveline test systems, drive recorders

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

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

Medical

Medical-Diagnostic Instruments & Systems



Segment leader

L Narihiro Oku

R Bertrand de Castelnau

Proactive product development in a large stable-growth market

HORIBA's 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

Impact on earnings from changes in medical insurance systems in various countries

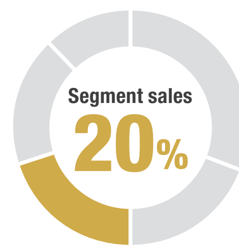
Principal products Equipment for blood sample analysis (hematology analyzers, equipment for measuring immunological responses, clinical chemistry analyzers, blood glucose measurement systems)

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

Product applications Health and diagnostic testing, disease diagnosis

Semiconductor

Semiconductor Instruments & Systems



Segment leader

L Hideyuki Koishi

R Dale Poole

Helping to improve yields in semiconductor manufacturing processes

The semiconductor industry is cyclical but continues to grow. HORIBA's main products are mass flow controllers; devices that control gas and liquid flows in the semiconductor, solar cell, and LED (light-emitted diode) manufacturing process. Semiconductor-related 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 solar cell and other energy sources

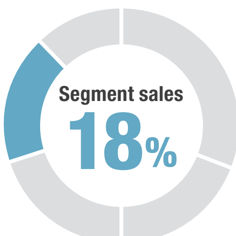
Principal products Mass flow controllers, chemical concentration monitors, reticle/mask particle detection systems

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



Segment leader

Ⓛ **Tsukasa Satake**

Ⓡ **Michel Mariton**

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

HORIBA manufactures and sells over 500 types of instruments in the leading edge of scientific technology. We command leading market shares thanks to our high-level 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

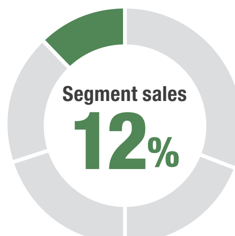
Principal products pH meters, particle-size distribution analyzers, X-ray fluorescence analyzers, raman spectrophotometers, diffraction gratings

Major customers Manufacturers, national research institutions, universities, government agencies

Product applications R&D, product quality testing, criminal forensics

Process & Environmental

Process & Environmental Instruments & Systems



Segment leader

Ⓛ **Tadao Nakamura**

Ⓡ **Peter DeBarber**

Providing analytical and measurement instruments for compliance with environmental regulations

HORIBA provides environmental measurement technologies for solution to preserve the global environment. In addition, HORIBA's process measurement technologies fulfill analytical needs in the process industries and manufacturing development, helping to ensure public safety, security, and health.

Risk factor

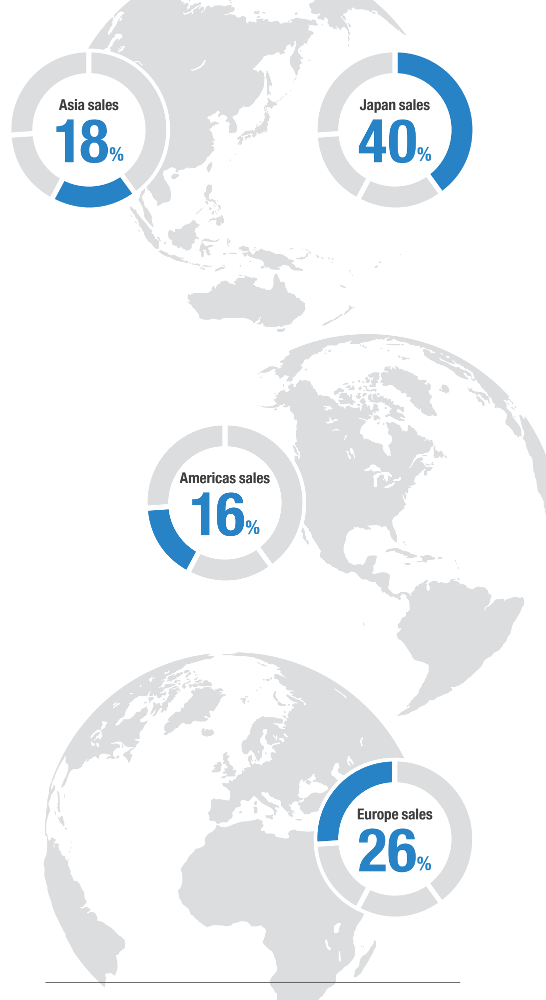
Demand fluctuation following changes in environmental regulations

Principal products Stack gas analyzers, water quality analysis and examination systems, air pollution analyzers, environmental radiation monitors

Major customers Manufacturers, government agencies, electric power companies

Product applications Measurement of wastewater and water supplies, gaseous emissions, environmental pollution monitoring

Business Overview by Region



Japan

- Steady growth and high market shares for products that are related to R&D applications and environmental regulations.
- The Aso reagent plant in Kumamoto Prefecture added capacity in the Medical-Diagnostic Instruments & Systems segment.

Asia

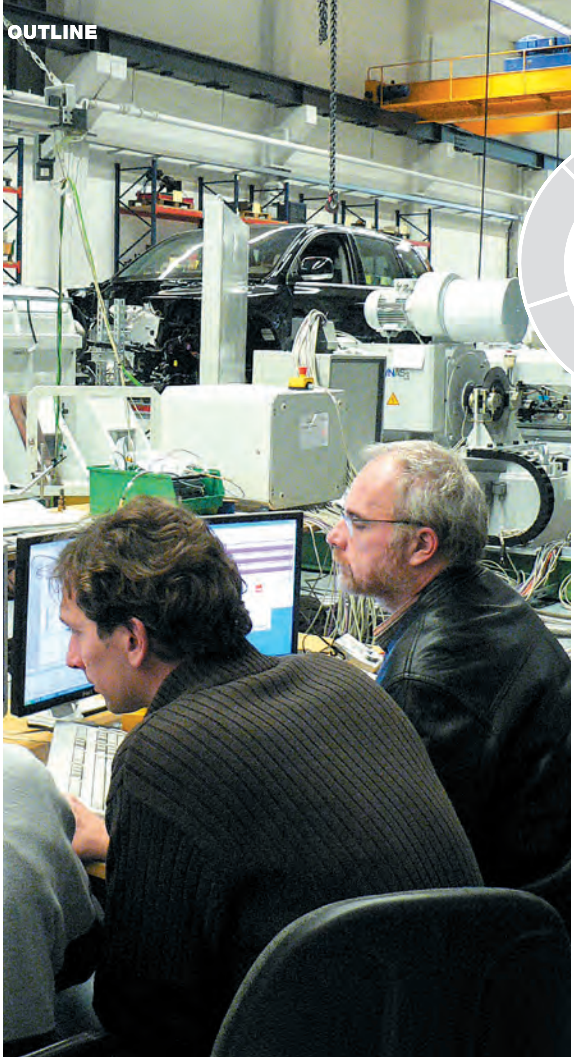
- High growth in China, India, and Southeast Asian countries.
- Use know-how accumulated in Automotive, Medical, and Process & Environmental businesses in developed markets for expansion.

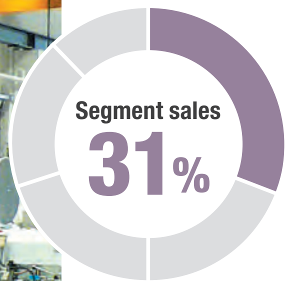
Americas

- High potential for expanding market share in this market that represents 40% of global demand for analytical and measurement instruments.
- Use HORIBA Technology Center as a base to enhance competitiveness.
- Focus on product development and marketing for the medical and semiconductor markets.
- The reagent plant in Brazil added capacity in the Medical-Diagnostic Instruments & Systems segment.

Europe

- Sales increased thanks to the effects of the corporate acquisition and the business acquisition.
- The new R&D Center in Paris is scheduled to open in 2012 as a core product development facility in Europe.





Automotive Test Systems

MEXA, emission measurement systems, has No. 1 global share

Since the first MEXA was developed 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, which has constantly evolved with the times. HORIBA's emission measurement systems command the leading position in the industry with an 80%* worldwide market share and have been adopted as the primary standard by many national certification bodies and major global automotive manufacturers. All together, we have delivered over 8,000 MEXA units to our customers.

In 2012, we will introduce MEXA-ONE, a new and ultimate product based on our accumulated technologies in this field. MEXA-ONE will be our commitment for supporting future automotive development as manufacturers respond to rising demands to measure the emission characteristics of alternative fuels such as biofuel, and new requirements to measure emissions in more diverse applications such as construction machinery, ships and general purpose engines.

(*HORIBA's estimate)

2012: Investment recovery in the automotive industry

HORIBA recorded an increase in sales and profits in 2011, thanks to increased investment by automotive manufacturers in Asian countries, and a recovery in investment in Japan, Europe, and the Americas. Sales were enhanced by a large shipment of driving management systems in Japan.

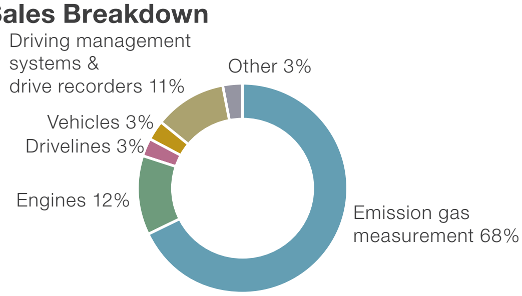
In 2012, we are expecting a continued surge in automotive investment in many countries. The investment in emissions and testing equipment is triggered by new fuel efficiency requirements and emission standards slated to become regulatory requirements in 2014-2015.

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

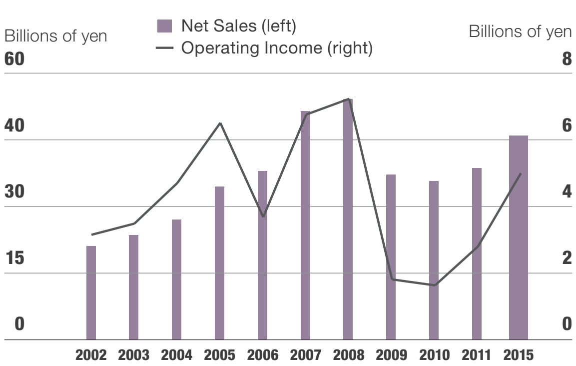
The year 2011 can be defined as the year of the EV. HV, PHV and EVs have been launched by automakers around the world. We expect that automakers will allocate part of their development spending to full or partial EVs, for which HORIBA provides essential measurement systems to evaluate powertrain efficiency and aerodynamic performance. These areas are important for the development of EVs. Our goal is to expand business and improve profitability by capturing our market share in Japan, Europe, and the Americas and respond to new demand in emerging markets.

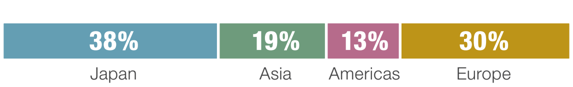
Future development of HV and PHV that use engines, motors and batteries requires new features in emission measurement systems to evaluate the unique features of these powertrains. Moreover, emerging markets are expected to have high demand for emission measurement systems, which is in line with the increased need for local development amid accelerated growth in automotive sales.

Sales Breakdown



Net Sales and Operating Income





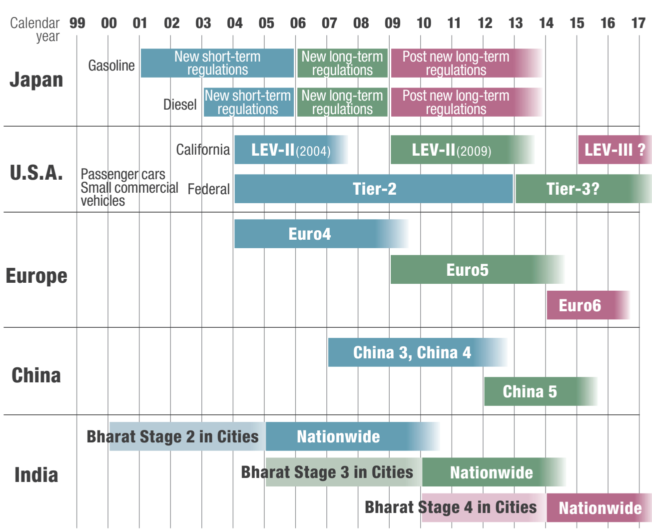
HORIBA's Automotive Business

Credibility gained from automakers based on our emission measurement systems -HORIBA has an 80% global share-is expected to help expand the MCT business.

HORIBA Business Divisions	Gasoline & Diesel	Hybrid	Electric	Market size (Billions of yen)
Emissions business	Emissions measurement	Emissions measurement		40
MCT business	Engine performance tests	Engine performance tests		100
	Drivelines tests	Drivelines tests	Drivelines tests	30-
	Vehicles, Wind tunnel balances, Brake tests	Vehicles, Wind tunnel balances, Brake tests	Vehicles, Wind tunnel balances, Brake tests	15
		Motor, Battery measurement	Motor, Battery measurement	
Driving management systems & drive recorders	Safety and IT	Safety and IT	Safety and IT	

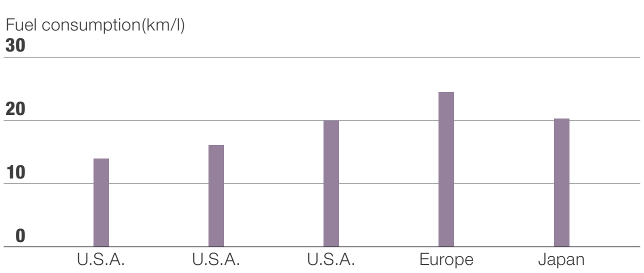
Trend of Automobile-related Regulations

Progression of Emission Standards by Region/County



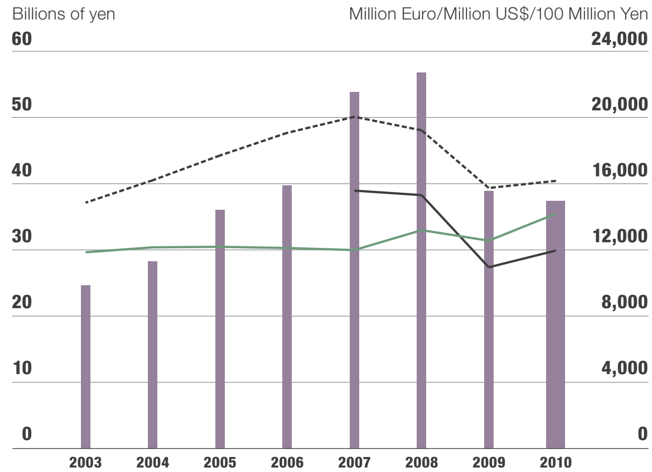
Sources: HORIBA's in-house survey based on materials from the Ministry of Economy, Trade and Industry, the Ministry of the Environment, and Japan Automobile manufacturers Association Inc.

Automotive Fuel Efficiency Requirements in Developed Countries



Sources: HORIBA's in-house survey based on materials from the Ministry of Economy, Trade and Industry and Japan Automobile manufacturers Association Inc.

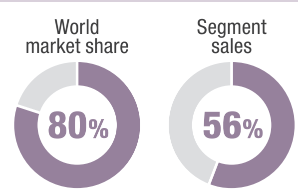
HORIBA's Automotive Segment Sales and Major Automakers' R&D Spending



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

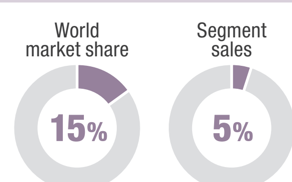
Major Products and Market Shares

Emission Measurement Systems



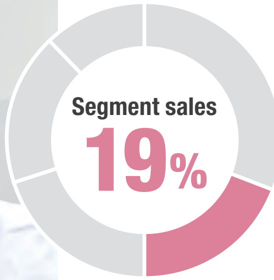
These systems continuously and simultaneously measure the chemical composition of the exhaust gases over a broad range of concentrations. They are widely used in R&D and product certification in the automotive industry.

Driveline Test Systems



The driveline is an extremely important parts 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 sales of reagents

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 a weak economy, 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.

2012: Expect firm sales to continue in Japan and benefits from the weaker euro in Europe and the U.S.

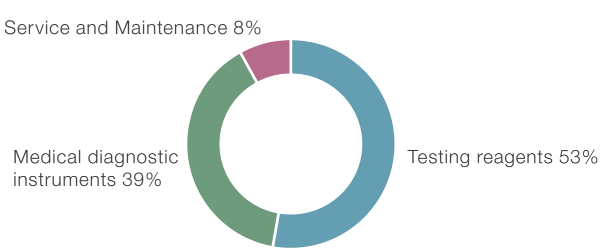
In 2011, Medical-Diagnostic Instruments & Systems segment profits increased in tandem with growth in the installed base generated by the introduction of new products in the Japanese market in late 2008, and the weaker euro, which enhanced the competitiveness of HORIBA ABX S.A.S. (France) products.
In 2012, we expect to continue expanding our installed base with new products in Japan and sales growth worldwide, particularly in China, India, Southeast Asia, and other emerging markets.

Establish business base for expansion

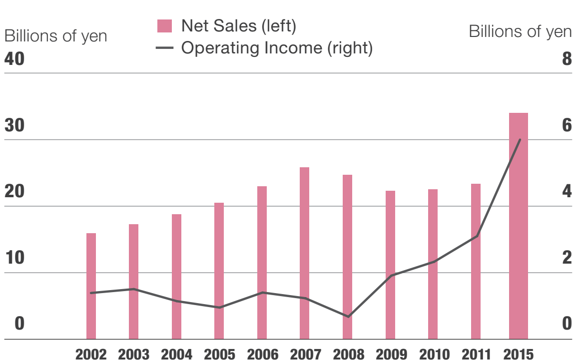
Regarding test reagents, which are important profit generators in this segment, our strategy is to initiate local production of reagents in mass-consumption areas with high near-term growth potential, such as China, India, South America, and Southeast Asia. This end result is to reduce costs of distribution and inventory management, to respond promptly to customer needs, and to improve profitability. In 2011, in pursuit of improved efficiency, we began construction of new facilities to expand our production capacity for reagents in Brazil, China, and Japan. Moreover, to expand our market share and improve profitability in China and other Asian markets, we will introduce our automatic blood cell counter plus CRP, which has been a strategic product in Japan.

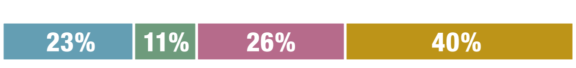
*CRP: abbreviation of C-Reactive Protein. One type of protein the body produces in response to internal inflammation.

Sales Breakdown



Net Sales and Operating Income





Please refer to pages 11-12 for the measures implemented in the Mid-Long Term Management Plan.

Business Development by Testing Category

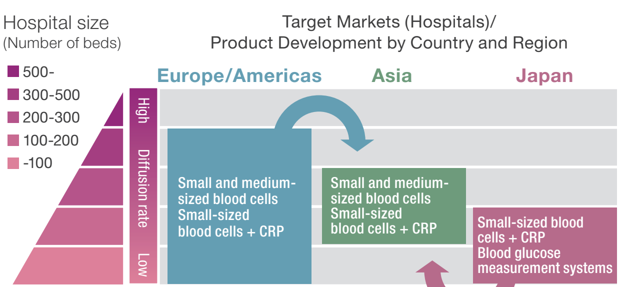
Test category		Clinical chemistry	Hematology	Immunology	Coagulation
Market scale		¥1 trillion	¥0.2 trillion	¥1 trillion	¥0.1 trillion
Hospital	Large hospitals Testing centers		Hematology analyzer systems		
	Small and medium-sized hospitals	Clinical chemistry analyzers	**Small and medium-sized hematology 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 at or near the site where patients are located; in places such as surgery by a doctor or a physician, a hospital ward, or a clinic for outpatients.

Field in which HORIBA exhibits strength

Product Development in the In-Vitro Diagnostics Analysis Market

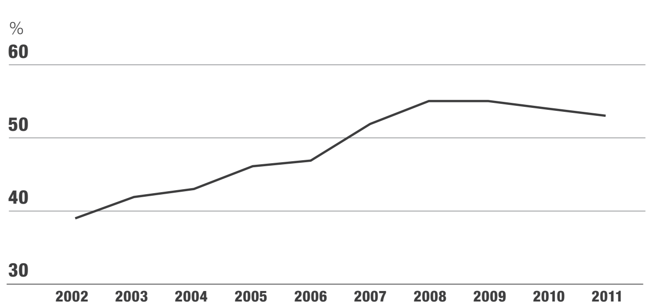
HORIBA aims to capture the POCT needs with its globally-competitive small or medium-sized hematology analyzers and expand its market share.



Priority measures	Europe/Americas	Asia	Japan
	Enhance sales and services Focus sales of plus CRP products to clinics	Increase market shares with plus CRP products Enhance support capabilities with a new reagents plant Aim to increase market shares by enhancing sales and services	Expand markets with plus CRP products Do direct sales of blood glucose measurement systems Expand sales in the blood glucose Expand sales of blood cells in POCT market

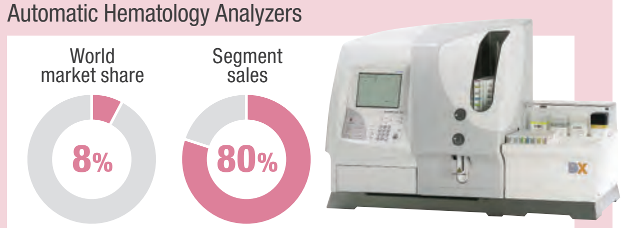
Sales Ratio of Testing Reagents in HORIBA's Medical-Diagnostic Instruments & Systems segment

The sales ratio of testing reagents has been increasing thanks to the increase of installed base of instruments. Now the ratio became stable at around 50-55%.



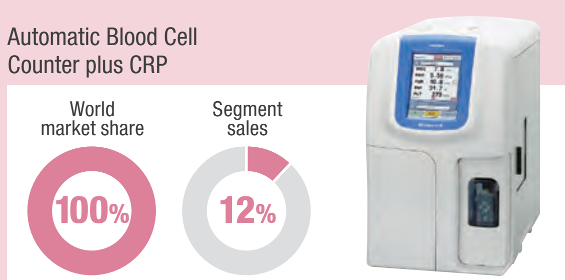
Major Products and Market Shares

Automatic Hematology Analyzers



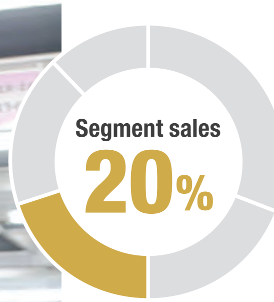
Blood tests are essential for assessing the health of people and animals. These analyzers check red and white blood cell counts as well as hemoglobin concentrations and platelet counts.

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 needs of new markets and new applications

HORIBA has a wide variety of semiconductor products such as mass flow controllers that are essential components in semiconductor manufacturing equipment, and chemical concentration monitors that are used in semiconductor wafer cleaning processes. In particular, we have a leading 47%* global market share in mass flow controllers and aim to raise our market share. We provide highly functional products that satisfy productivity improvement requirements and enhance performance in highly miniaturized manufacturing processes.

(*HORIBA's estimate)

2012: Respond to a surge in demand thanks to an increase in production capacity

In the first half of 2011, sales of mass flow controllers and chemical concentration monitors were favorable on the back of an increase in production of manufacturing equipment makers for silicon semiconductors and LEDs (light-emitted diodes). In the second half of 2011, however, sales slowed down sharply due to our customers' production adjustment.

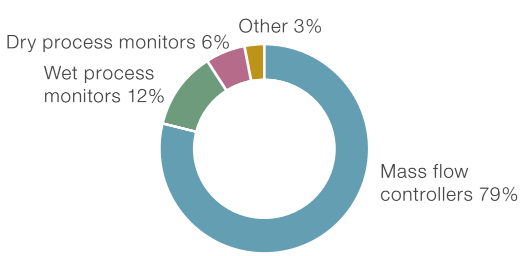
In 2012, we expect a moderate recovery primarily for silicon semiconductors, which turned around and started on an uptrend at the end of 2011. Nonetheless, we forecast that the operating income ratio will be lower due to the appreciation of the yen and competitive pressure on sales prices.

Expand sales in Asia, supported by strong trust of semiconductor makers

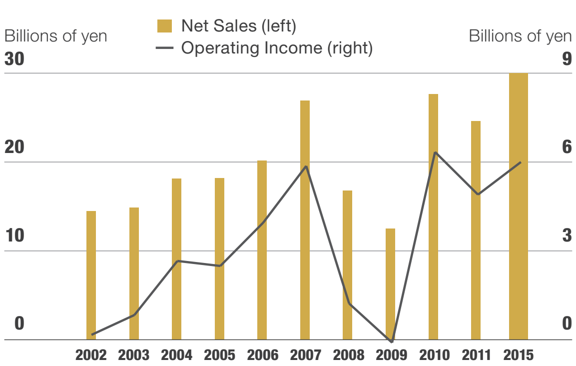
HORIBA's service strength is its capability to support customers in Asia. Our strategy is to expand our market share by gaining more credibility from manufacturing equipment makers of semiconductors, photovaltaics, and LEDs, and by making enhanced quality products that satisfy the rising demand from customers.

In addition, we started producing mass flow controllers at Beijing HORIBA METRON Instruments Co., Ltd., a joint venture established in Beijing, China. We plan to establish its position in Asia, where demand is rising.

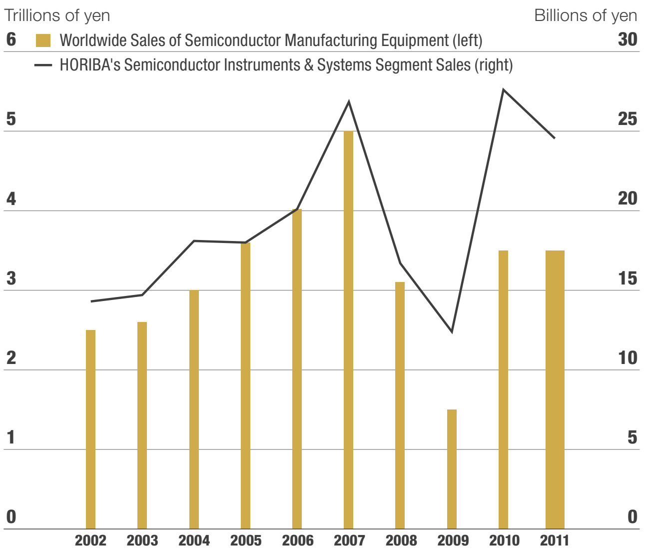
Sales Breakdown



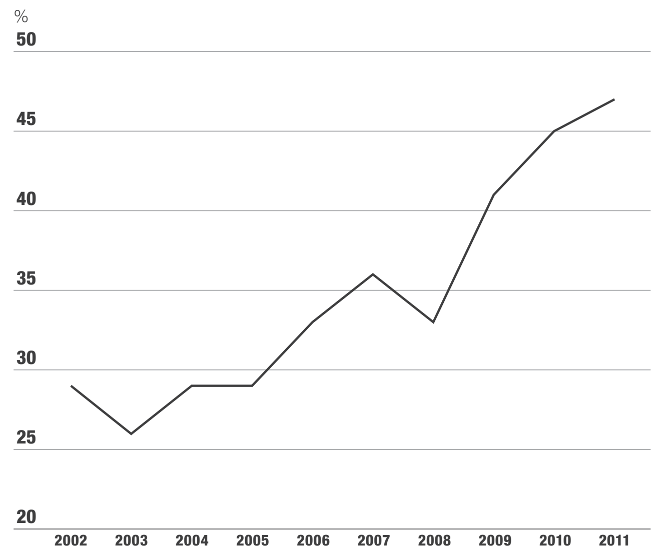
Net Sales and Operating Income



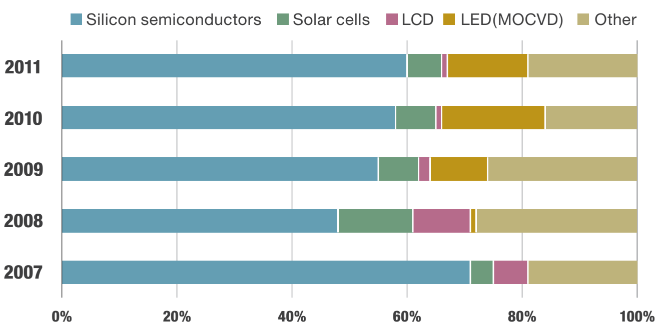
HORIBA's Semiconductor Instruments & Systems Segment Sales in Comparison to Worldwide Sales of Semiconductor Manufacturing Equipment



HORIBA's Global Market Share for Mass Flow Controllers



Mass Flow Controllers' Sales Breakdown by Application



Silicon semiconductors represent more than half of sales while the share of sales for use in solar cells (photovoltaic) and LEDs increased in 2008 and 2009 respectively.
In 2011, sales for silicon semiconductors recovered but sales ratios of solar cells and LEDs declined as those products suffered from production adjustment in the latter half of 2011.
In the medium term, growth is expected for solar cells and LEDs.

Silicon semiconductors

Aim to expand shares in the miniaturization process.

LED

LED applications have expanded to Metal Organic Chemical Vapor Deposition (MOCVD*). Sales for LEDs surged in 2009, thanks to growth in production of LEDs, but have been affected by users' production adjustment since the latter half of 2011.

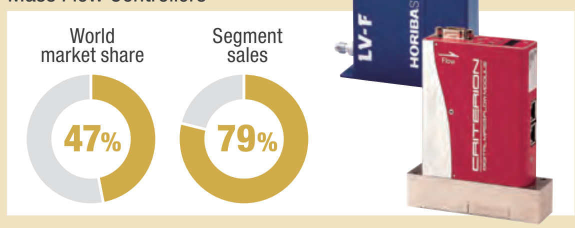
Solar cells

Sales grew in 2009, thanks to demand growth for solar cells, but have been affected by production adjustment since the latter half of 2011, similar to products for LEDs.

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

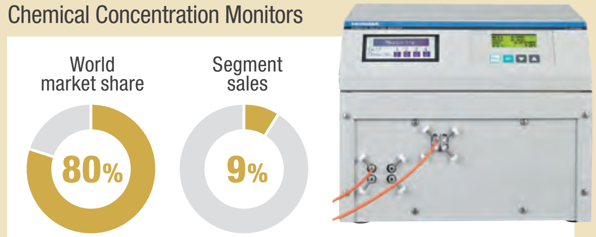
Major Products and Market Shares

Mass Flow Controllers



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

Chemical Concentration Monitors



These compact units are used in semiconductor manufacturing to monitor cleaning chemical concentrations. They ensure that no cleansing fluids are wasted, which optimizes the cleaning process and helps boost production yields.

Note: Market shares quoted are estimates by HORIBA.

Scientific Instruments & Systems

HORIBA's nano-level measurement technologies provide solutions on various data analysis

Behaviors of nano-level atoms and molecules have been highlighted in microscopic analysis basic research. Providing solutions for data analysis, HORIBA supports advanced research that ventures into unknown territories, where outcomes 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 drugs, food, electronic components, criminal investigation, and archaeological work.

2012: Growing demand in emerging markets and recovery in demand from general industries

In 2011, thanks to renewed demand from universities, government laboratories, and other research institutions financed by improved government spending in many nations, sales of HORIBA's Raman spectrophotometers and related instruments increased. The depreciation of the euro against other currencies resulted in higher price competitiveness for products developed and manufactured in France, while the appreciation of the yen resulted in lower profit margins for products manufactured in Japan.

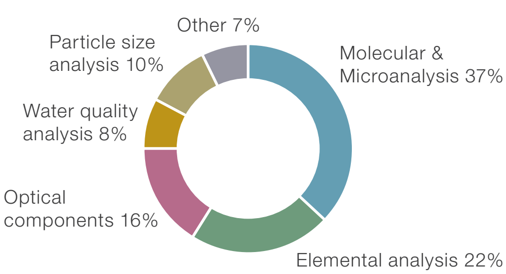
In 2012, cutbacks in government spending in Europe or Asia are a concern and the appreciation of the yen is likely to reduce sales. However, we expect steady business in Japan, with growth in government-related demand and a recovery in the private corporate sector.

Support for basic development of next-generation energy sources and R&D for HORIBA's other businesses

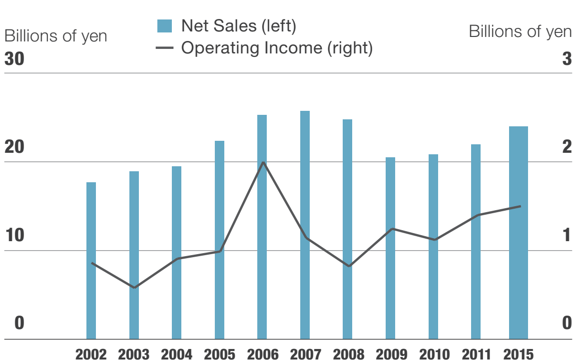
Market demand is growing for products manufactured by HORIBA Jobin Yvon S.A.S. (France) for data analysis and basic research in organic and inorganic materials such as rare metals and in advanced lithium ion batteries, which are expected to become a core component for next-generation vehicles. Specific products include diffraction gratings, fluorescence spectroscopy, and Raman spectrophotometers, which command a No. 1 global share (HORIBA estimates). We expect growth in sales and market share, partly due to tighter regulations and more government spending, in the BRICs markets, namely, the high-growth countries of Brazil, Russia, India, and China.

In addition to product development, this segment continues to invest in basic technology and provides new technologies to HORIBA's other business segments.

Sales Breakdown



Net Sales and Operating Income



Japan	Asia	Americas	Europe
33%	21%	20%	26%

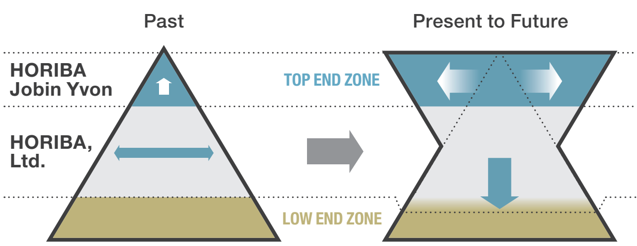
Target Markets

HORIBA's many products in the Scientific Instruments & Systems segment have made significant contributions in the R&D of advanced technology. At present, we focus on the following four markets and applications: analysis of organic and inorganic materials, research on lithium ion rechargeable batteries, and material development for drug discovery and biotechnology. We are responding to needs of analysis in these markets. A wide range of products is developed for customers that include 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 spectrophoto-meter	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	●	●	●		●	●	●		

Business Development (Synergies between HORIBA, Ltd. and HORIBA Jobin Yvon)

Illustrations of Markets



HORIBA Jobin Yvon targeted universities and other academic institutions, with the aim of expanding applications at the higher end. (White arrow) HORIBA, Ltd. expanded products in the middle market mainly for general industries. (Blue arrows)

HORIBA, Ltd. and HORIBA Jobin Yvon will integrate their technologies and accelerate product development across all markets from the TOP END to the LOW END.

Expand into the TOP END ZONE

- Expand HORIBA's market through more investment in advanced technologies (government spending) in BRICs
- Develop more business in the middle market of general industries

Expand into the LOW END ZONE

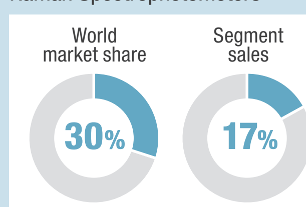
- Accelerate development into the LOW END ZONE with economical products incorporating simplified functions manufactured by HORIBA, Ltd.

Development Structure

Construction of a new R&D center in France, expected to be completed in the autumn of 2012, will dramatically expand HORIBA's development capability in France, partly through a joint research program with École Polytechnique, a state-run, renowned engineering school. We will also enhance our cooperation with academia in related fields in Japan with the goal to expand the product line-up with new technology to satisfy expanding high-end demand.

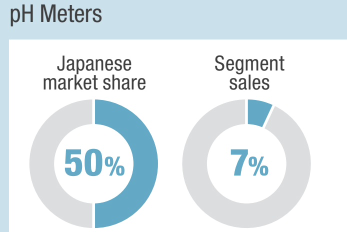
Major Products and Market Shares

Raman Spectrophotometers



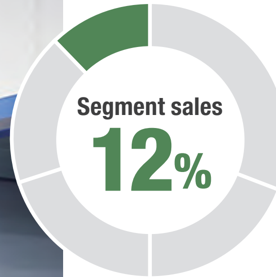
Raman spectroscopy is a spectroscopic technique that effectively identifies the chemical composition of physical materials and analyzes molecular structures. In recent years, Raman spectroscopy has been attracting attention for applications in cutting-edge research. Raman scattering is typically very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

pH Meters



HORIBA is recognized as one of the top pH meter brands since its development of Japan's first glass electrode pH meter. HORIBA offers a full pH product line-up to satisfy varied customer needs: from desk-top models that support laboratory research to field-use rugged instruments that measure river water, groundwater, and waste water.

Note: Market shares quoted are estimates by HORIBA.



Process & Environmental Instruments & Systems

A Business for supporting the global environment and energy industries

HORIBA provides analytical and measurement instruments for a wide variety of applications measuring air, water, and soil constituents. We supply these instruments to many industries in response to today's world of increased demand for environmental emissions reduction and process monitoring. We play an important role in gas measurement; in monitoring of industrial liquid waste in the electric power, steel, and chemical industries as well as energy industries in oil refining, and heavy chemicals; in purified water management for medical and semiconductor use; and constant monitoring and control of water quality for pharmaceuticals, food, and cosmetics. In addition, HORIBA's accurate environmental radiation technology helps protect public safety in habitable areas.

2012: Focus on demand trends for stack gas analyzers and environmental radiation monitors

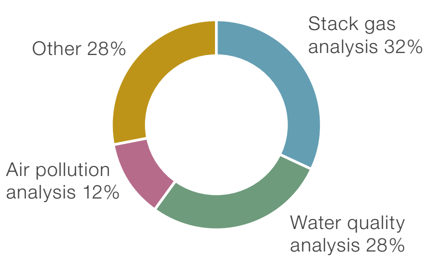
In 2011, expanding demand after the Great East Japan Earthquake for stack gas analyzers at thermal power plants and a rapid need for environmental radiation monitors helped improve segment profitability.

In 2012, we expect continued earnings improvement, as in 2011, on higher sales of stack gas analyzers in Japan and newly launched water quality analyzers. However, we are currently forecasting a decline in sales and profits for environmental radiation monitors as the forecast is highly uncertain.

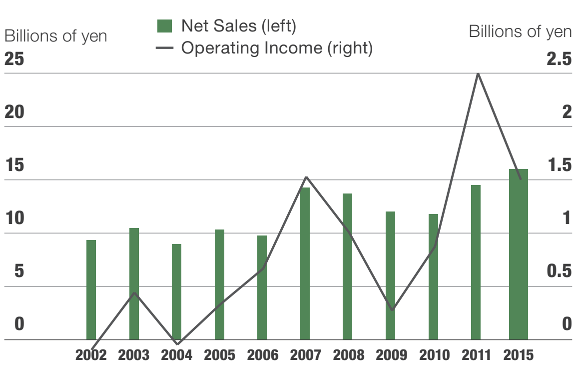
Aiming to become No. 1 in the environmental regulation business

HORIBA is determined to grow 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 will also attempt to expand our market share in water quality measurement by emphasizing pH measuring technology, which has been a HORIBA core business since the 1950's. We will take advantage of our ability to use sales channels developed in other business segments, which is a unique HORIBA marketing advantage. And, we aim to grow sales and earnings by establishing a cycle of design, production, sales, and support in local markets. We will also expand business by leveraging HORIBA's distinctive position in the environmental and analytical instrument markets of Asia and emerging nations, where demand is projected to grow rapidly.

Sales Breakdown



Net Sales and Operating Income



Target Market: Environmental Regulation Market

Stack Gas Analyzers

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 been highly evaluated for the application design capability of their sampling systems, which are essential in continuous measurement of a variety of gases. The analyzers are used in system applications for power generation, petrochemicals, steel, paper, foods and pharmaceuticals.

Air Pollution Analyzers

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.

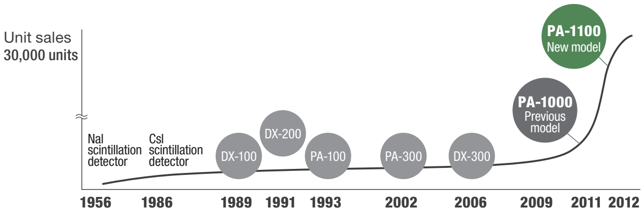
* ppb:parts per billion.

Water Quality Analyzers

HORIBA's products are used for 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 by municipalities and companies in such industries as electric power, gas, petrochemicals, steel, paper, foods and pharmaceuticals.

History of Radiation Measurement Business

In 1956, HORIBA succeeded in developing crystals for sodium iodide (NaI) scintillation detectors. In 1986, we developed cesium iodide (CsI) crystals, which were incorporated in products sold to a university in the United States. In 1989, we started selling radiation measurement instruments for radiation education in conjunction with the Science and Technology Agency (at that time). Over the ensuing 20+ years we have supplied seven generations of environmental radiation monitors, including the latest model, the PA-1100, released in February 2012.



Environmental Radiation Monitor PA-1100

The PA-1100 is a measurement device that can be used simply and accurately, based on the scintillation method, for measuring environmental radiation in habitable areas and in radiation measurement experiments for environmental education. HORIBA has expanded the measurement range for the PA-1100 launched in February 2012. It is now equipped with a function for smartphone communications, enabling remote recording of measurement data.

Specifications

Suggested sales price: 155,400 yen (tax included)

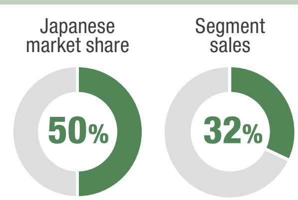
Operating range: 0.001 – 19.99 micro Sieverts per hour (µSv/h)

Simplified Radioactivity Measurement Kit PA-K

PA-K is a simplified radioactivity measurement kit for measuring radioactivity in soil and food. It comprises an environmental radiation monitor stand and a sample bowl which enables measurement of becquerel values that indicate the amount of radioactivity.

Major Products and Market Shares

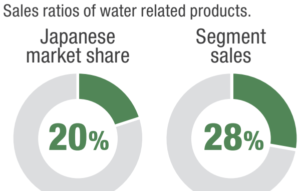
Stack Gas Analyzers



These analyzers provide highly sensitive and precise measurements of NOx, SO_2, CO, CO_2, and O_2 content of gases emitted by boilers and furnaces in thermal power stations. 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.

H-1 Series of Industrial Water Quality Analyzers

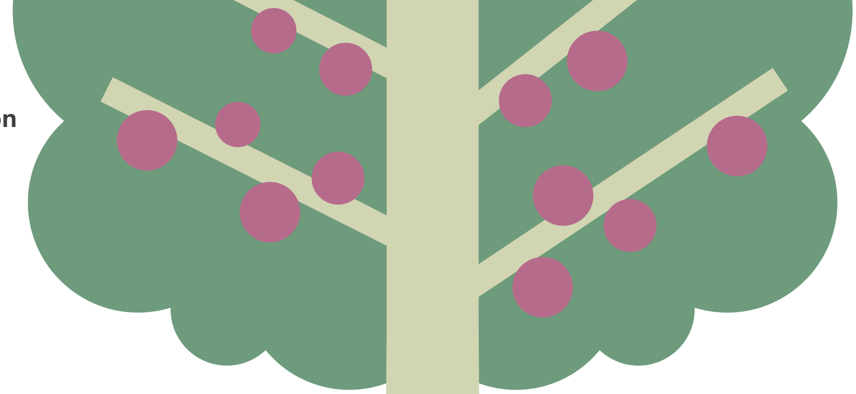
Sales ratios of water related products.



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.

Value Creation Based on Invisible Values



Number of Fruit: **Earnings of the Current Fiscal Year**

Roots: **Invisible Values** / Soil: **Corporate Culture**

Invisible Values

II

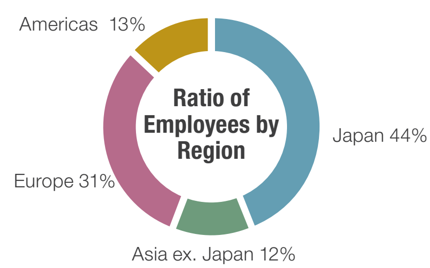
Assets that do not appear in the financial statements

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.

Human Resources

A core objective of acquisitions is to acquire highly competent human resources. Constructive acquisitions have raised HORIBA's ratio of non-Japanese employees to 56%. This high ratio was not achieved by pursuing low-cost overseas labor forces. In fact, HORIBA acquisitions have acquired very talented people, many holding doctorate degrees. 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 the upcoming recovery phase of the economy.

Customers

HORIBA helps improve people's quality of life in a sustainable society by supplying products and providing services to customers. 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 is promoting "One Company Matrix Management" in its global operation in 25 countries. The aim is to enhance our HORIBA brands.

Brands

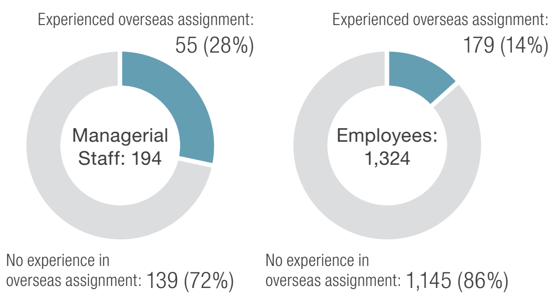
HORIBA works on growing Invisible Values, such as human resources, technologies, and its corporate culture. These are the Invisible Values that become the sources for generating future earnings and enabling enterprise continuity, while achieving numerical targets for net sales, profits, and other indicators.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

Creating value by using our "Invisible Values" is one of HORIBA's important management themes.
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.

HORIBA's Diverse Invisible Values (Examples that are related to overseas development)

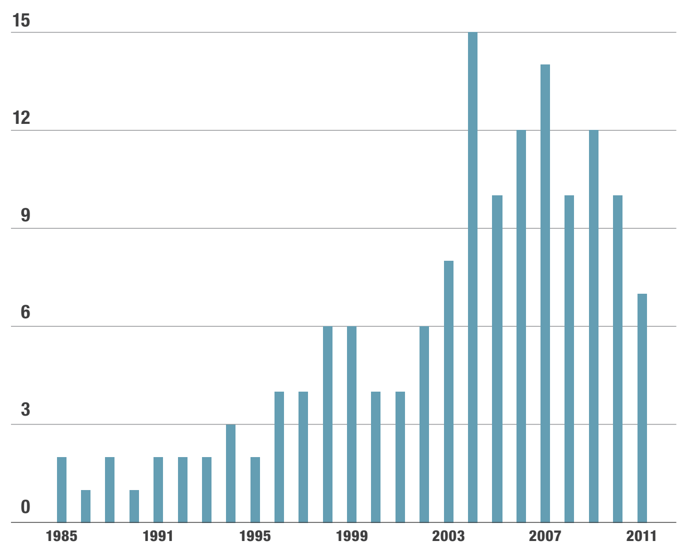
Employees Who Experienced Overseas Assignment

(HORIBA, including those currently assigned)



Numbers of Employees Assigned for Training

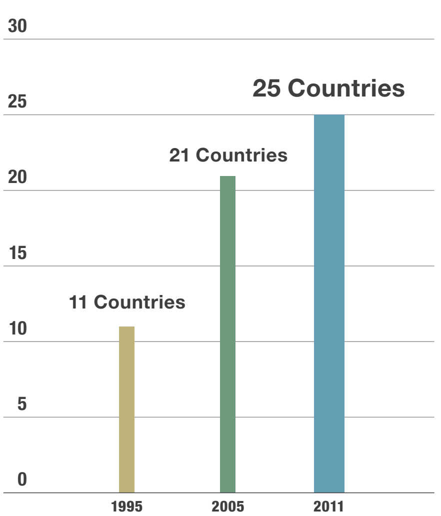
161 employees have been assigned up to the end of 2011
(for all group companies in Japan)



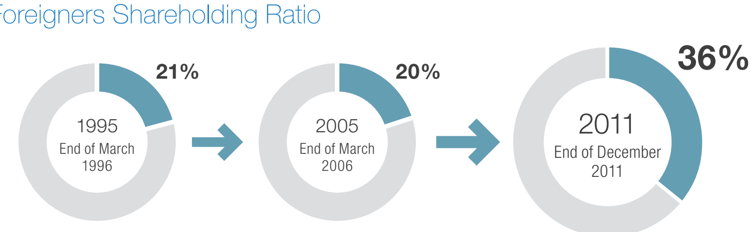
Employees Assigned Overseas (as of December 2010)

	Seconded	Training	Total
Corporate Officers	2	0	2
Managerial Staff, Employees	46	12	58
Total	48	12	60

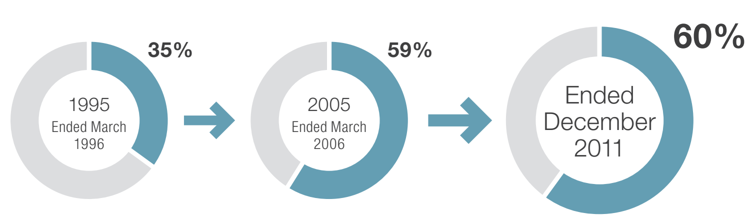
Overseas Operating Countries



Foreigners Shareholding Ratio



Overseas Sales Ratio

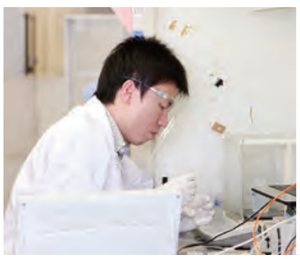
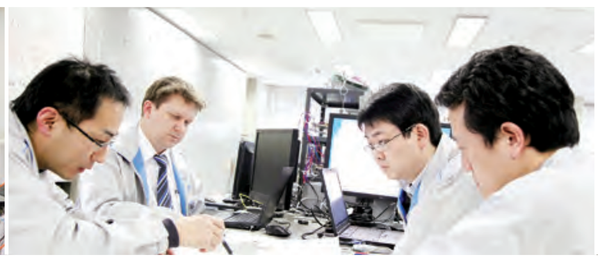


Value Creation Based on Invisible Values

Human Resources




Through economic booms and recessions 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 culture that is symbolized by “Joy and Fun,” “Open and Fair,” and “entrepreneurial spirit” and puts this heritage into practice through his or her assigned tasks.
We have established a global personnel development and exchange program to advance personal growth and development for all our employees.


HORIBA COLLEGE

In 2011 the HORIBA COLLEGE hosted 23 courses for around 450 attendees at the “FUN HOUSE” training center. Since its opening in February 2009, the number of courses reached about 100 courses for over 1,800 attendees in the first three years. Our employees teach and learn from each other. Our ultimate objective is to insure HORIBA’s know-how and skills that have 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 within the group. Implanting HORIBA’s corporate culture at the same time leads to the effective development of high-quality personnel.


FUN HOUSE (Training center) was expanded in February 2009.

IP (Intellectual Property) World Cup

Technical research and development, and the resultant intellectual property (IP) are intrinsic elements of the HORIBA brand. Our in-house IP World Cup competition was held for the first time in 2011, with the aim of recognizing and encouraging creators of HORIBA technology to realize the value of intellectual property which can initiate the next growth phase of HORIBA. The intellectual property will add to the growth of the property that is supporting our group evolution at present.
The first World Cup Gold Award winner was a team from HORIBA STEC Co., Ltd. for technology that improves control and response of mass flow controllers (Semiconductor Instruments & Systems segment.) This technology is a great contributor to an increase in our market share for this product.


Gold Award Winner
HORIBA STEC Team


Silver Award Winner
HORIBA ABX (France) Team

HORIBA Brand Book

HORIBA published the “HORIBA Brand Book” in 2007 to preserve and cultivate HORIBA’s corporate culture while expanding global business. The Book is like a bible that tells the origin of the HORIBA Brand, lessons which employees reaffirm, share, and convey to others. This is distributed to all group and newly-hired employees.
The Book contains the story behind the corporate motto “Joy and Fun” and messages contributed by 36 employees. It is published in six languages: Japanese, English, French, German, Chinese, and Korean.

Received the Best IR (Investor Relations) Award

HORIBA received the Best IR Award from the Japan Investor Relations Association (JIRA) for the first time. The award-winning companies were selected from 304 applicants through a survey by analysts and investors and screening and judgment by a review committee. We were highly evaluated in factors such as the top management’s active commitment to investor relations, crystal-clear presentation, good coordination between IR and PR divisions, and easy-to-understand annual reports.
We are committed to improving the quality of our IR activities by clearly communicating HORIBA’s values to our stakeholders and giving effective feedback to our management and staff.

(In 2006 we received the IR Special Award, which was given to companies that were consistently raising the level of their IR activities.)

For details, please visit the website of the Japan Investor Relations Associations.

https://www.jira.or.jp/

Award ceremony (December 14, 2011)
Hajime Sawabe (Chairman of the JIRA, Left)
Atsushi Horiba (Right)

Value Creation Based on Invisible Values

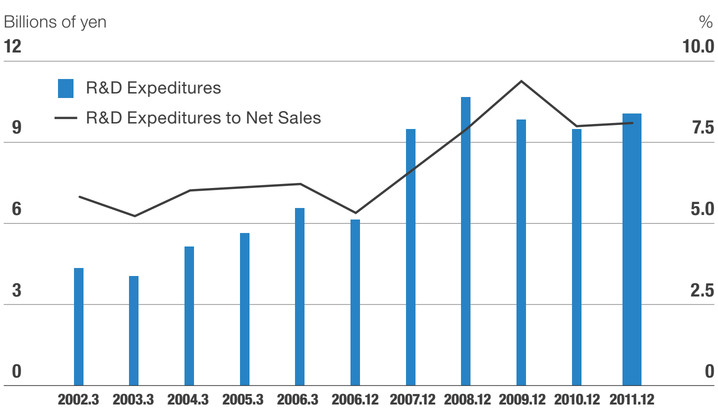
Technology

Technical Development will Accelerate Further Growth

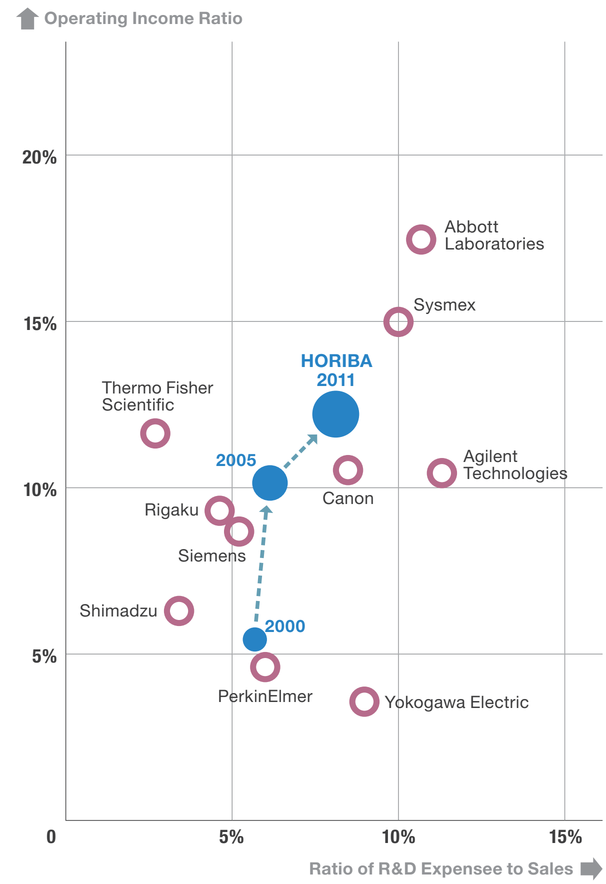
The development of analytical technologies and engineering technologies is the core value of HORIBA as an analytical equipment manufacturer. Based on the strategy of maintaining R&D investment at 7-8% of sales, we have been continuing to invest during economic downturns, while our competitors have reduced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

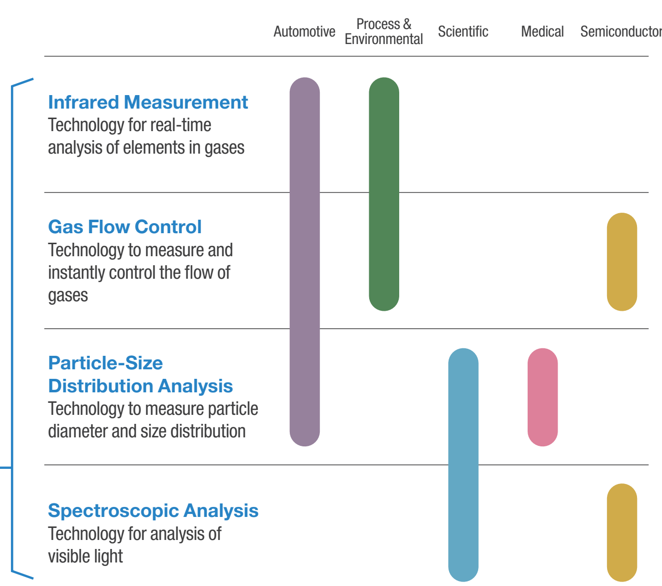


Other companies' information is extracted from their disclosed materials: Financial result materials of the fiscal year ended March 2011 for Japanese companies and those of the fiscal year ended December 2011 for non-Japanese companies.

From Core Technology to Product Development

HORIBA allocates scientific resources to be focused on analytical and measurement technology, and bring such core technology to real world using its engineering resources. This leads to efficient development of advanced products in our five different business segments.

HORIBA's major analysis technologies and control technologies in terms of sales



What HORIBA, Ltd. aims for with Organizational Change

The key point in the HORIBA, Ltd. organizational change implemented in 2011 is a shift from a segment-based vertical organization to a function-based horizontal organization. Dr. Masayuki Adachi, General Manager of the Research & Development Division, who played a particularly important role in the management of new organization, was interviewed about the progress and results of these organizational changes, and the prospect in the future.

Senior Corporate Officer and General Manager of the Research & Development Division of HORIBA, Ltd.

Masayuki Adachi

What are the goals of the organizational change at HORIBA, Ltd. in 2011?

Our objective is to improve the balance between market orientation and technology orientation. Previously the organizational structure was focused on business segments, and we conducted and managed business operations by focusing on markets within those segments. With this organizational change we are adopting a function-based structure, while maintaining market-oriented concept that was the core of segment-based organizations. This will result in an organizational structure with technology-oriented characteristics and higher capital efficiency, which accelerates the turnover rate of technical assets, that is to say, the speed of bringing new products to market. We have confronted the inefficiencies of a vertical organization which tend to be inherent within market-oriented concepts, typical of a company-based organization or a division-based organization. I felt strongly that the unique and novel style we adopted is needed at HORIBA, which develops global, multi-segment businesses and technologies.

HORIBA's four divisions; the triangle of the Corporate & Segment Strategy Division, the Sales Division, and the Research & Development Division, plus the addition of the Production Division; are developing a structure that enables organic support for each business segment. With this new organization we are taking on the challenge of creating a new structural balance.

What specific effects have emerged?

As a typical example, we have established the Liquid and Water Quality R&D Department. We have integrated the liquid/water measurement-related development activities previously separated in three divisions (semiconductor, scientific and process & environment) into one department. Dramatic effects have emerged in all areas, including the rate of technology sharing and improved efficiencies. In this new organization we have brought together key people with experience from all three segments, and so we have managed to benefit from the concentration and intensity of their knowledge with tangible results in an increased speed of new product development. While the absolute amount of annual R&D expense declined, we were able to launch an unprecedented, high number of new products.

What issues do you face and what steps will you take going forward?

Improving the global headquarters' functions of our entire global R&D activities is the current challenge. Being strongly oriented towards organic interaction with our overseas acquisitions, HORIBA sees its technical capabilities extending around the world as a set of values, not restricted to region or business domain. The ultimate goal is to enhance the efficiency of HORIBA's global technical assets. We have completed the global harmonization of our development processes, and development tools such as design review process, computer-aided design (CAD) and computer-aided engineering (CAE). In 2012, we will enhance our function as global R&D headquarters by further improving the global R&D environment and managing the progress of product development on a worldwide level, while concentrating the management of international intellectual property at the R&D Planning Center.

Dr. Masayuki Adachi

Dr. Masayuki Adachi joined HORIBA, Ltd. in 1985, and has been engaged in research and development of emission measurement systems, which included an assignment at the University of California Irvine Combustion Laboratory. As the Segment Leader of the Automotive Test Systems segment in 2004-2006, he participated in the acquisition of the MCT business of Carl Schenck AG (Germany). He served as President of HORIBA International Corporation (US) in 2007-2010. He was appointed General Manager of the Research & Development Division of HORIBA, Ltd. in 2011. He has a doctorate in engineering.

Corporate Governance

Corporate Governance Philosophy

HORIBA fully recognizes the importance of its shareholders as the company's owners. Since the 1950's, when Japanese corporations 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 based on the corporate motto, "Open and Fair."

Appointment of External Directors and Corporate Auditor

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

Implementing a Dividend Policy that Emphasizes Shareholder Returns

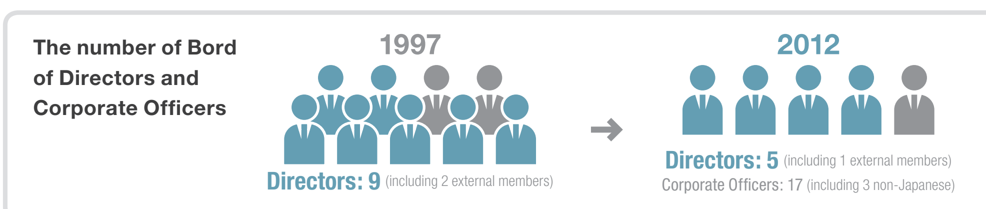
HORIBA was the first listed Japanese company to start paying shareholder dividends based on a predetermined payout ratio (30% of parent company's net earnings); this practice started in 1978 and HORIBA has paid dividends without interruption for 33 years.

Open General Meetings of Shareholders

Since its initial stock listing 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. Since 2005, an informal get-together event has been held afterwards to enable shareholders to talk directly with the management.

Adoption of a Corporate Officer System

Since 2005, HORIBA has reduced the number of directors to five members to make the Board of Directors meetings flexible and to promote lively, in-depth discussion. In addition, we introduced a corporate officer system in 1998 to augment managerial capability. In 2010, we invited Dr. Jai Hakhu, who now serves as president of HORIBA's U.S. operation, to become a corporate officer. Including Dr. Hakhu and two other non-Japanese, HORIBA now has 17 corporate officers.

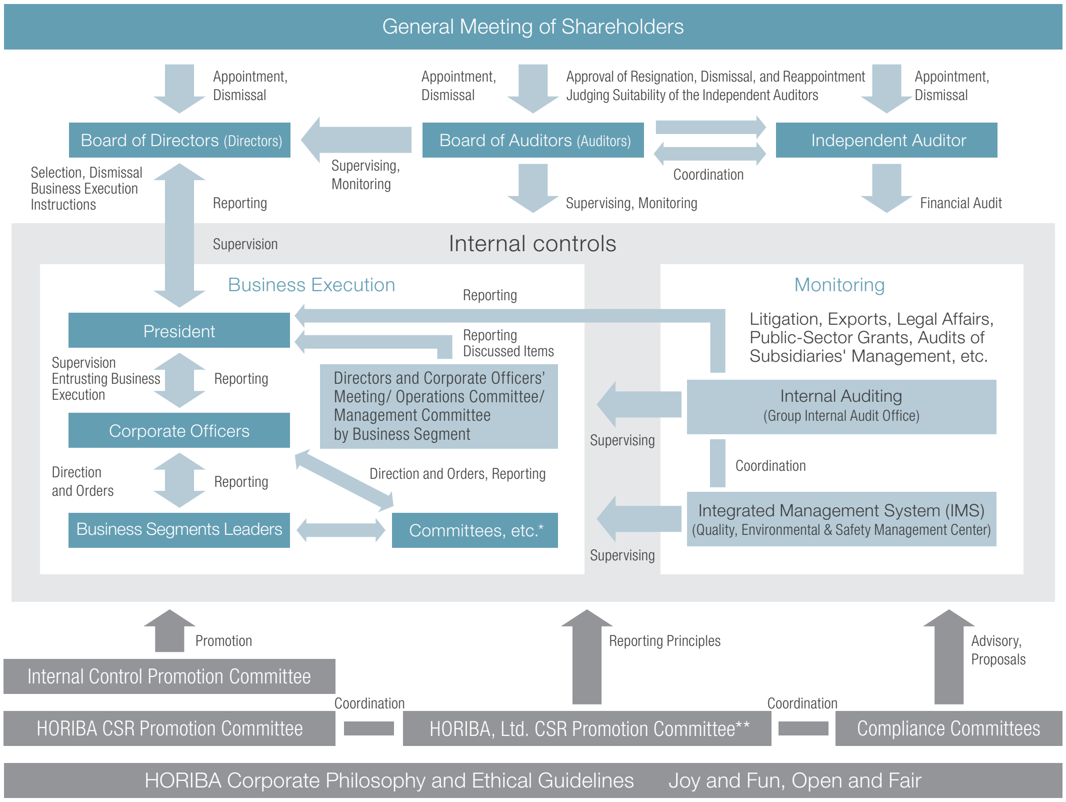


(As of April 1, 2012)

Board of Directors and Auditors		
Chairman, President & CEO	Atsushi Horiba	
Executive Vice President	Dr. Kozo Ishida	
Managing Director	Fumitoshi Sato	
Director	Juichi Saito	
Director (External)	Masahiro Sugita	Auditor of MSD K.K. Auditor of The 77 Bank, Ltd.
Auditor	Toshihiko Uno	
Auditor (External)	Kanji Ishizumi	President of the Law Offices of Chiyoda Kokusai, Attorney at Law
Auditor (External)	Keisuke Ishida	Chairman of the Board, CEO, Shashin Kagaku Co., Ltd. Chairman of the Board, SK-Electronics Co., Ltd.

Corporate Officer	
Executive Corporate Officer	Dr. Jai Hakhu
Senior Corporate Officer	Dr. Michel Mariton Dr. Masayuki Adachi Sunao Kikkawa Takashi Nagano Bertrand de Castelnau Dr. Kiyoaki Hara
Corporate Officer	Hideyuki Koishi Yuichi Muroga Atsushi Nakamine
Junior Corporate Officer	Seiji Usui Tadao Nakamura Narihiro Oku Tsukasa Satake Hiroshi Kawamura Kenichi Obori Yasuo Yamashita

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 External Director's views on HORIBA's corporate governance

1. The Board meetings

I am delighted to attend HORIBA's Board of Directors meetings where lively and constructive small-group discussions are conducted in a casual atmosphere.

2. Personal views on the management

HORIBA's management is always interested in learning what is going on outside the group that may be of importance, and is intent on listening to comments and opinions from outside sources. The managers are excellent in providing the information external directors need to do their work. I find HORIBA is well equipped with the tools needed for internally-driven innovation, particularly at this time when Japanese companies have a great need to innovate.

In my view, HORIBA's management made prompt and appropriate decisions after the earthquake of March 2011 to increase production, to ensure receiving sufficient substitute components, and to give support to the disaster-stricken areas.

3. At the Board of Directors meetings

During the Board of Directors meetings, I tend to ask questions from a broader general perspective, rather than from my area of expertise, which is in macroeconomics and international finance. My goal is to affirm the management's attitudes and commitments.

External 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 external director of HORIBA, Ltd. He also serves as an auditor of The 77 Bank Ltd.

CSR

Corporate Social Responsibility (CSR) Philosophy

Basic Policy

“Encourage CSR in the Course of Day to Day 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.

CSR Promotion Structure

Since April 2005, HORIBA has organized the HORIBA CSR Promotion Committee in order to promote CSR-related specific activities. The committee is composed of Dr. Kozo Ishida, Executive Vice President of HORIBA, Ltd., as Chairman, and Directors in charge of CSR of its four major group companies in Japan, as members. It decides on CSR Policy and priority measures. The CSR Promotion Committee of each group company implements these policies and measures, and organizes various social action programs on themes such as on education or environment or in their communities.

HORIBA Group CSR Policy

Promote CSR in the Course of Day to Day 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.

Key Issues of Fiscal 2011

HORIBA PREMIUM - First Class Quality Creation

Realizing HORIBA PREMIUM from a viewpoint of CSR

1. Join the United Nations Global Compact.

2. Set up the Key Performance Indicators (KPI) concerning CSR.

CSR Report: Gaiareport

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

Web http://www.horiba.com/gaiareport

FINANCIAL DATA
Year Ended December 31, 2011

Eleven-Year Summary

		2002.3	2003.3	2004.3	2005.3	2006.3
For the Year						
Net sales		¥74,468	¥78,501	¥85,073	¥92,492	¥105,665
Operating costs and expenses		71,921	73,027	78,223	83,119	94,390
Operating income		2,547	5,474	6,850	9,373	11,275
Net income (loss)		(1,071)	786	2,074	3,524	6,473
Capital expenditures		3,137	3,444	3,501	3,956	5,664
Depreciation and amortization		3,381	2,915	3,037	2,944	3,173
Research and development expenses		4,336	4,044	5,129	5,636	6,553
At Year-End						
Total assets		¥98,766	¥100,542	¥92,657	¥99,913	¥119,976
Cash and cash equivalents		16,625	22,061	13,603	16,108	14,884
Trade notes and accounts receivable	Affiliated companies	-	-	-	-	-
	Other	29,622	29,594	29,143	30,595	37,408
Inventories		19,169	18,336	19,402	22,012	27,273
Property, plant and equipment, net		19,279	19,000	18,841	18,481	20,223
Trade notes and accounts payable	Affiliated companies	43	51	58	26	45
	Other	7,887	9,147	8,700	11,264	13,017
Liabilities with interest		34,989	33,218	21,460	16,042	13,866
Shareholders' equity		40,063	40,144	43,348	52,263	65,446
Share price at end of fiscal period (¥)		896	765	1,380	1,950	3,690
Number of employees (consolidated)		3,583	3,691	3,808	3,984	4,461
Per Share Information						
Net income (loss) - basic		(¥34.47)	¥22.21	¥62.90	¥98.33	¥154.27
Net income - diluted		-	18.31	50.10	83.81	146.97
Net assets		1,293.42	1,293.30	1,350.31	1,415.75	1,548.08
Cash dividends		8.50	14.50	10.00	16.00	28.00
Financial Ratios						
Operating income to net sales (%)		3.4	7.0	8.1	10.1	10.7
Return on assets (%)		(1.1)	0.8	2.2	3.7	5.9
Return on equity (%)		(2.7)	2.0	5.0	7.4	11.0
Shareholders' equity ratio (%)		40.6	39.9	46.8	52.3	54.6
Consolidated dividend payout ratio (%)		-	57.2	15.3	16.5	18.1
Nonconsolidated dividend payout ratio (%)		30.9	40.8	30.3	41.8	33.8

Notes: The stated amounts have been rounded down to the nearest million yen from fiscal 2009, ended December 31, 2009, but had been rounded off to the nearest million yen prior to that year.

1. The U.S. dollar amounts are provided solely for convenience at the rate of ¥77.74 to US$1.00, the rate prevailing on December 31, 2011. Yen amounts are rounded down to the nearest million from the year ended December 31, 2009. However yen amounts were rounded (up or down) to the nearest million prior to the year ended December 31, 2009.
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.

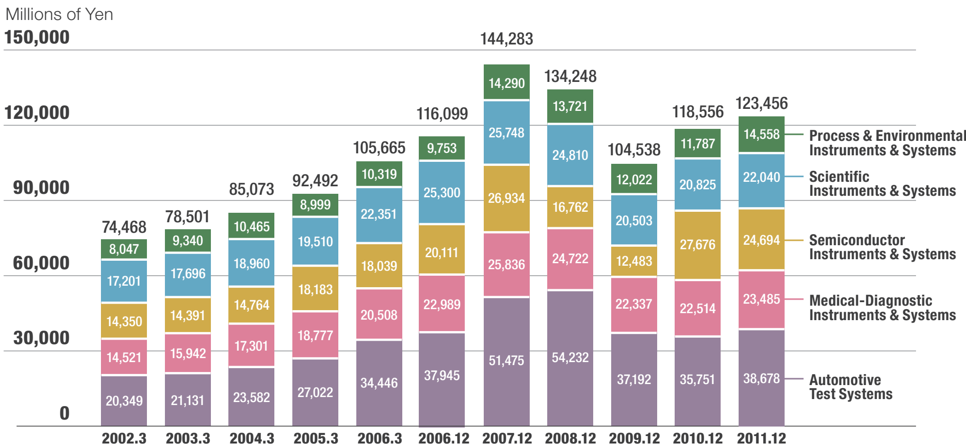
2006.12	2007.12	2008.12	2009.12	2010.12	2011.12	2011.12
					Millions of yen	Thousands of U.S. dollars (Note 1)
¥116,099	¥144,283	¥134,248	¥104,538	¥118,556	**¥123,456**	**$1,588,062**
104,392	127,753	123,290	99,394	106,256	**108,549**	**1,396,308**
11,707	16,530	10,958	5,144	12,299	**14,906**	**191,741**
6,510	8,691	6,039	3,161	7,927	**8,664**	**111,448**
5,059	9,336	6,645	4,534	4,033	**4,670**	**60,072**
3,246	4,161	4,955	4,573	4,523	**4,146**	**53,331**
6,136	9,474	10,662	9,831	9,480	**10,060**	**129,405**
					Millions of yen	Thousands of U.S. dollars (Note 1)
¥129,236	¥154,367	¥133,279	¥129,580	¥137,290	**¥144,649**	**$1,860,676**
15,673	20,565	22,660	27,590	34,459	**35,767**	**460,084**
-	-	63	6	1	**126**	**1,620**
42,485	45,873	37,330	34,505	36,425	**39,249**	**504,875**
30,947	33,734	29,802	23,363	24,843	**26,288**	**338,152**
21,700	24,071	23,115	23,602	22,516	**22,924**	**294,880**
44	53	40	52	60	**0**	**0**
14,917	16,792	11,063	10,515	13,423	**13,196**	**169,745**
16,224	25,177	20,984	18,348	17,128	**18,358**	**236,146**
72,371	80,377	76,829	79,906	84,019	**90,232**	**1,160,689**
4,400	4,100	1,237	2,250	2,303	**2,320**	U.S. dollars (Note 1) **29.84**
4,697	4,976	5,146	5,133	5,202	**5,448**	
					Yen (Notes 2, 3, 4)	U.S. dollars (Note 1)
¥154.23	¥205.01	¥142.76	¥74.77	¥187.46	**¥204.88**	**$2.63**
153.70	204.39	142.71	74.68	187.11	**204.41**	**2.62**
1,710.75	1,892.64	1,816.96	1,889.58	1,986.77	**2,133.44**	**27.44**
26.00	39.00	44.00	13.00	17.00	**40.00**	**0.51**
10.1	11.5	8.2	4.9	10.4	**12.1**	
5.2	6.1	4.2	2.4	5.9	**6.1**	
9.4	11.4	7.7	4.0	9.7	**9.9**	
56.0	52.1	57.6	61.7	61.2	**62.4**	
16.9	19.0	30.8	17.4	9.1	**19.5**	
30.0	30.1	30.0	30.0	30.3	**30.5**	

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 (¥) = (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.

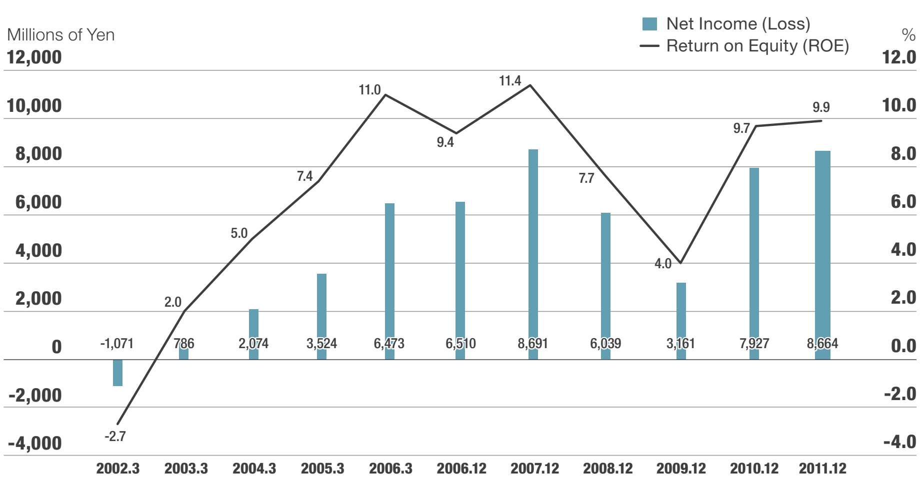
Eleven-Year Summary

Net Sales by Segment



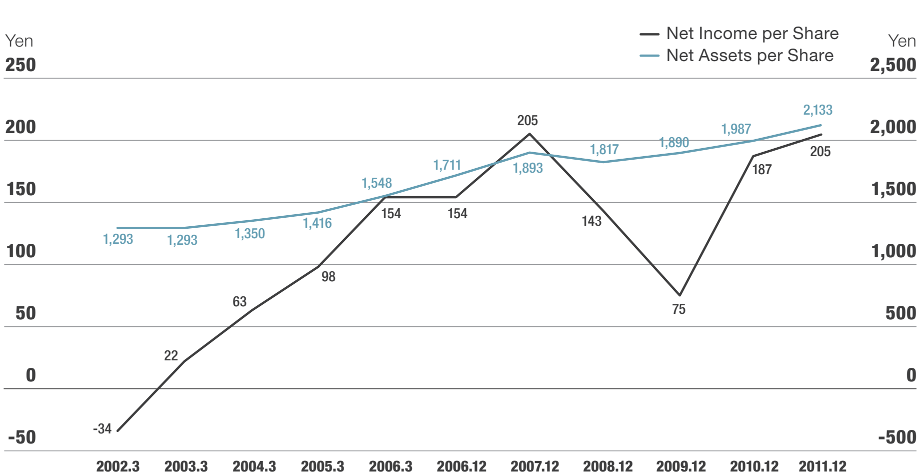
In fiscal 2011, ended December 31, 2011, HORIBA recorded net sales of ¥123,456 million, its third largest net sales following the record sales of 2007 and 2008. By segment, sales in the Automotive Test Systems segment improved despite the appreciation of the yen which lowered overseas sales when converted into yen. Sales for the Medical-Diagnostic Instruments & Systems segment increased, while the Process & Environmental Instruments & Systems segment sales experienced a sharp increase after the earthquake of March 2011.

Net Income and Return on Equity (ROE)



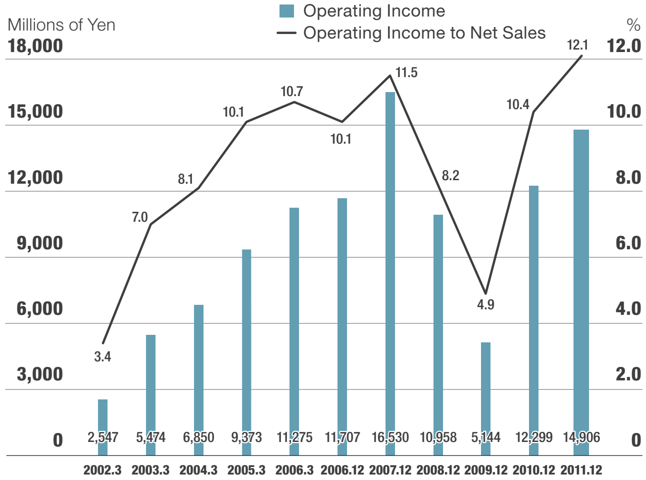
Net income, ¥8,664 million, returned to the record high level of 2007, a recovery due to sales gains and continued cost reduction efforts. This resulted in the ROE rising by 0.2 percentage points from the previous year to 9.9%.

Net Income per Share and Net Assets per Share

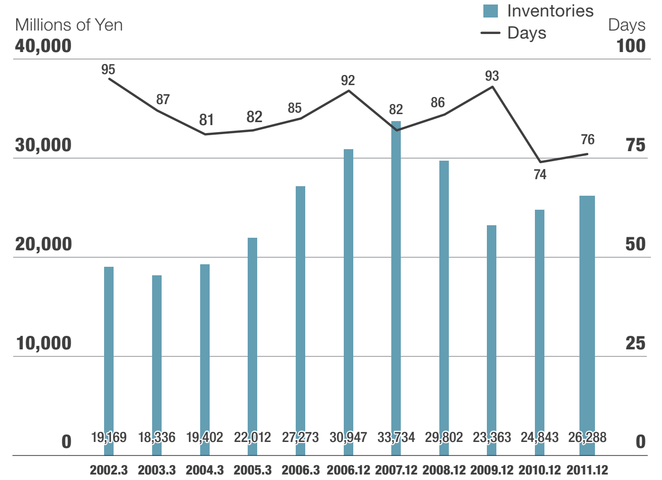


Total assets were ¥144,649 million at the end of December 2011. Fiscal 2011 net assets per share returned to a record-high of ¥2,133, and net income per share was ¥205, reaching the previous high level recorded in 2007.

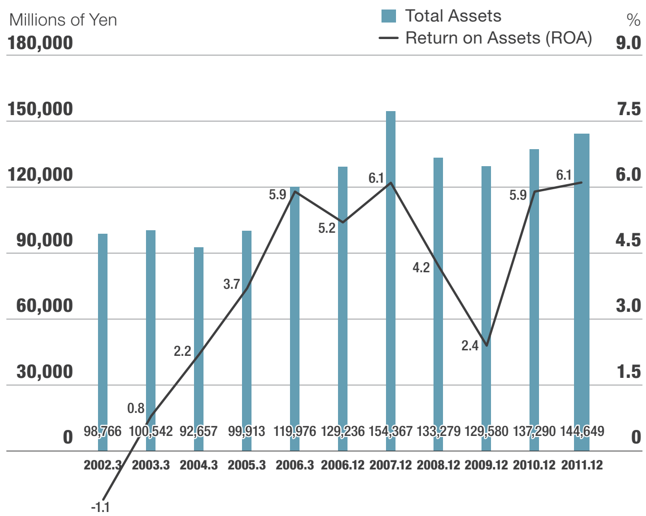
Operating Income and Operating Income to Net Sales



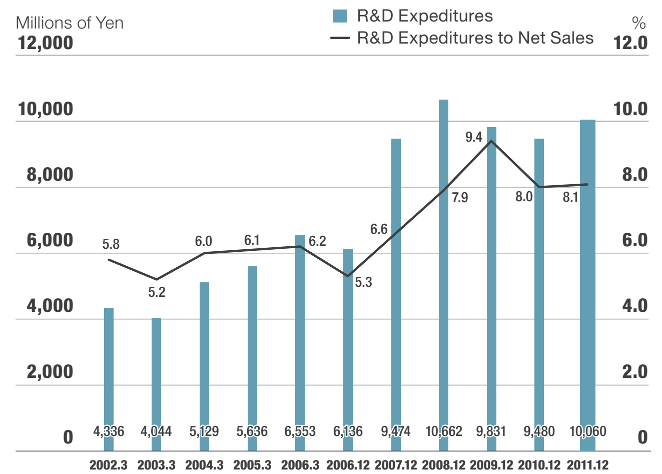
Inventories and Inventory Turnover (Days)



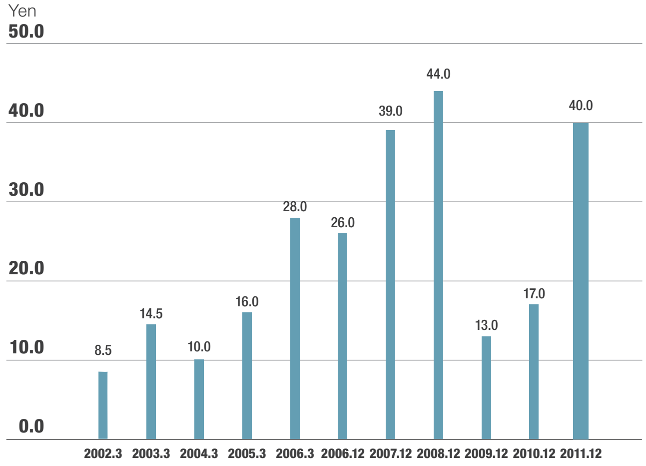
Total Assets and Return on Assets (ROA)



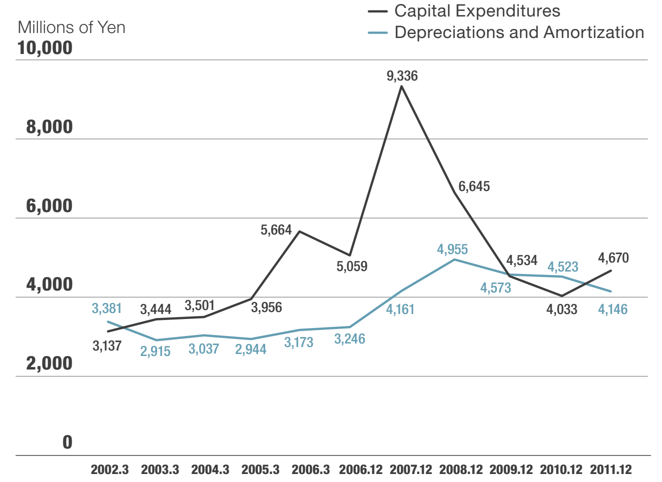
R&D Expenditures and R&D Expenditures to Net Sales



Cash Dividends per Share



Capital Expenditures and Depreciations and Amortization



HORIBA, Ltd. and Consolidated Subsidiaries | Consolidated Financial Review

During the fiscal year ended December 31, 2011 (fiscal 2011), the weaker economies in the U.S. and Europe slowed the pace of recovery, but the overall global economy posted continued moderate economic growth, with emerging countries acting as the driving force. In the U.S., a delayed improvement in the housing market and employment dampened economic growth. In Europe, the sovereign debt crisis affected the real economy, and signs of economic slowdown became more evident. Meanwhile, economies in emerging countries such as China and India slowed only marginally and maintained relatively high economic growth. In Japan, manufacturing activities dropped significantly as a result of the Great East Japan Earthquake in March 2011, but the economy recovered on the back of the restoration of manufacturing equipment and the rebuilding of the supply chain for components and materials. However, owing to the appreciation of the yen and the floods in Thailand, the recovery stalled. In fiscal 2011, the yen continued to strengthen as in the previous year. The annual average exchange rates were 79.80 yen against the U.S. dollar and 111.13 yen against the euro, marking increases of 10.0% and 4.6%, respectively.

The analytical and measurement equipment market saw signs of a moderate recovery in capital spending and development investment by automakers. However, equipment demand in the semiconductor-related market dropped in the second half of 2011 as semiconductor makers and light-emitting diode (LED) makers had completed a cycle of capital spending. In addition, due to the stronger yen and intensified competition, the general trend of declining product prices continued.

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 in fiscal 2011. The Corporate & Segment Strategy Division was newly established to design and promote overall corporate strategy. At the same time, 13 primarily focused businesses were selected from five business segments, and "business owners" who make and implement specific product strategies were assigned to each of these businesses. These measures led to an accelerated launch of products that match market needs.

By business segment, the Automotive Test System segment reorganized the MCT (Mechatronics) business* with the aim of improving profitability and continued R&D spending for next-generation product development. In the Process & Environmental Instruments & Systems segment, a production system was established to satisfy an increase in demand for environmental radiation monitors, and the segment strived to provide "reassurance" to people who live in East Japan. In the Medical-Diagnostic Instruments & Systems segment, HORIBA STEC undertook expansion work on the Aso factory in Kumamoto Prefecture in order to enhance the production system for blood cell testing instruments. In addition, with the aim of responding to growing demand for testing reagents in various countries, a reagent factory was newly built in China, and the factory in Brazil continued to undergo expansion work. In addition, new representative offices were established in Vietnam and Indonesia to meet the high market demand. The Semiconductor Instruments & Systems segment focused on cost reduction measures such as establishing Beijing HORIBA METRON, a joint venture company which was established to manufacture mass flow controllers for LEDs and photovoltaics locally. In the Scientific Instruments & Systems segment, a new R&D center in Europe has been under construction. HORIBA supports joint research with universities and research institutions and aims to develop products that meet the needs of customers in advanced material analysis and other fields.

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 control of fixed costs through reorganization in Europe and the U.S.. Due to improved profitability in the Medical-Diagnostic Instruments & Systems segment, the HORIBA Group has further advanced its well-balanced management by optimally allocating business resources to each business segment and region. The Group is thus establishing a system in which business segments complement each other to achieve optimal profits. As a result of such measures and sales efforts, both consolidated sales and profit of HORIBA increased from a year ago.

* The MCT (Mechatronics) business is the automotive measurement instruments business that was acquired from Carl Schenck AG in Germany in 2005.

Net Sales

In the fiscal year under review, consolidated net sales increased by ¥4,900 million, or 4.1%, year on year to ¥123,456 million. The average foreign exchange rate applied in book closings was ¥79.80 to the U.S. dollar, compared with ¥87.79 for the previous year, and ¥111.13 to the euro, compared with ¥116.27 for the previous year. Using the exchange rates for the previous year, consolidated sales for the year under review would have been ¥127,900 million. Thus, ¥4,443 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 increased by ¥1,738 million to ¥67,892 million. The cost of sales ratio improved by 0.8 percentage points from a year ago to 55.0%, mainly due to an improved utilization of the plants capacity that stemmed from an increase in production volume. Excluding ¥1,782 million from fluctuations in foreign exchange rates, however, the actual increase in cost was ¥3,521 million rather than the nominal increase of ¥1,738 million.

Selling, general and administrative (SG&A) expenses increased by ¥554 million from a year ago to ¥40,657 million. The ratio to net sales improved by 0.9 points to 32.9% thanks to the effects of thorough cost cutting efforts, which included the promotion of the use of "shared services" and control of fixed costs through reorganization in Europe and the U.S.. Excluding ¥1,207 million from fluctuations in foreign exchange rates, however, the actual increase in SG&A expenses was ¥1,762 million rather than the nominal increase of ¥554 million.

As a result, consolidated operating income increased by ¥2,607 million, or 21.2%, year on year to ¥14,906 million. The operating income ratio was 12.1%, up 1.7 percentage points from 10.4% for the previous year.

Business Segments

From fiscal 2011, HORIBA changed the number of its business segments from four to five, by dividing the Analytical Instruments & Systems segment into the Process & Environmental Instruments & Systems segment and the Scientific Instruments & Systems segment. The three other business segments remain unchanged. The operating results of each business segment are summarized as follows.

(Automotive Test Systems)

Although overseas sales were lower after conversion to the stronger yen, segment sales increased as investment by the automobile industry was robust in emerging countries and signs of a recovery in investment became apparent. Profitability improved mainly in emission measurement systems, HORIBA's major product. In the MCT(Mechatronics) business, the reorganization of the main base in Germany began to bear fruit, and profitability improved in the second half of 2011. Consequently, sales in the segment increased by 8.2% year-on-year to 38,678 million yen, and operating income rose by 73.6% to 2,834 million yen.

(Process & Environmental Instruments & Systems)

Stack gas analyzers and other products responded to various environmental regulations by showing underlying strength. In addition, sales of environmental radiation monitors grew due to an increase in demand after the Great East Japan Earthquake. As a result, sales in the segment grew by 23.5% year-on-year to 14,558 million yen and operating income soared by 189.3% to 2,532 million yen.

(Medical-Diagnostic Instruments & Systems)

Although sales in Europe, which represented about a half of segment sales, were lower after conversion to the stronger yen, sales of blood cell testing instruments were solid in Japan, South America and Asia. Consequently, sales in the segment increased by 4.3% year-on-year to 23,485 million yen and operating income rose by 35.9% to 3,166 million yen.

(Semiconductor Instruments & Systems)

Owing to the expansion in production of silicon semiconductors, light-emitting diodes (LEDs), and other products by makers of manufacturing equipment, sales of mass flow controllers, HORIBA's mainstay product, and chemical concentration monitors increased in the first half of 2011. However, in the second half of 2011, sales decreased due to production adjustments by customers. Moreover, profitability deteriorated due to a decline in selling prices caused by the stronger yen. As a result, segment sales decreased 10.8% year-on-year to 24,694 million yen and operating income declined 22.1% to 4,939 million yen.

(Scientific Instruments & Systems)

Although overseas sales were lower after conversion to the stronger yen, sales of analytical instruments in the advanced material development area increased in various countries. In Japan, the weakening of the Euro led to solid sales of analytical instruments developed and manufactured in France, and profitability improved. Consequently, sales in the segment

HORIBA, Ltd. and Consolidated Subsidiaries | Consolidated Financial Review

increased by 5.8% year-on-year to 22,040 million yen and operating income rose by 28.0% to 1,433 million yen.

Net Income

Other income (expenses) was affected by an increase in expenses by ¥842 million from fiscal 2010 leaving a net loss of ¥1,259 million. This result was due in part to foreign currency loss, loss on valuation of investment securities of ¥370 million and provision for business structure improvement of ¥267 million caused by restructuring MCT (Mechatronics) business in Germany. Nevertheless, because of the increase in operating income, pretax income increased by ¥1,764 million, or 14.8%, to ¥13,647 million, and net income increased by ¥737 million, or 9.3%, to ¥8,664 million.

Financial Position

As of December 31, 2011, total consolidated assets were ¥144,649 million, up ¥7,359 million from December 31, 2010. The main factors contributing to the increase of total assets were an increase in sales, which increased trade notes and accounts receivable by ¥2,948 million, an increase in capital expenditures, which increased construction in progress by ¥1,387 million, and an increase of ¥1,308 million in cash and cash equivalents.

Total consolidated liabilities increased by ¥1,054 million yen from a year ago to ¥54,189 million. The main factor contributing to the increase of total liabilities was an increase of ¥1,109 million in short-term loans.

Total consolidated net assets amounted to ¥90,460 million, up ¥6,305 million from a year ago, due mainly to an increase of ¥7,810 million in retained earnings, which more than offset a decrease of ¥1,434 million in foreign currency translation adjustments.

Cash Flows

(Cash Flow from Operating Activities)

Net cash provided by operating activities amounted to ¥6,954 million, compared to ¥11,964 million provided for the previous year. Factors contributing to this amount included an increase of ¥13,647 million in income before tax, an increase in trade notes and accounts receivable of ¥4,080 million and an increase in inventories of ¥2,144 million.

(Cash Flow from Investing Activities)

Net cash provided by investment activities totaled ¥6,145 million, compared to ¥2,821 million for the previous year, mainly due to payments of ¥4,204 million for purchase of property, plant and equipment and payments of ¥1,908 million for purchase of marketable securities.

(Cash Flow from Financing Activities)

Net cash provided by financing activities amounted to ¥855 million, compared to ¥1,028 million for the previous year. This was mainly attributable to an increase of ¥1,557 million in short-term borrowings, while cash dividends paid was ¥847 million.

As a result, there was a net increase of ¥1,308 million in cash and cash equivalents to ¥35,767 million as of December 31, 2011.

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 for celebrating the anniversary of its foundation and other milestones and pays special dividends in some years. The Company receives a certain proportion of the net income of each group company as a dividend. Thus, although dividend payments to shareholders are computed based on the nonconsolidated net income of the Company, they are in effect made on consolidated earnings. In addition, the Company intends to appropriate internal reserves for retained earnings as working capital for business expansion, capital expenditure and investment in research and development, with the aim of improving corporate value in the medium to long term.

Major Risks

1. Business Risks

(1) Risks Associated with International Business Activities

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

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

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

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

(3) 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 and Germany), 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 disaster, as HORIBA's manufacturing bases may become damaged and require expensive repairs. Damage to HORIBA's supply chain could also 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 arising for damages due to different views of performance or a different understanding of business terms between parties. It is possible that such circumstances could result in HORIBA receiving a damages claim for compensation.

(5) Litigation Risks

In connection with HORIBA's violation of the Antimonopoly Law arising from past bidding, HORIBA has received a damages claim for compensation from municipal government agencies. HORIBA found that certain parts of the claim for compensation regarding the scope of the transaction and calculation of the damage amount were unacceptable. HORIBA has, therefore, decided to ask for judicial rulings to be made. HORIBA has set aside provisions for possible losses from litigation. It remains possible, however, 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 breakdown or malfunction of information systems, threats related to information security, various regulations associated with businesses and ensuring a stable electric power supply. 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

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

(3) Risks Concerning Intellectual Property Rights

HORIBA possesses tremendous expertise and a wide range of intellectual property rights related to the products it manufactures, including patents, trademarks, 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 arising with other companies over intellectual property rights. Such disputes could significantly affect HORIBA's financial condition and business performance.

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(4) Risks Associated with Fluctuations in Raw Material Prices

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

3. Financial Risks

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

HORIBA holds shares in its major alliance partners and other companies as part of its technology and business strategies. HORIBA's purchase and sale of investment securities are carefully monitored by the Board of Directors. Market prices of shares are reported to top management on a timely basis, and the purpose for holding the investment securities is regularly reviewed. If declines in the market price or profitability of land, building or other assets occurred in the future, there could be a negative impact on the financial condition and business performance of HORIBA 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. tax rate cuts) may require HORIBA to reverse its deferred tax assets at the end of the current fiscal year.

4. Risks by Business Segment

HORIBA consists of 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, and the setting of legal limits on exhaust emissions affects demand. It is possible, therefore, that the financial condition and business performance of HORIBA will be significantly affected by future regulations. Furthermore, capital expenditures related to shifts in the automation of automotive test systems could have a significant impact on HORIBA's financial condition and business performance.

(2) 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 and 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 target the market for small- and medium-sized equipment used by small- and medium-sized hospitals and medical practitioners. Price competition for these products that is beyond our expectations could have a significant impact on HORIBA's financial condition and business performance.

(4) Semiconductor Instruments & Systems

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

(5) Scientific Instruments & Systems

Scientific analysis instruments, the main products of the Scientific Instruments & Systems, are used for R&D and product quality testing. There is a risk that demand may be affected by the R&D budgets of government agencies and the R&D investments and production of private enterprises. A change in demand could 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, 2010 and December 31, 2011

	Millions of yen		Thousands of U.S. dollars (Note 1)
ASSETS	12/2010	12/2011	12/2011
Current Assets:			
Cash and cash equivalents	¥34,459	¥35,767	$460,084
Trade notes and accounts receivable (Note 6)			
Affiliated companies	1	126	1,620
Other	36,425	39,249	504,875
Allowance for doubtful receivables	(765)	(750)	(9,647)
Marketable securities (Note 4)	101	1,100	14,149
Inventories (Note 5)	24,843	26,288	338,152
Deferred tax assets (Note 14)	2,930	3,201	41,175
Other current assets	2,127	3,272	42,089
Total current assets	100,124	108,255	1,392,526
Property, Plant and Equipment:			
Land	7,272	7,362	94,700
Buildings and structures	19,659	19,443	250,102
Machinery, equipment and vehicles	12,315	11,856	152,508
Construction in progress	743	2,130	27,399
Other property, plant and equipment	12,335	12,388	159,351
Total	52,325	53,181	684,087
Accumulated depreciation	(29,809)	(30,256)	(389,194)
Net property, plant and equipment	22,516	22,924	294,880
Investments and Other Noncurrent Assets:			
Investment securities (Note 4)	4,028	3,423	44,031
Investments in nonconsolidated subsidiaries and affiliates	94	90	1,157
Deferred tax assets (Note 14)	2,129	2,115	27,206
Allowance for doubtful accounts	(205)	(40)	(514)
Other investments and other assets	3,231	3,240	41,677
Total	9,278	8,829	113,570
Intangibles:			
Goodwill	210	201	2,585
Software	4,787	4,182	53,794
Other intangibles	373	256	3,293
Total	5,371	4,640	59,686
Total Assets	¥137,290	¥144,649	$1,860,676
LIABILITIES AND NET ASSETS			
Current Liabilities:			
Short-term loans (Note 7)	¥5,041	¥6,152	$79,135
Current portion of long-term debt (Note 7)	653	660	8,489
Trade notes and accounts payable:			
Affiliated companies	60	0	0
Other	13,423	13,196	169,745
Accounts payable – other	8,540	7,805	100,398
Accrued income taxes	3,458	2,459	31,631
Deferred tax liabilities (Note 14)	34	18	231
Accrued bonuses to employees	647	755	9,711
Accrued bonuses to directors and corporate auditors	106	84	1,080
Reserve for product warranty	1,098	1,308	16,825
Provision for business structure improvement	–	174	2,238
Other current liabilities	4,631	5,956	76,614
Total current liabilities	37,695	38,574	496,192
Long-term debt (Note 7)	11,433	11,544	148,494
Deferred tax liabilities (Note 14)	113	108	1,389
Employees' retirement benefits (Note 8)	1,734	1,775	22,832
Directors' and corporate auditors' retirement benefits	248	221	2,842
Provision for loss on guarantees	67	–	–
Provision for compensation losses	429	616	7,923
Other noncurrent liabilities	1,413	1,348	17,339
Total liabilities	53,135	54,189	697,054
Contingent Liabilities (Note 12)			
Net Assets (Note 9):			
Shareholders' Equity:			
Common stock	12,011	12,011	154,502
Authorized – 100,000,000 shares			
Issued and outstanding – 42,289,697 shares (excluding treasury stock) at 12/2010			
Issued and outstanding – 42,294,669 shares (excluding treasury stock) at 12/2011			
Capital surplus	18,717	18,717	240,764
Retained earnings	58,468	66,278	852,559
Treasury stock (243,055 shares at 12/2010 and 238,083 shares at 12/2011)	(804)	(788)	(10,136)
Total shareholders' equity	88,392	96,219	1,237,702
Accumulated Other Comprehensive Income:			
Unrealized gains (losses) on available-for-sale securities	897	717	9,223
Foreign currency translation adjustments	(5,269)	(6,703)	(86,223)
Total accumulated other comprehensive income	(4,372)	(5,986)	(77,000)
Subscription rights to shares	126	186	2,392
Minority interests in consolidated subsidiaries	9	40	514
Net assets	84,155	90,460	1,163,622
Total Liabilities and Net Assets	¥137,290	¥144,649	$1,860,676

See the notes to the consolidated financial statements.

Consolidated Statements of Income

HORIBA, Ltd. and Consolidated Subsidiaries
For the years ended December 31, 2010 and December 31, 2011

	Millions of yen		Thousands of U.S. dollars (Note 1)
	12/2010	12/2011	12/2011
Net Sales (Note 18)	¥118,556	**¥123,456**	**$1,588,062**
Operating Costs and Expenses (Note 18):			
Cost of sales	66,153	**67,892**	**873,321**
Selling, general and administrative expenses	40,102	**40,657**	**522,986**
Total operating costs and expenses	106,256	**108,549**	**1,396,308**
Operating Income (Note 18)	12,299	**14,906**	**191,741**
Other Income (Expenses):			
Interest and dividend income	185	**190**	**2,444**
Interest expense	(488)	**(494)**	**(6,354)**
Foreign exchange gains (losses), net	31	**(283)**	**(3,640)**
Gain on sale of property, plant and equipment	313	**10**	**128**
Loss on sale of property, plant and equipment	(25)	**(4)**	**(51)**
Loss on disposal of property, plant and equipment	(112)	**(48)**	**(617)**
Loss on impairment of fixed assets (Note 15)	(40)	**(98)**	**(1,260)**
Gain on sales of investment securities	5	**–**	**–**
Loss on valuation of investment securities (Note 4)	(203)	**(370)**	**(4,759)**
Subsidy income	34	**–**	**–**
Reversal of allowance for doubtful accounts	16	**–**	**–**
Office transfer expense	(68)	**–**	**–**
Provision for loss on guarantees	(11)	**–**	**–**
Reversal of provision for loss on guarantees	–	**67**	**861**
Provision for compensation losses	(299)	**(214)**	**(2,752)**
Provision for business structure improvement	–	**(267)**	**(3,434)**
Other, net	245	**255**	**3,280**
Total other expenses, net	(416)	**(1,259)**	**(16,195)**
Income Before Income Taxes and Minority Interests	11,882	**13,647**	**175,546**
Income Taxes (Note 14):			
Current	4,945	**5,187**	**66,722**
Deferred	(990)	**(204)**	**(2,624)**
Total income taxes	3,955	**4,982**	**64,085**
Income Before Minority Interests	7,927	**8,664**	**111,448**
Minority Interests (Losses) in Earnings of Consolidated Subsidiaries	(0)	**(0)**	**(0)**
Net Income	¥7,927	**¥8,664**	**$111,448**

	Yen		U.S. dollars (Note 1)
	12/2010	12/2011	12/2011
Per Share Information:			
Net income – basic	¥187.46	**¥204.88**	**$2.63**
Net income – diluted	187.11	**204.41**	**2.62**
Cash dividends	17.00	**40.00**	**0.51**

Consolidated Statements of Comprehensive Income

HORIBA, Ltd. and Consolidated Subsidiaries
For the years ended December 31, 2010 and December 31, 2011

	Millions of yen		Thousands of U.S. dollars (Note 1)
	12/2010	12/2011	12/2011
Income before Minority Interests	¥7,927	**¥8,664**	**$111,448**
Other Comprehensive Income			
Unrealized gains (losses) on available-for-sale securities	(35)	**(179)**	**(2,302)**
Foreign currency translation adjustments	(3,231)	**(1,434)**	**(18,446)**
Share of other comprehensive income of affiliates accounted for using equity method	(1)	**(0)**	**(0)**
Total other comprehensive income	(3,267)	**(1,613)**	**(20,748)**
Comprehensive Income	4,659	**¥7,050**	**$90,686**
Total Comprehensive income attributable to			
Owners of the parent	4,661	**¥7,051**	**$90,699**
Minority interests	(2)	**(0)**	**(0)**

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, 2010 and December 31, 2011

	Millions of yen		Thousands of U.S. dollars (Note 1)
	12/2010	12/2011	12/2011
Shareholders' Equity			
Common Stock			
Balance at end of previous fiscal year	¥12,011	¥12,011	$154,502
Balance at end of current fiscal year	¥12,011	¥12,011	$154,502
Capital Surplus			
Balance at end of previous fiscal year	¥18,717	¥18,717	$240,764
Balance at end of current fiscal year	¥18,717	¥18,717	$240,764
Retained Earnings			
Balance at end of previous fiscal year	¥51,095	¥58,468	$752,096
Changes in items during the period:			
Cash dividends	(549)	(845)	(10,869)
Net income	7,927	8,664	111,448
Disposal of treasury stock	(4)	(8)	(102)
Total	7,373	7,810	100,463
Balance at end of current fiscal year	¥58,468	¥66,278	$852,559
Treasury Stock			
Balance at end of previous fiscal year	(¥811)	(¥804)	($10,342)
Changes in items during the period:			
Purchase of treasury stock	(0)	(0)	(0)
Disposal of treasury stock	6	16	205
Total	6	16	205
Balance at end of current fiscal year	(¥804)	(¥788)	($10,136)
Shareholders' equity, total			
Balance at end of previous fiscal year	¥81,012	¥88,392	$1,137,020
Changes in items during the period:			
Cash dividends	(549)	(845)	(10,869)
Net income	7,927	8,664	111,448
Purchase of treasury stock	(0)	(0)	(0)
Disposal of treasury stock	2	7	90
Total	7,379	7,826	100,668
Balance at end of current fiscal year	¥88,392	¥96,219	$1,237,702
Accumulated other comprehensive income			
Unrealized gains (losses) on available-for-sale securities			
Balance at end of previous fiscal year	¥932	¥897	$11,538
Changes in items during the period:			
Net changes in items other than shareholders' equity	(35)	(179)	(2,302)
Total	(35)	(179)	(2,302)
Balance at end of current fiscal year	¥897	¥717	$9,223
Foreign Currency Translation Adjustments			
Balance at end of previous fiscal year	(¥2,039)	(¥5,269)	($67,777)
Changes in items during the period:			
Net changes in items other than shareholders' equity	(3,230)	(1,434)	(18,446)
Total	(3,230)	(1,434)	(18,446)
Balance at end of current fiscal year	(¥5,269)	(¥6,703)	($86,223)
Accumulated other comprehensive income, total			
Balance at end of previous fiscal year	(¥1,106)	(¥4,372)	($56,238)
Changes in items during the period:			
Net changes in items other than shareholders' equity	(3,265)	(1,613)	(20,748)
Total	(3,265)	(1,613)	(20,748)
Balance at end of current fiscal year	(¥4,372)	(¥5,986)	($77,000)
Subscription Rights to Shares			
Balance at end of previous fiscal year	¥59	¥126	$1,620
Changes in items during the period:			
Net changes in items other than shareholders' equity	67	60	771
Total	67	60	771
Balance at end of current fiscal year	¥126	¥186	$2,392
Minority Interests in Consolidated Subsidiaries			
Balance at end of previous fiscal year	¥11	¥9	$115
Changes in items during the period:			
Net changes in items other than shareholders' equity	(2)	31	398
Total	(2)	31	398
Balance at end of current fiscal year	¥9	¥40	$514
Net Assets, total			
Balance at end of previous fiscal year	¥79,977	¥84,155	$1,082,518
Changes in items during the period:			
Cash dividends	(549)	(845)	(10,869)
Net income	7,927	8,664	111,448
Purchase of treasury stock	(0)	(0)	(0)
Disposal of treasury stock	2	7	90
Net changes in items other than shareholders' equity	(3,201)	(1,521)	(19,565)
Total	¥4,178	¥6,305	$81,103
Balance at end of current fiscal year	¥84,155	¥90,460	$1,163,622

See the notes to the consolidated financial statements.

Consolidated Statements of Cash Flows

HORIBA, Ltd. and Consolidated Subsidiaries
For the years ended December 31, 2010 and December 31, 2011

	Millions of yen		Thousands of U.S. dollars (Note 1)
	12/2010	12/2011	12/2011
Cash Flows From Operating Activities:			
Income before income taxes	¥11,882	**¥13,647**	**$175,546**
Adjustments to reconcile income before income taxes to net cash provided by operating activities:			
Depreciation and amortization	4,523	**4,146**	**53,331**
Loss on impairment of fixed assets	40	**98**	**1,260**
Increase (decrease) in allowance for doubtful receivables	165	**(40)**	**(514)**
Increase (decrease) in provision for business structrue improvement	–	**192**	**2,469**
Increase (decrease) in employees' retirement benefits	197	**87**	**1,119**
Increase (decrease) in directors' and corporate auditors' retirement benefits	(6)	**(26)**	**(334)**
Increase (decrease) in reserve for loss on guarantees	11	**(67)**	**(861)**
Increase (decrease) in provision for compensation losses	429	**187**	**2,405**
Interest and dividend income	(185)	**(190)**	**(2,444)**
Interest expense	488	**494**	**6,354**
Foreign exchange losses (gains)	64	**(21)**	**(270)**
Loss (gain) on sales of fixed assets	(287)	**(5)**	**(64)**
Loss on disposal of fixed assets	112	**48**	**617**
Loss (gain) on valuation of marketable securities	4	**–**	**–**
Loss (gain) on valuation of investment securities	203	**370**	**4,759**
Loss (gain) on sales of investment securities	(4)	**0**	**0**
Decrease (increase) in trade notes and accounts receivable	(4,985)	**(4,080)**	**(52,482)**
Decrease (increase) in inventories	(3,689)	**(2,144)**	**(27,579)**
Increase (decrease) in trade notes and accounts payable	3,933	**70**	**900**
Other, net	524	**791**	**10,174**
Subtotal	13,423	**13,560**	**174,427**
Interest and dividends received	189	**184**	**2,366**
Interest paid	(503)	**(519)**	**(6,676)**
Income taxes paid	(1,144)	**(6,270)**	**(80,653)**
Net cash provided by (used in) operating activities	11,964	**6,954**	**89,452**
Cash Flows From Investing Activities:			
Increase in time deposits	(655)	**(872)**	**(11,216)**
Decrease in time deposits	804	**507**	**6,521**
Increase in time deposits restricted for use	(262)	**–**	**–**
Decrease in time deposits restricted for use	–	**32**	**411**
Payments for purchase of marketable securities	(228)	**(1,908)**	**(24,543)**
Proceeds from sales of marketable securities	456	**905**	**11,641**
Payments for purchase of property, plant and equipment	(3,280)	**(4,204)**	**(54,077)**
Proceeds from sales of property, plant and equipment	608	**51**	**656**
Payments for purchase of intangibles	(187)	**(226)**	**(2,907)**
Payments for purchase of investment securities	(101)	**(136)**	**(1,749)**
Proceeds from sales or redemption of investment securities	87	**12**	**154**
Payments for purchase of investments in consolidated subsidiary	–	**(44)**	**(565)**
Other, net	(63)	**(260)**	**(3,344)**
Net cash provided by (used in) investing activities	(2,821)	**(6,145)**	**(79,045)**
Cash Flows From Financing Activities:			
Net increase (decrease) in short-term borrowings	(38)	**1,557**	**20,028**
Increase in long-term debt	341	**824**	**10,599**
Repayments of long-term debt	(543)	**(577)**	**(7,422)**
Repayments on finance lease obligation	(237)	**(135)**	**(1,736)**
Proceeds from stock issuance to minority shareholders	–	**41**	**527**
Net decrease (increase) of treasury stock	(0)	**(0)**	**(0)**
Cash dividends paid	(550)	**(847)**	**(10,895)**
Cash dividends paid to minority interests	–	**(6)**	**(77)**
Net cash provided by (used in) financing activities	(1,028)	**855**	**10,998**
Effect of Exchange Rate Changes on Cash and Cash Equivalents	(1,244)	**(356)**	**(4,579)**
Net Increase (Decrease) in Cash and Cash Equivalents	6,868	**1,308**	**16,825**
Cash and Cash Equivalents at Beginning of Year	27,590	**34,459**	**443,259**
Cash and Cash Equivalents at End of Year	¥34,459	**¥35,767**	**$460,084**

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 six 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.

Effective December 31, 2011, the Company adopted "Accounting Standard for Presentation of Comprehensive Income" (Accounting Standard Board of Japan ("ASBJ") Statement No. 25, issued on June 30, 2010) and "Revised Accounting Standard for Consolidated Financial Statements" (ASBJ Statement No. 22, revised on June 20, 2010). As a result of the adoption of these standards, the Company has presented the consolidated statement of comprehensive income in the consolidated financial statements for fiscal 2011.

The consolidated balance sheet and the consolidated statement of changes in net assets as of and for the fiscal year ended December 31, 2010 have been modified to conform with the new presentation rules of 2011. In addition, the Company has presented the consolidated statement of comprehensive income for fiscal 2010 as well as that for fiscal 2011.

Effective from fiscal 2011, the Company has adopted the "Accounting Standard for Asset Retirement Obligations" (ASBJ Statement No. 18, issued on March 31, 2008) and the "Guidance on Accounting Standard for Asset Retirement Obligations" (ASBJ Guidance No. 21, issued on March 31, 2008). This application had no material impact on operating income and income before income taxes.

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, 2011, which was ¥77.74 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.

2. Summary of significant accounting policies

(a) Principles of consolidation

The consolidated financial statements include the accounts of the Company and 35 (36 in fiscal 2010) of its subsidiaries ("HORIBA" as a consolidated group). In fiscal 2011, two companies which were newly incorporated and three companies were merged into 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 matches that of the consolidated financial statements for fiscal 2010 and fiscal 2011.

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 five affiliated companies (six in fiscal 2010). The shares of one affiliated company was sold in fiscal 2011. For one of the five affiliates, the equity method was applied. Investments in the other four affiliates (generally 20%-50% ownership) and in one nonconsolidated subsidiary were accounted for on a cost basis, not by the equity method, as the effect on income and retained earnings was immaterial.

(b) Cash and cash equivalents

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

(c) Securities

Available-for-sale securities with available fair market values are stated

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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 or the declining balance method over the estimated useful life of the asset. Buildings acquired after April 1, 1998 and the ERP system (server, etc) included in "Other property, plant and equipment" are depreciated by the straight-line method. Other property, plant and equipment are depreciated by the Company and the domestic subsidiaries by the declining balance method and by the overseas subsidiaries by the straight-line method. 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.

(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 on 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 2011 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 2011 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) Provision for business structure improvement

Provision is made for expenses and losses arising from a business structure improvement of the Company's subsidiary, based on an estimate of potential loss.

(n) 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.

Effective January 1, 2010, the Company has adopted the "Partial Revisions to Accounting Standard for Retirement Benefits (Part 3)" (ASBJ Statement No. 19, issued on July 31, 2008). This application had no impact on operating income or income before income taxes for fiscal 2010.

(o) 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.

(p) Provision for loss on guarantees

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

(q) 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.

(r) 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 2011 was deemed 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 based on the completed contract method.

With regard to the standards for recording income related to contract work, the Company previously applied mainly the completed contract method. Since fiscal 2010, however, the Company has applied the "Accounting Standard for Construction Contracts" (ASBJ Statement No. 15, issued on December 27, 2007) and the "Guidance on Accounting Standard for Construction Contracts" (ASBJ Guidance No. 18, issued on December 27, 2007). Accordingly, starting with construction contracts that commenced during fiscal 2010, the Company has applied the percentage of completion method with estimates of the progress based on the percentage of the cost incurred to the estimated total cost when the progress of the construction up to the end of fiscal 2010 was deemed certain. In the case of other construction, the completed contract method has been applied. This application had no impact on operating income or income before income taxes for fiscal 2010.

(s) 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.

(t) 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.

(u) Research and development expenses

Research and development expenses are charged to income when incurred. Research and development expenses charged to income for fiscal 2010 and fiscal 2011 were ¥9,480 million and ¥10,060 million ($129,405 thousand), respectively.

(v) Income taxes

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

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

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

The Company and its consolidated domestic subsidiaries have received approval from the Commissioner of the National Tax Agency of Japan to adopt the consolidated taxation system effective for fiscal 2011. From fiscal 2010, accounting treatment and presentation regarding deferred taxes has been based on the "Practical Solution on Tax Effect Accounting under the Consolidated Taxation System (Part 1)" (ASBJ PITF No. 5), and the "Practical Solution on Tax Effect Accounting under the Consolidated Taxation System (Part 2)" (ASBJ PITF No. 7) under the assumption that the Company would adopt the consolidated taxation system.

(w) 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 2010 and fiscal 2011 was 42,289 thousand and 42,293 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 2010 and fiscal 2011 was 42,368 thousand and 42,389 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.

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3. 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 also 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 also 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 the debt 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, 2010 and December 31, 2011 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		
	12/2010			12/2011		
	Book value	Fair value	Difference	Book value	Fair value	Difference
Assets:						
(1) Cash and time deposits	¥26,958	¥26,958	–	¥28,893	¥28,893	–
(2) Trade notes and accounts receivable	36,427	36,427	–	39,375	39,375	–
(3) Marketable securities and investment securities						
Available-for-sale securities	11,452	11,452	–	11,514	11,514	–
Total	¥74,838	¥74,838	–	¥79,783	¥79,783	–
Liabilities:						
(1) Trade notes and accounts payable	¥13,484	¥13,484	–	¥13,196	¥13,196	–
(2) Short-term loans	5,575	5,575	–	6,684	6,684	–
(3) Accounts payable – other	8,540	8,540	–	7,805	7,805	–
(4) Accrued income taxes	3,458	3,458	–	2,459	2,459	–
(5) Bonds	10,000	10,478	478	10,000	10,385	385
(6) Long-term loans	1,195	1,195	(0)	1,291	1,294	2
Total	¥42,253	¥42,731	¥478	¥41,439	¥41,827	¥388
Derivative transactions	(64)	(64)	–	(103)	(103)	–

	Thousands of U.S. dollars		
	12/2011		
	Book value	Fair value	Difference
Assets:			
(1) Cash and time deposits	$371,661	$371,661	–
(2) Trade notes and accounts receivable	506,496	506,496	–
(3) Marketable securities and investment securities			
Available-for-sale securities	148,109	148,109	–
Total	$1,026,279	$1,026,279	–
Liabilities:			
(1) Trade notes and accounts payable	$169,745	$169,745	–
(2) Short-term loans	85,978	85,978	–
(3) Accounts payable – other	100,398	100,398	–
(4) Accrued income taxes	31,631	31,631	–
(5) Bonds	128,633	133,586	4,952
(6) Long-term loans	16,606	16,645	25
Total	$533,046	$538,037	$4,990
Derivative transactions	(1,324)	(1,324)	–

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 "Marketable Securities".

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 has been 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 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 13 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 summarized financial instruments whose fair value is extrmely difficult to estimate.

	Millions of yen		Thousands of U.S. dollars
	12/2010	12/2011	12/2011
Non-listed equity securities	¥214	¥259	$3,331
Investments in nonconsolidated subsidiaries and affiliates	94	90	1,157

The above financial instruments are not included in "(3) Marketable securities and investment securities" because they do not have market values and the fair value is extremely difficult to estimate.

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

	Millions of yen			
	12/2010			
	Within one year	Over one year but within five years	Over five years but within ten years	Over ten years
Time deposits	¥26,958	–	–	–
Trade notes and accounts receivable	36,427	–	–	–
Marketable securities and investment securities				
Available-for-sale securities with maturities				
(1) Bonds	101	–	–	–
(2) Other	0	3	0	–
Total	¥63,487	¥3	¥0	–

	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
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**	**–**

	Thousands of U.S. dollars			
	12/2011			
	Within one year	Over one year but within five years	Over five years but within ten years	Over ten years
Time deposits	**$371,661**	**–**	**–**	**–**
Trade notes and accounts receivable	**506,496**	**–**	**–**	**–**
Marketable securities and investment securities				
Available-for-sale securities with maturities				
(1) Bonds	**20,568**	**–**	**–**	**–**
(2) Other	**6,431**	**25**	**64**	**–**
Total	**$905,183**	**$25**	**$64**	**–**

Note 4. Repayment schedule of bonds and long-term borrowings
See Note 7 for short-term loans and long-term debt

Additional information

From fiscal 2010, the Company has applied the "Accounting Standard for Financial Instruments and its Implementation Guidance" (ASBJ Statement No. 10, issued on March 10, 2008) and "Guidance on Disclosures about Fair Value of Financial Instruments" (ASBJ Guidance No. 19, issued on March 10, 2008).

4. Securities

The following table summarizes acquisition costs and book values (fair values) of available-for-sale securities as of December 31, 2010 and December 31, 2011.

	Millions of yen			Millions of yen		
	12/2010			12/2011		
	Book value	Acquisition cost	Difference	Book value	Acquisition cost	Difference
Securities with book values exceeding acquisition costs:						
Equity securities	¥2,920	¥1,223	¥1,697	**¥2,351**	**¥1,120**	**¥1,231**
Corporate bonds	101	100	1	**–**	**–**	**–**
Other	6	6	0	**500**	**500**	**0**
Subtotal	3,028	1,329	1,698	**2,852**	**1,620**	**1,231**
Securities with book values not exceeding acquisition costs:						
Equity securities	887	1,183	(296)	**805**	**996**	**(191)**
Government bonds	–	–	–	**6**	**7**	**(0)**
Corporate bonds	–	–	–	**1,599**	**1,601**	**(2)**
Other	7,536	7,536	–	**6,250**	**6,250**	**–**
Subtotal	8,423	8,720	(296)	**8,662**	**8,856**	**(194)**
Total	¥11,452	¥10,050	¥1,402	**¥11,514**	**¥10,476**	**¥1,037**

	Thousands of U.S. dollars		
	12/2011		
	Book value	Acquisition cost	Difference
Securities with book values exceeding acquisition costs:			
Equity securities	**$30,241**	**$14,406**	**$15,834**
Corporate bonds	**–**	**–**	**–**
Other	**6,431**	**6,431**	**0**
Subtotal	**36,686**	**20,838**	**15,834**
Securities with book values not exceeding acquisition costs:			
Equity securities	**10,355**	**12,811**	**(2,456)**
Government bonds	**77**	**90**	**(0)**
Corporate bonds	**20,568**	**20,594**	**(25)**
Other	**80,396**	**80,396**	**–**
Subtotal	**111,422**	**113,918**	**(2,495)**
Total	**$148,109**	**$134,756**	**$13,339**

Note. Non-listed equity securities, etc. of ¥214 million and ¥259 million ($3,331 thousand) for the fiscal year ended December 31, 2010 and December 31, 2011,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, 2010 and December 31, 2011.

	Millions of yen		Thousands of U.S. dollars
	12/2010	12/2011	12/2011
Total sales of available-for-sale securities	¥9	**¥0**	**$0**
Related gains	5	**–**	**–**
Related losses	(0)	**(0)**	**(0)**

Impairment loss on marketable securities

The Company recognized an impairment loss of ¥203 million and ¥370 million ($4,759 thousand) in fiscal 2010 and fiscal 2011, respectively, on other marketable 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.

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5. Inventories

Inventories at December 31, 2010 and December 31, 2011 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	12/2010	12/2011	12/2011
Merchandise and finished goods	¥8,341	**¥9,015**	**$115,963**
Work-in-process	8,781	**9,127**	**117,404**
Raw materials and supplies	7,720	**8,144**	**104,759**
Total	¥24,843	**¥26,288**	**$338,152**

6. Notes receivable maturing on December 31, 2010 and December 31, 2011, which were bank holidays

December 31, 2010 and December 31, 2011, 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 ¥468 million were included in the ending balance at December 31, 2010 and notes in the amount of ¥936 million ($12,040 thousand) were included in the ending balance at December 31, 2011.

7. Short-term loans and long-term debt

Short-term loans are generally represented by bank notes with annual interest rates ranging from 0.85% to 13.52% and 0.75% to 14.20% at December 31, 2010 and December 31, 2011, respectively.

Long-term debt at December 31, 2010 and December 31, 2011 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	12/2010	12/2011	12/2011
Unsecured:			
1.98% bonds due in 2014	10,000	**10,000**	**128,633**
Loans from banks due serially from 2012 to 2016 at rates from 1.85% to 13.65% per annum	1,729	**1,824**	**23,462**
Lease obligations at 6.5% maturing serially through 2017	358	**381**	**4,900**
Total	12,087	**12,205**	**156,997**
Current portion	(653)	**(660)**	**(8,489)**
Long-term debt, less current portion	¥11,433	**¥11,544**	**$148,494**

The aggregate annual maturities of long-term debt outstanding at December 31, 2011 were as follows:

Year ending December 31	Millions of yen	Thousands of U.S. dollars
2012	**¥660**	**$8,489**
2013	**1,047**	**13,467**
2014	**10,238**	**131,695**
2015	**166**	**2,135**
2016	**90**	**1,157**
Thereafter	**0**	**0**
Total	**¥12,205**	**$156,997**

As of December 31, 2011, the Company and its 11 subsidiaries had entered into agreeements for bank overdrafts or loan commitments with 15 banks as follows:

	Millions of yen	Thousands of U.S. dollars
The maximum aggregate principal	**¥15,157**	**$194,970**
Amount utilized	**3,357**	**43,182**
Balance available	**¥11,799**	**$151,775**

8. Employees' severance and pension benefits

Outline of adopted retirement pension fund

The Company and some 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, 2010 and December 31, 2011 (available information as of March 31, 2010 and 2011), 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
	12/2010	12/2011	12/2011
Fair value of plan assets	¥52,459	**¥49,245**	**$633,457**
Pension benefits obligation recorded by pension fund	79,710	**77,991**	**1,003,228**
Net balance	(¥27,251)	**(¥28,745)**	**($369,758)**

(b) The ratio of pension premiums expensed from March 1, 2011 to March 31, 2011 by the Company and its subsidiaries to the total premium amount was 14.31% (14.28% from March 1, 2010 to March 31, 2010).

Note 1. Net balance resulted from the prior service cost of ¥10,178 million and ¥20,805 million ($267,622 thousand), the addition to the valuation of plan assets of ¥7,985 million and ¥3,340 million ($42,963 thousand), and the shortage of reserve for plan assets of ¥9,087 million and ¥4,599 million ($59,158 thousand) for the years ended December 31, 2010 and Dcember 31, 2011, 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, 2010 and December 31, 2011 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	12/2010	12/2011	12/2011
Projected benefit obligation	(¥5,510)	**(¥5,832)**	**($75,019)**
Pension assets	2,959	**3,281**	**42,204**
Unfunded projected benefit obligation	(2,550)	**(2,550)**	**(32,801)**
Unrecognized actuarial differences	463	**536**	**6,894**
Unrecognized differences on change of employees' retirement plan	352	**238**	**3,061**
Employees' retirement benefits	(¥1,734)	**(¥1,775)**	**($22,832)**

Employees' retirement benefits expense for the years ended December 31, 2010 and December 31, 2011 comprised the following:

	Millions of yen		Thousands of U.S. dollars
	12/2010	12/2011	12/2011
Service cost	¥741	**¥744**	**$9,570**
Interest expense on projected benefit obligation	125	**142**	**1,826**
Expected return on plan assets	(57)	**(67)**	**(861)**
Amortization of actuarial differences	155	**163**	**2,096**
Amortization of prior service costs	114	**117**	**1,505**
Other	312	**396**	**5,093**
Retirement benefits expense	¥1,391	**¥1,497**	**$19,256**

Note 1. Premiums on the contributory funded retirement plan in the amount of ¥338 million and ¥387 million ($4,978 thousand) expensed for the year ended December 31, 2010 and December 31, 2011, 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:

	12/2010	12/2011
Discount rate	2.00%	**2.00%**
Expected rate of return on plan assets	1.50%	**1.50%**
Allocation method for retirement benefits expected to be paid at retirement dates	**Straight-line method based on years of service**	
Amortization period for actuarial gains/losses	5 years	**5 years**
Amortization period for unrecognized prior service cost on change of employees' retirement plan	**10 years (the Company and some subsidiary companies), Time of occurrance (some subsidiary companies)**	

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9. 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, 2012, the Board of Directors approved cash dividends in the amount of ¥1,311 million ($16,863 thousand). The appropriation had not been accrued in the consolidated financial statements as of December 31, 2011. Such appropriations are recognized in the period in which they are approved by the Board of Directors.

10. Stock options

Information regarding stock options existing in the year ended December 31, 2010 was as follows:

(1) Expenses and items related to stock options in the year ended December 31, 2010

Selling, general and administrative expenses..............¥67 million

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

Information regarding stock options outstanding in the year ended December 31, 2010. The number of stock options is stated after conversion into an equal number of shares.

(a) Details of stock options

	Stock options granted in 2006	No. 1 Stock-based Compensation Type Stock Option	No. 2 Stock-based Compensation Type Stock Option
Persons granted options	4 directors, 9 corporate officers and 37 employees of the Company and 2 directors, 4 corporate officers and 10 employees of subsidiary companies	4 directors and 13 corporate officers of the Company	4 directors and 14 corporate officers of the Company
Number of shares by type of stock (Note 1)	Common stock 300,000 shares	Common stock 54,200 shares	Common stock 26,400 shares
Date of grant	April 21, 2006	April 16, 2009	April 23, 2010
Vesting conditions	(Note 2)	(Note 3)	(Note 3)
Service period	(Note 4)	(Note 4)	(Note 4)
Exercise period	July 1, 2007 to June 30, 2010	April 17, 2009 to April 16, 2039	April 24, 2010 to April 23, 2040

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

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

Note 3. Vesting conditions and exercise period of stock options

A holder of stock options may exercise the options for a period of ten days from the day following the date on which he resigns (or retires) as a director or corporate officer of the Company.

Note 4. The service period is not stipulated.

(b) Number, movement and price of stock options

Stock options are convertible into an equal number of shares.

(i) Number of shares

	Stock options granted in 2006	No. 1 Stock-based Compensation Type Stock Option	No. 2 Stock-based Compensation Type Stock Option
Options before vesting (number of shares)			
Balance at December 31, 2009	–	–	–
Granted	–	–	26,400
Forfeited	–	–	–
Vested	–	–	26,400
Balance at December 31, 2010	–	–	–
Options after vesting (number of shares)			
Balance at December 31, 2009	249,000	54,200	–
Vested	–	–	26,400
Exercised	–	2,100	–
Forfeited	249,000	–	–
Balance at December 31, 2010	–	52,100	26,400

(ii) Price per share

	Stock options granted in 2006	No. 1 Stock-based Compensation Type Stock Option	No. 2 Stock-based Compensation Type Stock Option
Option price (yen)	3,890	1	1
Weighted average stock price (yen)	–	2,230	–
Fair value at grant date (yen)	(Note) –	1,091	2,628

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

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

The grant date fair value of No. 2 Stock-based Compensation Type Stock Option in the year ended December 31, 2010 was estimated using the Black-Scholes option pricing model as follows:

	No. 2 Stock-based Compensation Type Stock Option
Stock price volatility (Note 1)	36.70%
Expected remaining period (Note 2)	15 Year
Expected dividend (Note 3)	¥13/share
Risk free interest rate (Note 4)	1.90%

Note 1. Stock price volatility was calculated based on actual weekly stock prices over 15 years (from the week of April 24, 1995 to the week of April 19, 2010).

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

Note 3. Expected dividend is calculated by using the actual dividend paid for the year ended December 31, 2009.

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.

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Information regarding stock options existing in the year ended December 31, 2011 was as follows:
(1) Expenses and items related to stock options in the year ended December 31, 2011
Selling, general and administrative expenses..............¥68 million ($874 thousand)

(2) Scale and movement (fluctuation) of stock options
Information regarding stock options outstanding in the year ended December 31, 2011. 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
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
Number of shares by type of stock (Note 1)	Common stock 54,200 shares	Common stock 26,400 shares	Common stock 31,000 shares
Date of grant	April 16, 2009	April 23, 2010	April 21, 2011
Vesting conditions	(Note 3)	(Note 3)	(Note 3)
Service period	(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

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

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

	No. 1 Stock-based Compensation Type Stock Option	No. 2 Stock-based Compensation Type Stock Option	No. 3 Stock-based Compensation Type Stock Option
Options before vesting (number of shares)			
Balance at December 31, 2010	–	–	–
Granted	–	–	31,000
Forfeited	–	–	–
Vested	–	–	31,000
Balance at December 31, 2011	–	–	–
Options after vesting (number of shares)			
Balance at December 31, 2010	52,100	26,400	–
Vested	–	–	31,000
Exercised	3,400	1,600	–
Forfeited	–	–	–
Balance at December 31, 2011	48,700	24,800	31,000

(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
Option price (yen)	1	1	1
Weighted average stock price (yen)	2,425	2,425	–
Fair value at grant date (yen)	1,091	2,628	2,208

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

The grant date fair value of No. 3 Stock-based Compensation Type Stock Option in the year ended December 31, 2011 was estimated using the Black-Scholes option pricing model as follows:

	No. 3 Stock-based Compensation Type Stock Option
Stock price volatility (Note 1)	37.00%
Expected remaining period (Note 2)	15 Year
Expected dividend (Note 3)	¥17/share
Risk free interest rate (Note 4)	1.82%

Note 1. Stock price volatility was calculated based on actual weekly stock prices over 15 years (from the week of April 15, 1996 to the week of April 11, 2011).

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

Note 3. Expected dividend is calculated by using the actual dividend paid for the year ended December 31, 2010.

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.

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11. Leases

At December 31, 2010 and December 31, 2011, 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
	12/2010	12/2011	12/2011
Machinery, equipment and vehicles	¥229	¥229	$2,945
Other property, plant and equipment	358	184	2,366
Other intangibles	4	4	51
Less accumulated depreciation and amortization	(399)	(315)	(4,051)
Total	¥193	¥102	$1,312

Note 1. 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.

Note 2. The above depreciation and amortization is calculated by the straight-line method over the term of the lease. If the above leases had been capitalized, interest of ¥7 million and ¥4 million ($51 thousand) and depreciation and amortization of ¥132 million and ¥91 million ($1,170 thousand) would have been recorded for the years ended December 31, 2010 and December 31, 2011, respectively. Lease payments under non-capitalized finance leases were ¥144 million and ¥98 million ($1,260 thousand) for the years ended December 31, 2010 and December 31, 2011, respectively. Obligations under finance leases at December 31, 2010 and December 31, 2011 were as follows:

	Millions of yen		Thousands of U.S. dollars
Payments remaining:	12/2010	12/2011	12/2011
Payments due within 1 year	¥94	¥54	$694
Payments due after 1 year	108	54	694
Total	¥202	¥108	$1,389

Payments remaining under operating leases at December 31, 2010 and December 31, 2011 were as follows:

	Millions of yen		Thousands of U.S. dollars
Payments remaining:	12/2010	12/2011	12/2011
Payments due within 1 year	¥500	¥536	$6,894
Payments due after 1 year	1,169	1,055	13,570
Total	¥1,670	¥1,591	$20,465

12. Contingent liabilities

The Company and certain consolidated subsidiaries were contingently liable as guarantors of loans to affiliated companies and nonconsolidated subsidiary in the amounts of ¥187 million and ¥148 million ($1,903 thousand) at December 31, 2010 and December 31, 2011, respectively.

13. Derivative transactions

Outstanding derivative transactions at December 31, 2010 and December 31, 2011 were as follows:

Currency related:

	Millions of yen				Millions of yen			
	12/2010				12/2011			
	Amount	Over 1 year	Market value	Gain (loss)	Amount	Over 1 year	Market value	Gain (loss)
Forwards								
Selling								
US dollar	¥1,654	–	¥28	¥28	**¥2,130**	**–**	**(¥31)**	**(¥31)**
Euro	1,487	–	99	99	**993**	**–**	**80**	**80**
Pound	117	–	4	4	**127**	**–**	**5**	**5**
Baht	–	–	–	–	**36**	**–**	**(0)**	**(0)**
Zloty	–	–	–	–	**90**	**–**	**0**	**0**
Buying								
US dollar	428	53	(6)	(6)	**363**	**238**	**(21)**	**(21)**
Euro	277	–	(4)	(4)	**92**	**–**	**(7)**	**(7)**
Pound	39	–	(1)	(1)	**119**	**–**	**0**	**0**
Yen	48	2	1	1	**2**	**–**	**0**	**0**
Options								
Selling								
Call								
US dollar	–	–	–	–	**310**	**–**	**–**	**–**
Option cost	–	–	–	–	**–**	**–**	**0**	**0**
Buying								
Put								
US dollar	–	–	–	–	**269**	**–**	**–**	**–**
Option cost	–	–	–	–	**–**	**–**	**(18)**	**(18)**
Total	–	–	¥120	¥120	**–**	**–**	**¥8**	**¥8**

Note. Market value is determined by banking institutions.

Note. Market value is determined by banking institutions.

	Thousands of U.S. dollars			
	12/2011			
	Amount	Over 1 year	Market value	Gain (loss)
Forwards				
Selling				
US dollar	**$27,399**	**–**	**($398)**	**($398)**
Euro	**12,773**	**–**	**1,029**	**1,029**
Pound	**1,633**	**–**	**64**	**64**
Baht	**463**	**–**	**(0)**	**(0)**
Zloty	**1,157**	**–**	**0**	**0**
Buying				
US dollar	**4,669**	**3,061**	**(270)**	**(270)**
Euro	**1,183**	**–**	**(90)**	**(90)**
Pound	**1,530**	**–**	**0**	**0**
Yen	**25**	**–**	**0**	**0**
Options				
Selling				
Call				
US dollar	**3,987**	**–**	**–**	**–**
Option cost	**–**	**–**	**0**	**0**
Buying				
Put				
US dollar	**3,460**	**–**	**–**	**–**
Option cost	**–**	**–**	**(231)**	**(231)**
Total	**–**	**–**	**$102**	**$102**

Interest rate related:

	Millions of yen				Millions of yen			
	12/2010				12/2011			
	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	¥2,243	¥1,077	(¥181)	(¥181)	**¥1,920**	**¥1,725**	**(¥112)**	**(¥112)**
Total	¥2,243	¥1,077	(¥181)	(¥181)	**¥1,920**	**¥1,725**	**(¥112)**	**(¥112)**

Note. Market value is determined by banking institutions.

Note. Market value is determined by banking institutions.

	Thousands of U.S. dollars			
	12/2011			
	Amount	Over 1 year	Market value	Gain (loss)
Interest rate swap contracts				
Receiving floating rates and paying fixed rates	**$24,697**	**$22,189**	**($1,440)**	**($1,440)**
Total	**$24,697**	**$22,189**	**($1,440)**	**($1,440)**

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14. 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, 2010 and December 31, 2011.

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, 2010 and December 31, 2011.

	12/2010	12/2011
Statutory tax rate	40.6%	**40.6%**
Expenses not qualifying for permanent deduction, e.g. entertainment expenses	0.6	**1.7**
Nontaxable dividend income	(2.2)	**(2.5)**
Per capita inhabitants tax	0.4	**0.3**
Increase/decrease in valuation allowance for deferred tax assets	(1.6)	**1.3**
Amortization of goodwill	0.0	**0.0**
Consolidated elimination of dividend income from consolidated subsidiaries	2.1	**0.4**
Differences in tax rate between foreign subsidiaries and the Company	(3.1)	**(3.5)**
Tax credits	(4.1)	**(3.1)**
Other	0.6	**1.3**
Effective tax rate	33.3%	**36.5%**

Significant components of HORIBA's deferred tax assets and liabilities at December 31, 2010 and December 31, 2011 were as follows:

	Millions of yen		Thousands of U.S. dollars
	12/2010	12/2011	12/2011
Deferred tax assets			
Accrued enterprise tax	¥349	**¥258**	**$3,318**
Loss on write-down of inventory	1,000	**935**	**12,027**
Allowance for doubtful receivables	97	**76**	**977**
Accrued bonuses	236	**235**	**3,022**
Loss carryforwards	1,446	**1,473**	**18,947**
Unrealized gains	854	**925**	**11,898**
Employees' retirement benefits	497	**520**	**6,688**
Depreciation	843	**617**	**7,936**
Loss on valuation of investment securities	433	**474**	**6,097**
Retirement benefits for directors and corporate auditors	400	**344**	**4,425**
Loss on impairment of fixed assets	267	**98**	**1,260**
Other	2,469	**2,998**	**38,564**
Total deferred tax assets	8,896	**8,957**	**115,217**
Valuation allowance	(2,312)	**(2,261)**	**(29,084)**
Net deferred tax assets	6,583	**6,696**	**86,133**
Deferred tax liabilities			
Reserve for deferred gains on property, plant and equipment	(105)	**(127)**	**(1,633)**
Unrealized losses	(390)	**(390)**	**(5,016)**
Net unrealized holding gains on securities	(504)	**(315)**	**(4,051)**
Other	(671)	**(673)**	**(8,657)**
Total deferred tax liabilities	(1,671)	**(1,506)**	**(19,372)**
Net deferred tax assets	¥4,911	**¥5,189**	**$66,748**

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

	Millions of yen		Thousands of U.S. dollars
	12/2010	12/2011	12/2011
Current assets	¥2,930	**¥3,201**	**$41,175**
Investments and other noncurrent assets	2,129	**2,115**	**27,206**
Current liabilities	(34)	**(18)**	**(231)**
Deferred tax liabilities (noncurrent)	(113)	**(108)**	**(1,389)**
Net deferred tax assets	¥4,911	**¥5,189**	**$66,748**

Note. Revisions in deferred tax assets and deferred tax liabilities by changes in the corporate income tax rate

Following the promulgation of the "Act for Partial Amendment of the Income Tax Act, etc. for the Purpose of Creating a Taxation System Responding to Changes in Economic and Social Structures"(Act No. 114, 2011) and the "Act on Special Measures for Securing Financial Resources Necessary to Implement Measures for Reconstruction Following the Great East Japan Earthquake" (Act No. 117, 2011) on December 2, 2011, the corporate income tax rate will be lowered and a special restoration surtax will be imposed from the fiscal year beginning on April 1, 2012. Accordingly, the statutory tax rate to be used in calculating deferred tax assets and deferred tax liabilities will be lowered from the current 40.6% to 37.9% for a temporary difference which is expected to be reversed in the fiscal years beginning from January 1, 2013 through January 1, 2015, and to 35.5% for a temporary difference which is expected to be reversed from the fiscal years beginning on or after January 1, 2016. As a result of these changes in the tax rate, the amount of deferred tax assets (after deducting the amount of deferred tax liabilities) has decreased by ¥51million ($656 thousand) and the amount of deferred income taxes has increased by ¥97 million ($1,247 thousand). And the effect of these changes has been included in income for fiscal 2011.

15. 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 following asset groups as other expenses for the year ended December 31, 2010.

Location	Use	Type	Millon of yen
Kyoto, Japan	Idle	Land	**¥40**

(Background)

Because there are no concrete plans to put to use the idle land owned in Kyoto, Japan, the book value of this asset 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, 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 of idle assets was measured by the estimated net realizable value. Estimated net realizable value was determined based on publicly announced market values for land.

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

Location	Use	Type	Millon of yen	Thousands of U.S. dollars
Tokyo, Japan	Assets for disposal	Buildings and structures	**¥67**	**$861**
Kyoto, Japan	Idle	Land	**¥17**	**$218**
Montpellier, France	Idle	Machinery	**¥12**	**$154**

(Background)

In the case of assets for disposal, disposal of a part of equipment was determined following a transfer of 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.

The recoverable value of machinery was discounted to zero, as its reuse or sale was expected to be difficult, while the estimated net realizable value of properties was determined using the current estimated market value based on publicly announcement price for land. The recoverable value of assets for disposal was measured at reasonable estimates and was not discounted as a disposal period was expected to be short.

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16. Asset retirement obligations

Asset retirement obligations for the year ended December 31, 2011
The note for asset retirement obligations has been omitted as there were no significant amount of investment or rental property.

17. Investment and rental property

Investment and rental property for the year ended December 31, 2010 and December 31, 2011
The note for investment and rental property has been omitted as there were no significant amount of investment or rental property.
(Additional information)
From fiscal 2010, the Company applied the "Accounting Standard for Disclosures about Fair Value of Investment and Rental Property" (ASBJ Statement No. 20, issued on November 28, 2008) and the "Guidance on Accounting Standard for Disclosures about Fair Value of Investment and Rental Property" (ASBJ Guidance No. 23, issued on November 28, 2008).

18. 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 is evaluated 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-Diganostic 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 monitor

(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, 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 amounts based on operating income.

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

	Millions of yen						
	12/2010						
	Automotive	Process & Environmental	Medical-Diagnostic	Semiconductor	Scientific	Adjustment	Consolidated
Sales							
Sales to outside customers	¥35,751	¥11,787	¥22,514	¥27,676	¥20,825	–	¥118,556
Intersegment sales and transfers	–	–	–	–	–	–	–
Total	35,751	11,787	22,514	27,676	20,825	–	118,556
Segment income (loss)	¥1,632	¥875	¥2,330	¥6,340	¥1,120	–	¥12,299
Segment assets	¥28,377	¥11,361	¥16,712	¥23,334	¥15,371	¥42,133	¥137,290
Other items:							
Depreciation	1,306	510	1,374	704	594	–	4,489
Amortization of goodwill	2	0	11	0	19	–	34
Investments in affiliates accounted for using the equity method	22	–	–	–	–	–	22
Increase in tangible and intangible fixed assets	665	310	1,295	746	1,014	–	4,033

	Millions of yen						
	12/2011						
	Automotive	Process & Environmental	Medical-Diagnostic	Semiconductor	Scientific	Adjustment	Consolidated
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

	Thousands of U.S. dollars						
	12/2011						
	Automotive	Process & Environmental	Medical-Diagnostic	Semiconductor	Scientific	Adjustment	Consolidated
Sales							
Sales to outside customers	$497,530	$187,265	$302,096	$317,648	283,509	–	$1,588,062
Intersegment sales and transfers	–	–	–	–	–	–	–
Total	497,530	187,265	302,096	317,648	283,509	–	1,588,062
Segment income (loss)	$36,454	$32,570	$40,725	$63,532	18,433	–	$191,741
Segment assets	$403,691	$168,060	$224,569	$283,123	$210,805	$570,388	$1,860,676
Other items:							
Depreciation	15,526	6,148	15,513	8,914	6,753	–	52,881
Amortization of goodwill	64	–	128	–	231	–	437
Investments in affiliates accounted for using the equity method	308	–	–	–	–	–	308
Increase in tangible and intangible fixed assets	9,068	2,984	19,642	10,908	17,995	–	60,625

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 ¥42,133 million and ¥44,342 million ($570,388 thousand) of segment assets for the year ended December 31, 2010 and December 31, 2011 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.

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

<Related Information>

1. Information regarding geographic areas

(1) Net sales

	Millon of yen	Thousands of U.S. dollars
	2011	2011
Japan	¥48,986	$630,126
United States	14,988	192,796
Europe	32,207	414,291
Asia	22,293	286,763
Ohters	4,980	64,059
Total	¥123,456	$1,588,062

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

(2) Property, plant and equipment

	Millon of yen	Thousands of U.S. dollars
	2011	2011
Japan	¥13,811	$177,656
France	4,250	54,669
Ohters	4,861	62,528
Total	¥22,924	$294,880

2. Information regarding major customers

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

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

	Millon of yen	Thousands of U.S. dollars
	2011	2011
Automotive Test Systems	¥30	$385
Process & Environmental Instruments & Systems	12	154
Medical-Diagnostic Instruments & Systems	20	257
Semiconductor Instruments & Systems	2	25
Scientific Instruments & Systems	14	180
Others	17	218
Total	¥98	$1,260

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

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

	Millon of yen	Thousands of U.S. dollars
	2011	2011
Automotive Test Systems	¥46	$591
Medical-Diagnostic Instruments & Systems	0	0
Scientific Instruments & Systems	154	1,980
Total	¥201	$2,585

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

(Additional Information)

Effective January 1, 2011, the Company adopted "Accounting Standard for Disclosures about Segments of an Enterprise and Related Information" (Accounting Standards Board of Japan ("ASBJ") Statement No. 17, issued on March 27, 2009) and "Guidance on Accounting Standard for Disclosures about Segments of an Enterprise and Related Information" (ASBJ Guidance No. 20, issued on March 21, 2008).

19. Related party transactions

Related party transactions for the year ended December 31, 2010 comprise the following:

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

Category		Director's close family member	
Name		Masao Horiba	
Address		–	
Amount of capital stock (millions of yen)		–	
Business or occupation		Advisor	
Percentage of voting rights held		3.1% (direct)	
Relationship		Consulting contract	
Transaction	Transaction amount	Consulting fee (Note 2)	¥24 million
Account	Balance at December 31, 2010	–	–

Note 1. The above transaction amounts do not include consumption taxes, while the balance at December 31, 2010 includes consumption taxes.
Note 2. Transaction conditions and policy on determining transaction conditions
The consulting fee for Masao Horiba is compensation for management consulting services to the Company, activities of society-academia collaboration for innovation, and participation in economic organizations. The payment was determined on a negotiated basis.

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

Category		Director's close family member	
Name		Masao Horiba	
Address		–	
Amount of capital stock (millions of yen)		–	
Business or occupation		Advisor	
Percentage of voting rights held		3.1% (direct)	
Relationship		Consulting contract	
Transaction	Transaction amount	Consulting fee (Note 2)	¥12 million
Account	Balance at December 31, 2010	–	–

Note 1. The above transaction amounts do not include consumption taxes, while the balance at December 31, 2010 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.

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

Related party transactions for the year ended December 31, 2011 comprise the following:

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

Category		Director's close family member	
Name		Masao Horiba	
Address		–	
Amount of capital stock (millions of yen)		–	
Business or occupation		Advisor	
Percentage of voting rights held		3.0% (direct)	
Relationship		Consulting contract	
Transaction	Transaction amount	Consulting fee (Note 2)	¥24 million ($308 thousand)
Account	Balance at December 31, 2011	–	–

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

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

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

Category		Director's close family member	
Name		Masao Horiba	
Address		–	
Amount of capital stock (millions of yen)		–	
Business or occupation		Advisor	
Percentage of voting rights held		3.0% (direct)	
Relationship		Consulting contract	
Transaction	Transaction amount	Consulting fee (Note 2)	¥12 million ($154 thousand)
Account	Balance at December 31, 2011	–	–

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

20. Subsequent events

(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 is the Company's wholly-owned consolidated subsidiary and is engaged in manufacturing and sales of in-vehicle driving management system 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 Comapny 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 is 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).

Independent Auditors' Report

To the Board of Directors of HORIBA, Ltd.:

We have audited the accompanying consolidated balance sheets of HORIBA, Ltd. and its consolidated subsidiaries as of December 31, 2011 and 2010, and the related consolidated statements of income, comprehensive income, changes in net assets and cash flows for the years then ended expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to independently express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of HORIBA, Ltd. and its consolidated subsidiaries as of December 31, 2011 and 2010, and the results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in Japan.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended December 31, 2011 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

Kyoto, Japan
March 26, 2012

Corporate Philosophy

HORIBA's company motto

"Joy and Fun"

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

Business Operations

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

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

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

Customer Responsiveness

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

Responsibility to Shareholders and Investors

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

Employees

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

Corporate Data

Corporate Information

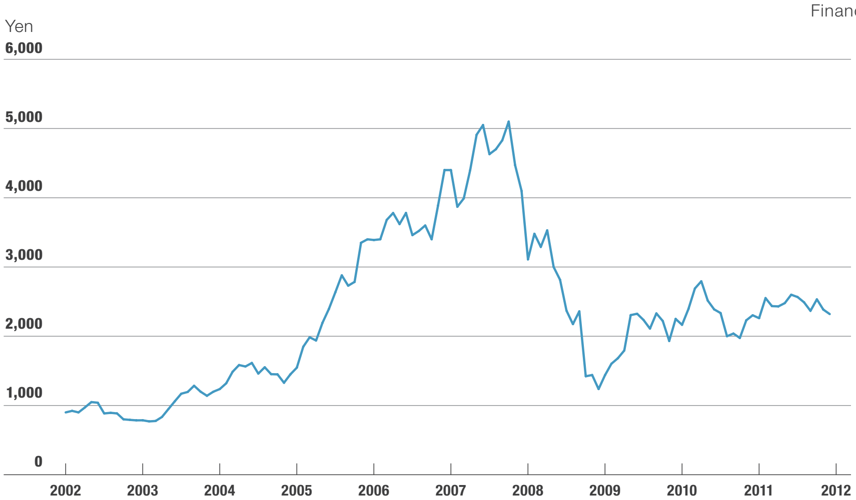
Head Office	2, Miyanohigashi-cho, Kisshoin, Minami-ku, Kyoto 601-8510, Japan	
Founded	October 17, 1945	
Incorporated	January 26, 1953	
Paid in Capital	12,011 million yen	As of December 31, 2011
Number of Employeees	5,448(Consolidated)	As of December 31, 2011
Fiscal Closing Date	December 31, annually	
Annual Meeting of Shareholders	Held in March	
Transfer Agent	Sumitomo Mitsui Trust Bank, Limited	
Independent Auditors	KPMG AZSA LLC	
Stock Listings	Tokyo Stock Exchange, First Section Osaka Securities Exchange, First Section Securities Code: 6856	

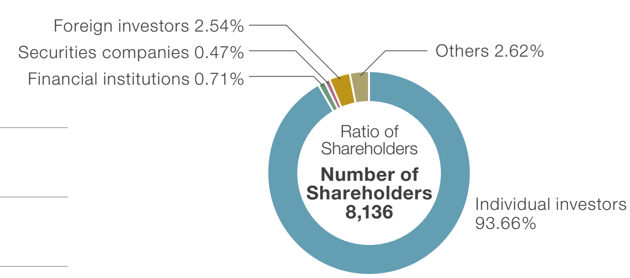
Major Shareholders

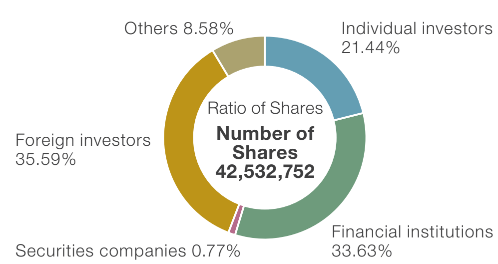
As of December 31, 2011

Name of Shareholders	**Shares** (Thousands)	**Percentage** (%)
Japan Trustee Service Bank, Ltd.	2,567	6.03
Taiyo Fund , L. P.	2,471	5.80
The Master Trust Bank of Japan, Ltd.	2,439	5.73
Masao Horiba	1,275	2.99
Japan Trustee Service Bank, Ltd. 9	969	2.27
THE CHASE MANHATTAN BANK, N. A. LONDON SECS LENDING OMNIBUS ACCOUNT	958	2.25
NORTHERN TRUST CO. (AVFC)SUB A/C AMERICAN CLIENTS	835	1.96
The Bank of Kyoto, Ltd.	828	1.94
Atsushi Horiba	808	1.90
HORIBA Raku-Raku Kai	773	1.81

Stock Price Trend







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HORIBA ANNUAL REPORT 2011

JOY and FUN

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

http://www.horiba.com