

HORIBA Report 2013

Omoshiro-okashiku
Joy and Fun

おもしろおかしく



Everything begins with measurement

HORIBA's "measuring" domains

Human health and safety

- ▶ Food safety
- ▶ Drinking water
- ▶ Medical tests
- ▶ Driving safety
- ▶ Environmental radiation measurement

R&D on new materials and new energy technologies

- ▶ Next-generation materials
- ▶ Next-generation displays
- ▶ Secondary battery
- ▶ Clean energy

Productivity improvement in manufacturing process

- ▶ Semiconductor devices
- ▶ Flat panel displays
- ▶ Solar cells
- ▶ Printed circuit boards
- ▶ Painting and coating
- ▶ Petrochemical plants



Analysis and measurement provides the base for all kinds of technologies.

By pursuing “measuring technologies”, HORIBA contributes to a pleasant and enjoyable society with consideration for the global environment, energy issues, human health, and public safety.

Quality management

- ▶ Electric appliances
- ▶ Cosmetics
- ▶ Foods
- ▶ Pharmaceuticals

R&D on next-generation vehicles

- ▶ Ultra-low emission
- ▶ Fuel efficiency
- ▶ Greenhouse gas
- ▶ Alternative fuels
- ▶ Engines, drive-lines and brakes
- ▶ Electric motors
- ▶ Eco-drive

Environmental preservation

- ▶ Air pollution monitoring
- ▶ Water quality monitoring for rivers, lakes, and oceans
- ▶ Plant emission regulations
- ▶ Water quality regulations
- ▶ Agricultural and daily use water
- ▶ Hazardous substances
- ▶ Chemical fertilizers



Under the corporate motto “Joy and Fun” HORIBA has achieved continuous growth based on its corporate philosophy.

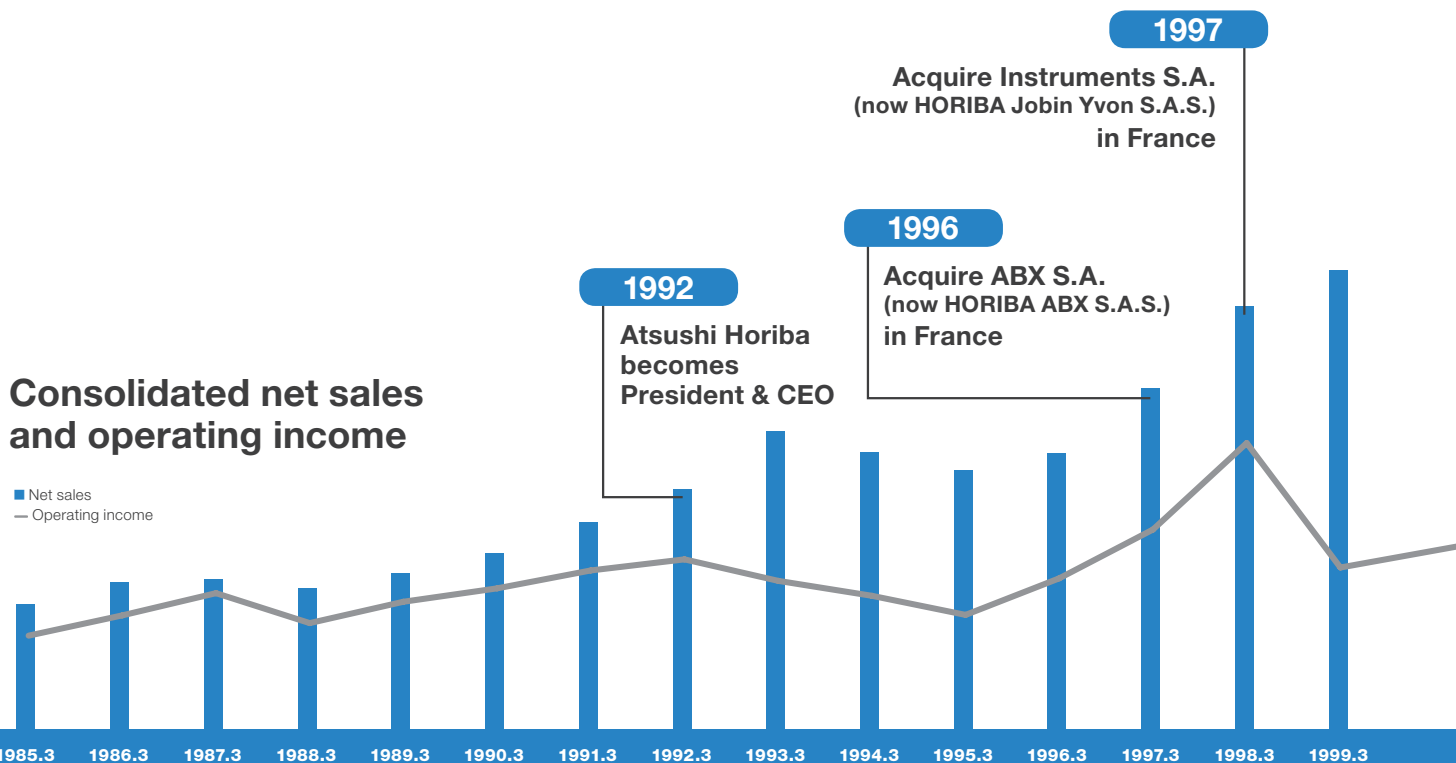
Omoshiro-okashiku
Joy and Fun



Corporate 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.”



Corporate philosophy

Business operations

We, at HORIBA, believe that our mission is to apply our most advanced analytical technologies to provide highly original analytical and measuring products and equipment, thereby contributing to the progress of science and technology and the preservation of global environment.

Customer responsiveness

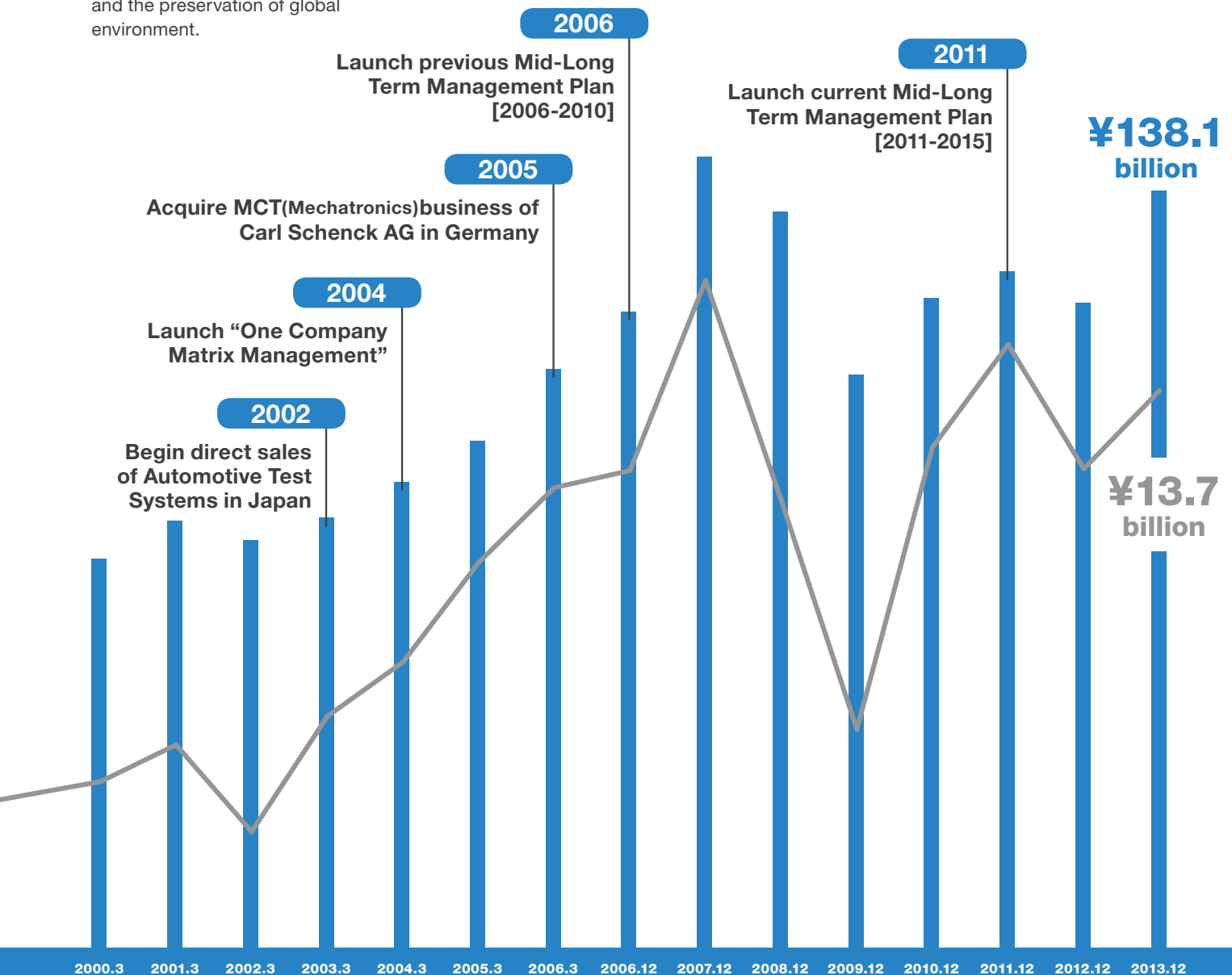
We maintain a philosophy of pursuing technology to the ultimate degree in both the fundamental and applied technology fields, supplying products that continuously satisfy customers' requirements.

Responsibility to shareholders and investors

We have the basic policy of paying a certain amount of net income of each fiscal year to shareholders as cash dividends.

Employees

We are proud of the entrepreneurial spirit that led to the creation of HORIBA.



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Editorial policy

From this fiscal year, the contents of our annual report and our Gaiareport (CSR report) are combined in this integrated “HORIBA Report” and our website titled “To our stakeholders,” which presents HORIBA’s various activities. This is based on our Omoi (meaning an emotional feeling, passion, commitment, mission and objective) to help you better understand the values of HORIBA by being exposed to our corporate culture, which does not appear in our financial statements.

Annual report



Booklet

“Gaiareport” (CSR report)



Booklet

Website

HORIBA Report



Booklet

“To our stakeholders”



Website

Notation of HORIBA and HORIBA, Ltd.

In this HORIBA Report, the HORIBA Group of companies is described as “HORIBA” and the parent company as “HORIBA, Ltd.”

Disclaimer Regarding Future Plans and Forecasts

This HORIBA Report contains certain statements describing future plans, strategies, and performance forecasts of HORIBA, Ltd. and its affiliated companies. These statements reflect forecasts based on management’s assumptions and beliefs based on the available information as of February 13, 2014 when business results were announced. Actual performance may differ due to unforeseen circumstances in the operating environment.

Change of Fiscal Year-End

HORIBA unified its fiscal year-end as December 31, effective from fiscal 2006. As a result of this change, the following irregular fiscal periods were recorded: Fiscal 2006 for HORIBA, Ltd. and HORIBA Advanced Techno Co., Ltd. comprised the 9 months and 11 days from March 21, 2006 to December 31, 2006; and fiscal 2006 for HORIBA STEC, Co., Ltd. comprised the 9 months from April 1, 2006 to December 31, 2006. The fiscal year-end of other consolidated HORIBA subsidiaries was December 31. Their 2006 fiscal periods remained unchanged at 12 months. Please note that when comparing results by fiscal year. Prior to the fiscal year-end change, the fiscal year ended March 21, 2006 was described as fiscal 2005, the fiscal year ended March 21, 2005 as fiscal 2004, and the fiscal year ended March 21, 2004 as fiscal 2003.

<http://www.horiba.com/horibareport/data/>



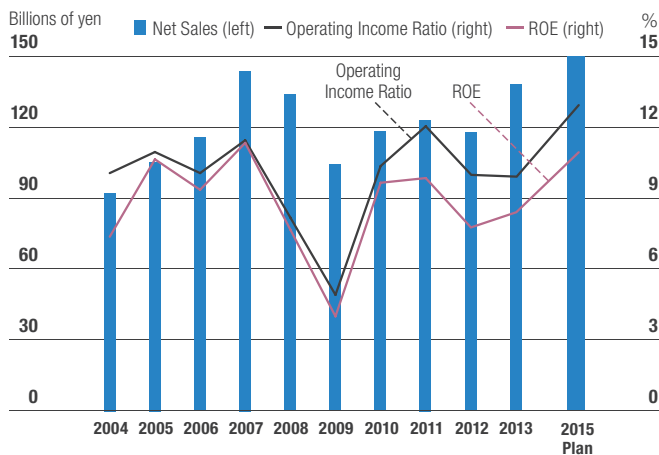


We are committed to raising corporate value over a long-term

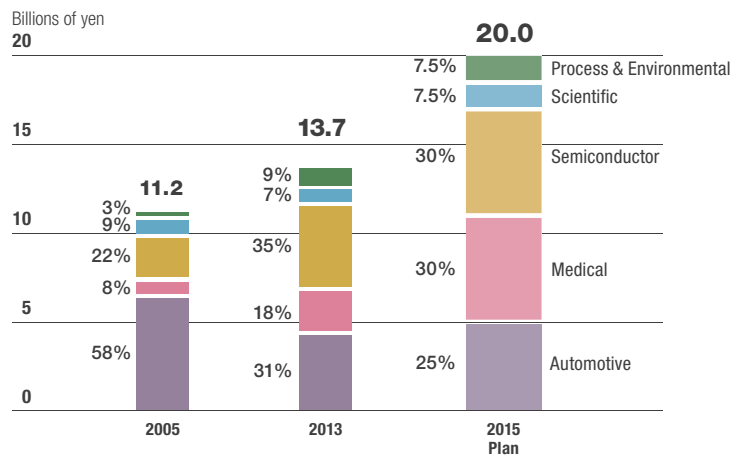
As a CEO, one of my important roles is to continually enhance HORIBA's corporate value. In Kyoto, where our head office is located, there are many long-standing companies with a history of 100 years or more. From these pioneers, I am learning day by day that it is important to disseminate management philosophy, invest in human resources and technologies to be invulnerable to economic downturns, continuously create innovation inspired by "venture spirit," have a spirit of challenge without being satisfied with the status quo, win the trust of customers and enhance long-term value to run the business in harmony with society. In 2013, we celebrated the 60th anniversary of our foundation. I see this as one way point, and we will strive to further enhance our corporate value.

Chairman, President & CEO

Aiming to achieve sustainable growth and high profitability



Planning to realize well-balanced growth in operating income



Mid-Long Term Management Plan [2011-2015]

Numerical targets

Net sales	Operating Income Ratio	ROE*
¥150 billion	13% or more	11% or more
Fiscal 2013 - ¥138.1 billion	Fiscal 2013 - 9.9%	Fiscal 2013 - 8.4%

Concentrated investment in highly profitable business

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

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

Business expansion and profitability improvement through restructuring of MCT business
Market share expansion based on proposing solutions from the customer viewpoint
→ Application deployment by using HORIBA's Total Solution(Automotive Test Systems segment)
→ Expand services through acquisition of the process analytical equipment business in North America (Process & Environmental Instruments & Systems segment)

Complete "One Company Matrix Management"

Completion of One Company in the Americas through reorganization; implementation in Europe and Asia

Accelerate global product development and production

Accelerate opening of reagent plants in the Medical- Diagnostic Instruments & Systems segment
→ Establish stable global supply system
Develop a sales support organization in Southeast Asia
Accelerate global implementation of ERP (Enterprise Resource Planning) systems

*Return on equity

Both sales and profits increased in fiscal 2013

In fiscal 2013, ended December 31, 2013, HORIBA posted consolidated net sales of ¥138.1 billion (up 17.5% year-on-year), operating income of ¥13.7 billion (up 16.9%) and net income of ¥8.9 billion (up 21.7%). Both revenue and profit increased in response to the depreciation of the Japanese yen and a recovery in semiconductor market conditions, with net profit reached an all-time high. All business segments reported increased revenue, but profit declined, except in the Semiconductor Instruments & Systems segment, where market conditions recovered. This means to me that we are facing many challenges.

The Semiconductor Instruments & Systems segment recorded a large increase in revenue and profit. This is partly attributable to the upturn in investment in the semiconductor industry from spring 2013 but also to the fact that HORIBA's global market share for its mainstay mass flow controllers increased to 48%* from 43% of fiscal 2012. This was achieved because HORIBA maintained proactive investment while competitors reduced their investment due to the economic downturn.

Although the Automotive Test Systems segment posted an increase in sales, profit declined albeit slightly. The recovery of R&D investment at automakers around the world helped drive the sales increase in the EMS (Emission Measurement Systems) business and the MCT (Mechatronics) business. We introduced new products in EMS, where we have an 80%* global market share, and improved profitability in the MCT business. However, owing to increased product development investment in the ITS (Intelligent Transport Systems) business, the profitability of the overall Automotive Test Systems segment declined.

In the Medical-Diagnostic, Process & Environmental and Scientific Instruments & Systems segments, sales increased with the depreciation of the Japanese yen but demand was stagnant and profit decreased mainly because of the uncertain political situation and economic downturn in Europe as well as a reduction in government budgets in various countries.

(* HORIBA's estimates)

We expect to achieve the sales target of the Mid-Long Term Management Plan [2011-2015] a year ahead of plan, but improving profitability is an issue

In regard to the Mid-Long Term Management Plan [2011-2015], we expect to achieve the sales target of ¥150 billion in fiscal 2014, one year ahead of plan. Operating income has also approached a record-high level, but the hurdle to achieving the target of ¥20 billion in fiscal 2015 is still somewhat high. HORIBA's overall operating income ratio in fiscal 2013 was 9.9%, almost the same level as in the previous year, but as it fell short of the Mid-Long Term Management Plan [2011-2015] target of 13%, I believe that improving profitability is a challenge we must tackle. Holding back investment and diverting it to profit to achieve quantitative targets is an option but we intend to maintain investment in order to continuously enhance our growth potential.

In the Medical-Diagnostic Instruments & Systems segment, where high growth and high earnings are expected, we have

been promoting a strategy of "concentrated investment" with which we increased investment in reagent manufacturing bases in the so-called BRICs (Brazil, Russia, India, and China) region where demand is expanding. We strengthened the management structure of Medical-Diagnostic Instruments & Systems segment in France, which is an important core base for HORIBA's product development, and North America, which has high growth potential, to rapidly bring products to the market and speed up decision-making processes. We are also enhancing cooperation between Japan and France in product development, and planning to launch new products that combine the strength of France's fundamental technologies and Japan's production technologies. However, it will take some time for these initiatives to bear fruit.

In the Automotive Test Systems segment, we broadened the line-up of MEXA-ONE, HORIBA's first new motor exhaust gas analyzer in 17 years, that was announced in 2012, and accelerated sales activities to capture demand in the automobile industry, which is in a recovery phase. The segment achieved its sales target of the Mid-Long Term Management Plan [2011-2015] in fiscal 2013, two years in advance, and we also expect operating income to attain its target in fiscal 2014, one year ahead of the plan.

In the Semiconductor Instruments & Systems segment, new products that we launched from 2012 to 2013 won high acclaim, which led to higher sales in Asia, where demand is growing, and the expansion of global market share. We aim to boost earnings by maintaining new product development even during downturns in demand and establishing and running an organization that can adequately meet customers' requirements for analytical precision and delivery.

In the Process & Environmental Instruments & Systems segment, sales in the oil refining process measurement equipment business that HORIBA acquired in March 2013 were robust. We expanded the business targeting the petroleum and chemicals industries in the U.S. state of Texas, where demand for shale gas and oil is growing significantly. In the Scientific Instruments & Systems segment, HORIBA acquired a fluorescence spectroscopy business from Photon Technology International, Inc., based in the U.S., and its global affiliates in February 2014. By generating synergies with HORIBA's technologies, we aim to increase sales in the field of regenerative medicine, where iPS cell research is a representative example, and the field of drug discovery.

In addition to such initiatives to improve earnings within the Mid-Long Term Management Plan [2011-2015], we commenced construction of "HORIBA BIWAKO E-HARBOR" to further strengthen our earnings structure for the next Mid-Long Term Management Plan. We will speed up new product launches and enhance production efficiency by transferring the gas measurement businesses of the Automotive Test Systems and Process & Environmental Instruments & Systems segments there in order to organically combine development, design and production. At the same time, we aim to make HORIBA BIWAKO E-HARBOR to be a new base of "craftsmanship" unique to Japan that utilizes our expertise and accumulated know-hows, where further innovation of core technologies is promoted while handing down technologies to the next generation (see page 32 for more details).

Continuing to invest in human resources and technologies

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. A major target of “what we will change” that we are currently tackling is management balance. By diversifying businesses, regions and transaction currencies, we are becoming an organization that can maintain the level of investment for the future even if one or two of our businesses or regions enter a downturn. The recent increase in the global market share of the Semiconductor Instruments & Systems segment, where market conditions fluctuate dramatically, is a good example of this.

On the other hand, an example of “what we will never change” is our continued investment in “Invisible Values” (assets not visible in the financial statements) such as human resources and technologies. Such continued investment will become the driving force in expanding global market share when demand recovers, and this has been proven by results many times in our history. We have adopted various creative measures to enable us to secure human resources with abundant diversity, such as the introduction of recruitment of new graduates in autumn and the continual recruitment of students from overseas, as well as building up the number of available courses at the HORIBA COLLEGE, which provides educational opportunities to our employees. Moreover, in 2014, we initiated a corporate project aimed at further enhancing diversity. It is called the “HORIBA Stained Glass Project” and it develops a working environment where everyone in diverse human resources can shine at their best.

Aiming to be a truly global company with a unique corporate culture

The companies that HORIBA has acquired are all globally respected companies that boast excellent technologies, human resources and histories. I am convinced that these companies have grown together with HORIBA firstly because the people that have become our new associates deeply understand our unique corporate culture symbolized by the company motto “Joy and Fun,” which enables us to share Omoi (meaning an emotional feeling, passion, commitment, mission and objective) and secondary because HORIBA has consistently practiced management that values this principle. In 2004, we announced the concept of “HORIBA Group is One Company.” and promoted changes in policies and systems such as the unification of the company name and brand, the invigoration of personnel exchanges among group companies, and the introduction of “Segment and Matrix Management.” At the same time, to enhance communication between executive and employees, we hold and host birthday parties every month in various places in Japan. Furthermore, we actively create opportunities for face to face communication on a global basis. This corporate culture fosters the “Invisible Values” of human resources and



Changes in the management structure

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., Japan and the U.K.
- Enhanced head office function
- Expanded the Blackjack Project** globally
- Initiated the HORIBA COLLEGE



- 01 **Dr. Koza Ishida**
Executive Vice Chairman
- 02 **Atsushi Horiba**
Chairman, President & CEO
- 03 **Juichi Saito**
Executive Vice President and General
Manager of Corporate & Segment
Strategy Division
- 04 **Sunao Kikkawa**
Senior Corporate Officer, General
Manager of Finance & Control Division
- 05 **Dr. Masayuki Adachi**
Director and General Manager of
Research & Development Division
President of HORIBA Jobin Yvon S.A.S.
- 06 **Dr. Jai Hakhu**
Executive Corporate Officer,
Chairman, President & CEO of
HORIBA International Corporation
- 07 **Takashi Nagano**
Senior Corporate Officer,
General Manager of Sales Division
President of HORIBA KOREA LTD.

Measures to take from now on

- Expand “Shared services” in Europe and Asia
- Implement ERP (Enterprise Resource Planning) systems in all group companies, making it complete (Implemented in Europe in 2014)

* “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.

** See the activities in detail on page 30.

technologies, and we ultimately provide these “Invisible Values” to customers in the form of real “products and services” that have enabled the creation of our current corporate value. We are indeed proud that all the business activities we conduct are contributing to the realization of a comfortable and sustainable society, and this is also the basic concept of our Corporate Social Responsibility. HORIBA is not just another Japanese company that conducts business around the world. Rather, our objective is to be a truly global company with an understanding of the diverse culture, customs, and values of the countries and regions where we conduct business in harmony with the local community and employees. We have also signed the United Nations Global Compact, a set of universally accepted principles in the areas of human rights, labor, environment and anti-corruption that the United Nations advocates, and we are monitoring our activities from the perspective of global standards.

Based on these initiatives and sustainable profit growth, I firmly believe we will consequently receive a fair market valuation from investors around the world as a true global company.

We forecast a dividend increase in fiscal 2014

In fiscal 2013, we achieved record-high consolidated net income of ¥8.9 billion. To reward our owners (shareholders)*, we paid a record-high annual dividend per share of ¥60 in fiscal 2013, as we revised our dividend policy that had been based on non-consolidated net income since HORIBA’s public listing to the one based on consolidated net income. (In fiscal 2012, we paid an annual dividend of ¥50, including a commemorative dividend of ¥10.) For fiscal 2014, we are currently forecasting an annual dividend per share of ¥64, based on forecast consolidated net income of ¥9 billion. HORIBA will continue to contribute to society by pursuing analytical and measurement technologies and helping to overcome various issues associated with energy and the environment. We will also continue to supply a wide variety of products in order to provide a healthy life and “assurance” to all people. Furthermore, when our operating environment is favorable, we will not be complacent, and when it is uncertain, we will pursue management strategies which turn risk into opportunity by correctly ascertaining the situation and acting boldly. I sincerely hope that all our stakeholders understand and agree with our management policy and will continue to support us for many years to come.

(* HORIBA fully recognizes the importance of its shareholders and frequently calls them owners.)

April 2014
Chairman, President & CEO **Atsushi Horiba**

Accelerate efforts toward achieving goals of the Mid-Long Term Management Plan [2011-2015]

During fiscal 2013, the third year of the Mid-Long Term Management Plan [2011-2015], HORIBA made significant investments in establishing business bases, mainly in reagent plants for the Medical-Diagnostic Instruments & Systems segment, the segment we focus. In terms of progress in achieving profit target, however, we still face challenges and need to speed up toward our goals.

Numerical targets for fiscal 2015 (announced in February 2011)

Net sales ¥150.0 billion
Fiscal 2013: ¥138.1 billion

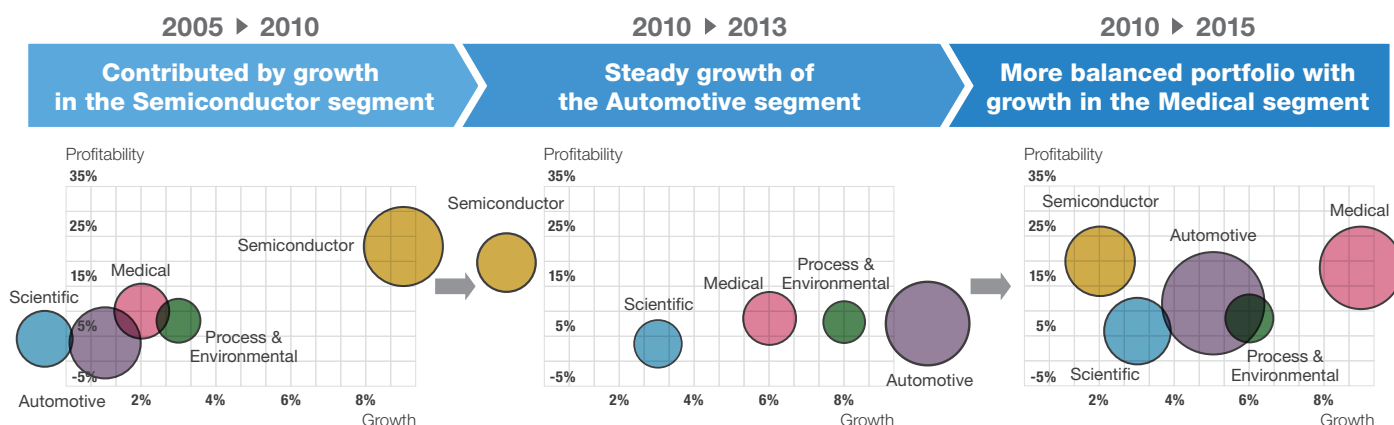
Operating income ratio 13% or more
Fiscal 2013: 9.9%

ROE* 11% or more
Fiscal 2013: 8.4%

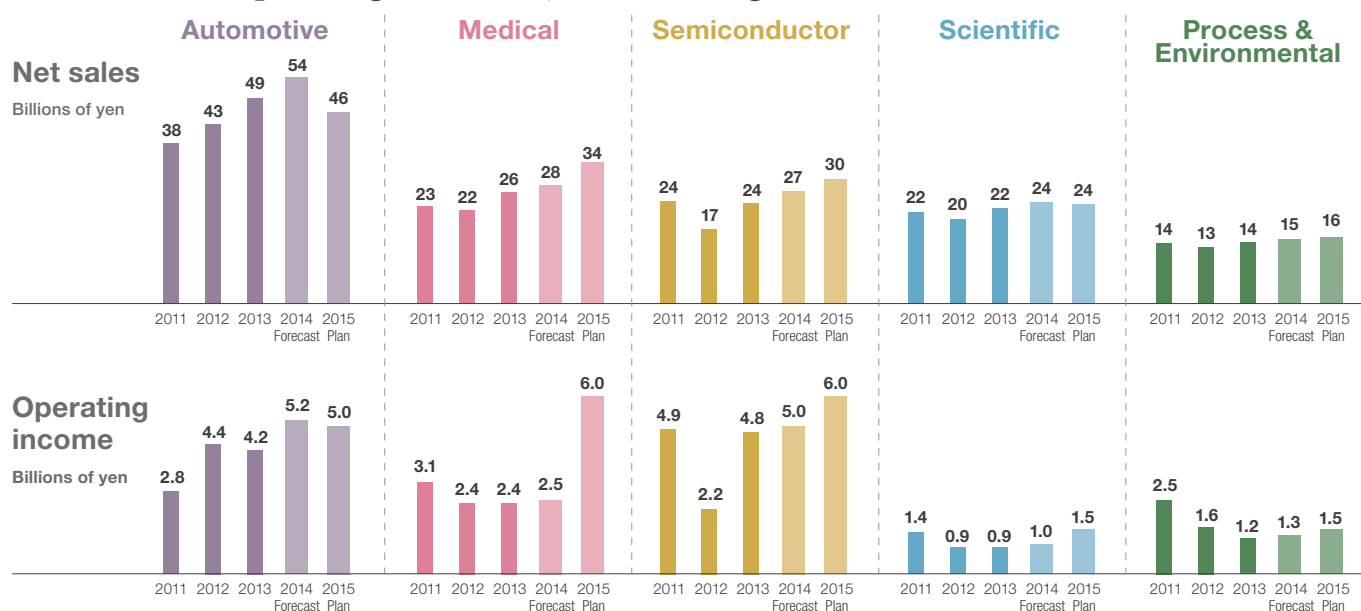
Assumed exchange rates:
¥80/U.S. dollar
¥110/Euro
* Return on equity

Business portfolios aimed by the Mid-Long Term 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 in the final year



Net sales and operating income by business segment



Key measures initiated or achieved in fiscal 2013

In fiscal 2013, to drive growth in the Medical-Diagnostic Instruments & Systems segment we are focusing on, we opened a new reagent plant in India and began expanding a reagent plant in Brazil.

In addition, we acquired U.S. company Cameron's process measurement equipment business line for the Process & Environmental Instruments & Systems segment.

In Japan, we acquired electron beam technologies of Topcon Corporation for the Scientific Instruments & Systems segment and opened HORIBA STEC Kyoto Fukuchiyama Technology Center for the Semiconductor Instruments & Systems segment.

Major investments and key measures, including plans, of the Mid-Long Term Management Plan [2011-2015] are as follows:

	From 2011 to 2013		From 2014 onward	
	Japan	Overseas	Japan	Overseas
Automotive	Merged HORIBA ITECH Co., Ltd. (ITS business)	Opened HORIBA Shanghai Technical Center (EMS and MCT business) in China Opened a plant in Czech Republic (MCT business) Opened a representative office in Turkey	To open HORIBA BIWAKO E-HARBOR	
Process & Environmental		Acquired U.S. company Cameron's process measurement equipment business Opened a representative office in Vietnam		
Medical	Expanded production capacity at the Aso plant	Opened a reagent plant in China Opened a representative office in Indonesia Opened a reagent plant in India Expanded a reagent plant in Brazil		To open HORIBA ABX Development Center (France)
Semiconductor	Opened HORIBA STEC Kyoto Fukuchiyama Technology Center	Incorporated the branch in Taiwan as HORIBA Taiwan, Inc. Established Beijing HORIBA METRON Instruments Co., Ltd. (joint venture) in China.	To open HORIBA Advanced Technology Center	
Scientific	Acquired electron beam technologies of Topcon Corp.	Opened HORIBA Europe Research Center in France.		Acquired fluorescence spectroscopy business of Photon Technology International Inc.

Progress in reform of the Medical-Diagnostic Instruments & Systems segment

During the five years of the Mid-Long Term Management Plan [2011-2015] we plan to improve the profitability of the segment by promoting reagent production expansion worldwide and sales growth in North America and Asia.

Initiatives progressing as planned

- Expand sales of small-sized hematology analyzers in Asia (equipment export from Japan, local production)
- Establish reagent production bases worldwide

Initiatives that need speeding up

- Introduce medium-sized and large-sized hematology analyzers to the Americas and Europe
- Accelerate growth in Asia

Measures for improvement

- Reform management of HORIBA ABX S.A.S. in France, an R&D base for medium-sized and large-sized hematology analyzers
- Enhance R&D base in France
- Strengthen development collaboration between Japan and France

HORIBA is achieving sustainable growth and higher ROE by seeking earnings growth and rewards to shareholders in a balanced manner.

Basic capital policy

Implementing shareholder return linked to earnings growth

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

*Target total returns to shareholders at 30% of consolidated net income, by combining the amount of dividend payments and share buybacks.

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

Achieving a high ROE based on earnings growth

Target of the Mid-Long Term Management Plan [2011-2015]: 11% or more

Implement a shareholder return policy linked to earnings growth

HORIBA frequently calls shareholders owners and puts emphasis on exceeding their expectations. In 1974, when a majority of companies paid fixed dividends, we were the first listed Japanese company to start paying shareholder dividends based on a payout ratio and have continued this practice without interruption for 39 years. (See Corporate Philosophy on page 78.)

Starting in 2013, we changed to a dividend policy targeting total returns to shareholders (the combined amount of dividend payments and share buybacks) at 30% of consolidated net income, instead of targeting 30% of nonconsolidated net income, in order to link shareholder return directly to consolidated operating results.

Financial policies

HORIBA maintains an appropriate level of liquidity in hand to ensure efficient funding in response to capital requirements. This is an important guideline for HORIBA's financing activities. We define liquidity in hand to be a sum of cash and cash equivalents and the open amount of the commitment lines that have been negotiated with financial institutions. At the end of fiscal 2013, liquidity in hand amounted to ¥54.2 billion, which was ¥49.2 billion in cash and cash equivalents and a ¥5.0 billion open balance of commitment lines with banks. We consider this cash on hand and commitment lines as reserves for future capital expenditures, M&A activities, and other expenditures to be incurred in the future.



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

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

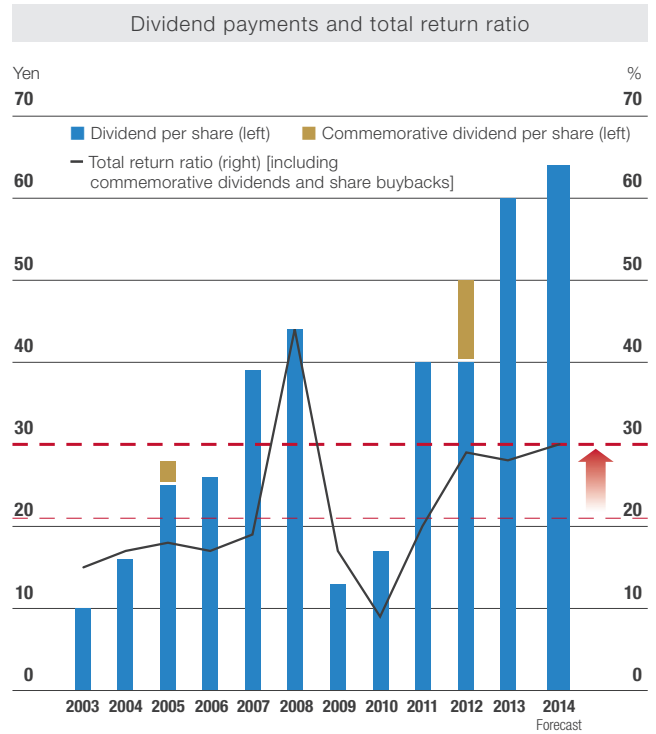
Dividend Payments and Total Return Ratio

Due to profit deterioration caused by the economic downturn after the Lehman Brothers Shock in 2008, our dividend per share was at a lower level in fiscal 2009 and 2010. However, thanks to earnings recovery in each business segment, we made a significant increase in dividend value per share in fiscal 2011 and effectively raise it again in fiscal 2012 including a commemorative dividend of ¥10 per share to celebrate the 60th anniversary of HORIBA, Ltd.

Since fiscal 2013, we have changed the dividend policy to one based on consolidated net income and paid a record-high dividend per share of ¥60. In fiscal 2014, we are projecting another record-high dividend per share of ¥64, based on our net income forecast of ¥9.0 billion as of February 13, 2014.

We intend to continually increase reward to owners (shareholders) by growing earnings per share (EPS) and achieving higher ROE on a medium-term basis.

Based on consolidated net income, the total return ratio in the past 10 years, from fiscal 2003 to fiscal 2012, can be calculated to 20.8%. We believe the change of our dividend policy increases return to owners (shareholders).

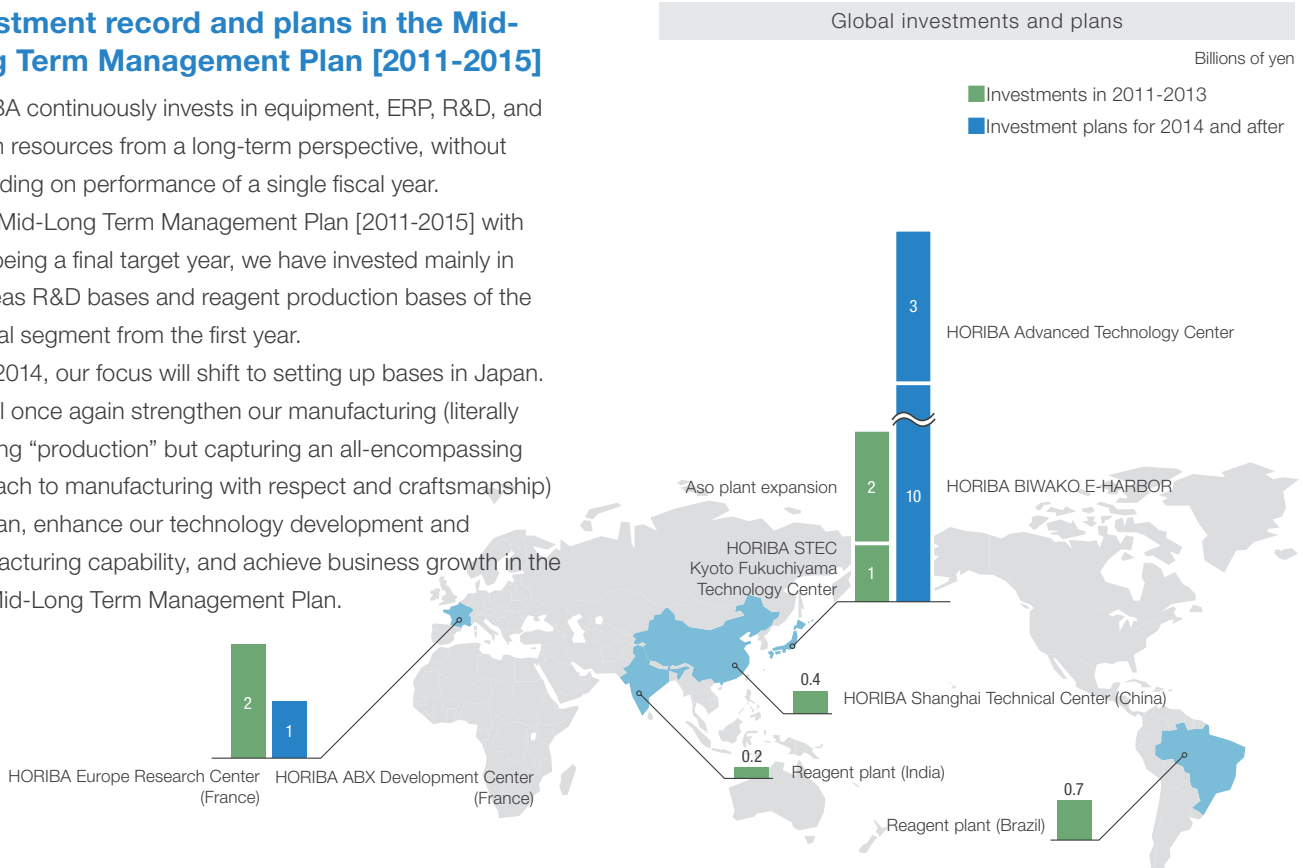


Investment record and plans in the Mid-Long Term Management Plan [2011-2015]

HORIBA continuously invests in equipment, ERP, R&D, and human resources from a long-term perspective, without depending on performance of a single fiscal year.

In the Mid-Long Term Management Plan [2011-2015] with 2015 being a final target year, we have invested mainly in overseas R&D bases and reagent production bases of the Medical segment from the first year.

From 2014, our focus will shift to setting up bases in Japan. We will once again strengthen our manufacturing (literally meaning “production” but capturing an all-encompassing approach to manufacturing with respect and craftsmanship) in Japan, enhance our technology development and manufacturing capability, and achieve business growth in the next Mid-Long Term Management Plan.



Business overview by region

Sales by region

Japan

- Steady growth and high market shares for products that are related to R&D applications and environmental regulations.
- Plan to open a development and production base for the Automotive Test Systems and Process & Environmental Instruments & Systems businesses in Shiga Prefecture.

35%

Yen

Asia

- Expect high growth in China, India, and Southeast Asian countries.
- Use know-how accumulated in Automotive Test Systems, Medical-Diagnostic and Process & Environmental Instruments & Systems segment businesses in developed markets for expansion.

23%

U.S. dollars

Americas

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

18%

Europe

- Sales increased thanks to the effects of the corporate acquisition and the business acquisition.
- The new R&D Center in Paris, France opened as a core product development facility in Europe.
- A development facility is scheduled to open in Montpellier, France with the aim of launching next-generation medical products.

24%

Euro

36%

Automotive Test Systems



Strong support for automotive development

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

Risk factor	The global automotive industry's shifting R&D investments
Principal products	Emission measurement systems, automotive emission analyzers, onboard emission measurement systems, driveline test systems, engine test systems, break test systems, drive recorders
Major customers	Automobile manufacturers, automotive component manufacturers, multipurpose motor manufacturers, government regulatory agencies, oil companies, automotive maintenance and repair centers
Product applications	Development of new gasoline, diesel and hybrid powertrains, vehicle certification and quality control, in-use vehicle inspections

Medical-Diagnostic Instruments & Systems



Proactive product development in a large stable-growth market

HORIBA medical products are primarily blood testing instruments and reagents for the in-vitro diagnostics market, with over Y2 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 POCT*. We are endeavoring to boost instrument sales which will lead to expanded sales of testing reagents.

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

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

19%

Semiconductor Instruments & Systems



Contributing to improve yield in semiconductor manufacturing processes

HORIBA's main products are mass flow controllers; devices that control gas and liquid flows in the semiconductor, solar cell, and LED (light-emitted diode) manufacturing process. Semiconductor products also include many other types of monitoring equipment for semiconductor production. HORIBA provides customers with high-level solutions that support technical advances in processing, miniaturization, and yield enhancement.

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

17%

Scientific Instruments & Systems



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

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

Risk factor	Investment trend of national government agencies and other institutions Demand fluctuation following changes in environmental regulations
Principal products	pH meters, Particle-size distribution analyzers, X-ray fluorescence analyzers, Raman spectrometers, spectrometers, gratings
Major customers	Manufacturers, research institutions, universities, government agencies, electric power companies
Product applications	R&D, product quality testing, criminal forensics

17%

Process & Environmental Instruments & Systems



Providing analytical and measurement instruments for compliance with environmental regulations

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

Risk factor	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 gaseous emissions, wastewater and water supplies, environmental pollution monitoring, environmental radiation measurement equipment

11%



Automotive Test Systems

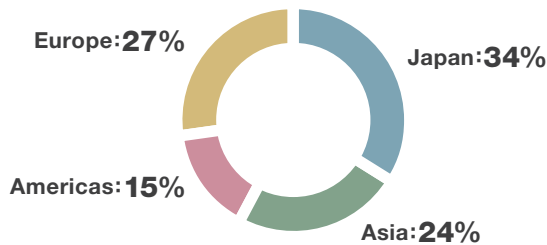
Sales breakdown

Sales breakdown by business divisions

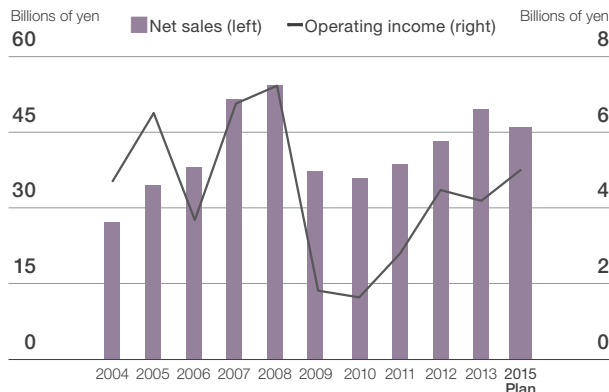
36%

Emissions business	67%
MCT business	30%
ITS business	3%

Sales breakdown by region



Net sales and operating income



MEXA has No. 1 global market share in emission measurement systems

Since introducing the first MEXA in 1964, HORIBA has been a pioneer in emission measurement systems. We have provided the global market with the latest technologies required for automotive development, meeting ever changing requirements. HORIBA's emission measurement systems command the top position in the industry with an 80%* worldwide market share and have been adopted as the primary standard by national certification bodies in many countries and by major global automotive manufacturers and their component suppliers. (*HORIBA's estimate)

We have delivered over 9,000 MEXA units to our customers. Anticipating a recovery in investment in the market, we plan to expand the sales of MEXA-ONE, which was introduced in 2012. We are committed to continuing support for automotive development by responding to increasing demand for the measurement of the emission characteristics of alternative fuels such as biofuel, and the measurement of emissions in more diverse applications such as construction machinery, ships, locomotives, and general purpose utility engines.

Fiscal 2014 Providing test and measurement systems for development of fuel-efficient vehicles

HORIBA increased sales in fiscal 2013, thanks to an increase in R&D investment by automotive manufacturers globally and the weakening of the yen. However, operating income was slightly lower than the previous year's level due to our increased investment in the development on the Intelligent Transport System (ITS) business.

In fiscal 2014, we are expecting automakers to continue their investment as competition within the industry intensifies. We will focus on improving the profitability of MEXA-ONE and expanding sales in the MCT business, providing efficient test and measurement systems for the development of new fuel-efficient vehicles.

Proposing HORIBA's total solutions for a wide range of applications

HORIBA offers a broad range of test and measurement systems for automotive development, including systems for vehicles, engines, powertrains, drivelines and brakes, as well as its mainstay MEXA-series emission measurement systems. This portfolio range enables us to respond to the diverse analysis and measurement needs of our customers. In addition to providing test and measurement equipment, HORIBA can also provide comprehensive support for test cell layout, design, and construction oversight of automobile R&D facilities. Through our unique business model, extensive product lineup, and project management know-how, we are aiming to grow sales and enhance profitability.

New Intelligent Transport System (ITS) business model

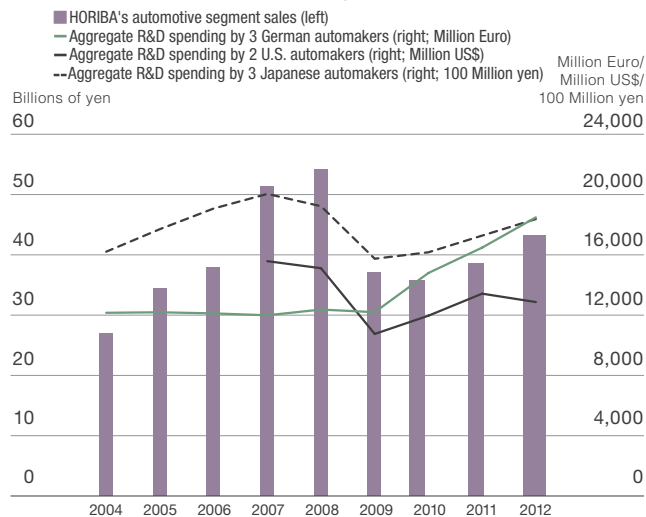
HORIBA started "HORIBA FLEET LINKAGE" services in November 2013. These services support safe driving and efficient fleet management. Cloud-stored data from HORIBA drive recorders and transport management systems (digital tachographs, etc.), is retrieved and analyzed to help fleet companies reduce fuel costs and manage their workload more efficiently.

HORIBA'S automotive business

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

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

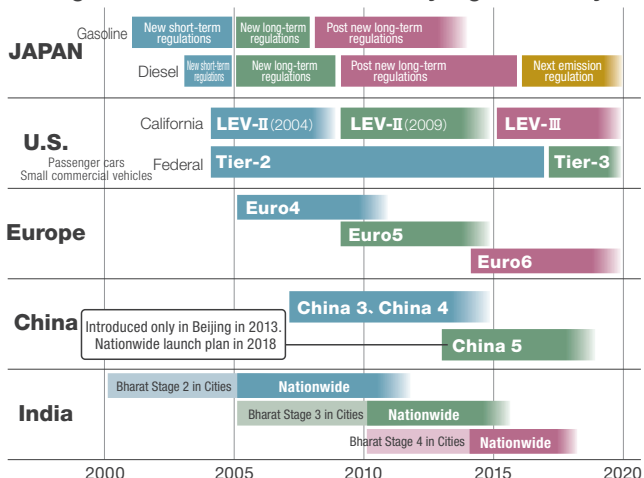
HORIBA's automotive segment sales and major automakers' R&D spending



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

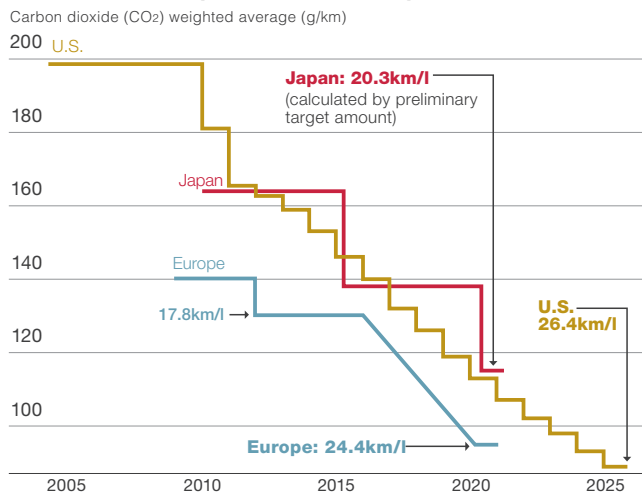
Trend of automobile-related regulations

1. Progression of emission standards by region/country



Sources: HORIBA's survey based on materials of the Ministry of Economy, Trade and Industry; Ministry of Land, Infrastructure, Transport and Tourism; Japan Automotive Manufacturers Association Inc.; and others

2. Automotive fuel efficiency (CO2 emission) standards of Japan, U.S., and Europe



Sources: HORIBA's survey based on materials of the Ministry of Economy, Trade and Industry, Japan Automotive Manufacturers Association Inc., and others

Major products and market shares

NOTE: Market shares quoted are estimates by HORIBA.

Emission measurement systems



These systems continuously and simultaneously measure a wide range of gaseous and particle components in emission gases over a broad range of concentrations. They are widely used in R&D and engine/vehicle certification in the automotive industry.



Driveline test systems



The driveline is an extremely important part of the overall powertrain that transmits energy from engines or motors to the vehicles' tires. HORIBA's driveline test systems will use the latest simulation technology for a wide range of powertrain and driveline testing applications. HORIBA's strength is demonstrated by providing flexible systems based on custom and open solutions.





Medical-Diagnostic Instruments & Systems

Sales breakdown

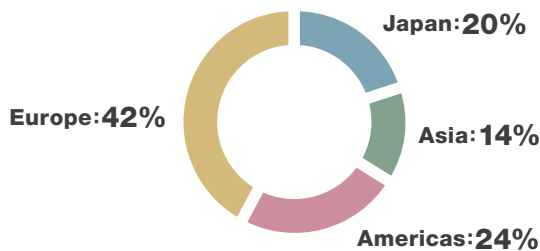
Sales breakdown by business divisions

19%

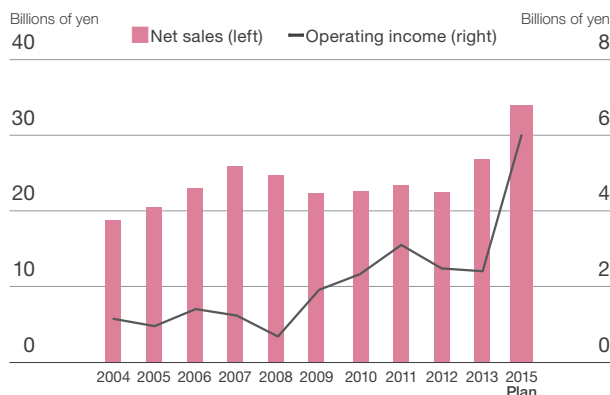
Testing reagents	53%
Medical diagnostic instruments	38%
Service and maintenance	9%

The ratio of reagents sales at HORIBA's Medical-Diagnostic Instruments & Systems segment has been stable at around 50-55%. Going forward, while an increase in sales in Asia may temporarily lower the sales ratio of testing reagents, we view positively such a temporary decline in the ratio which occurs in line with higher instruments sales growth.

Sales breakdown by region



Net sales and operating income



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 instruments such as hematology and chemistry analyzers to generate stable profits from growing reagent sales.

Our products are used in blood testing, biochemical and other clinical areas that are directly linked to assessing and diagnosing personal health. As such, the business is less sensitive to economic fluctuation, when compared to most other industries. Another characteristic of this segment is that currency risk has been diversified by having two bases for development and production, namely, Japan and France. Going forward, we aim to diversify risks and improve profitability by expanding exports of high-share distinctive and differentiated products from Japan.

Fiscal 2014 Reinforce product supply system for achieving sales growth in Asia

In fiscal 2013, Medical-Diagnostic Instruments & Systems segment sales increased year-on-year, partly due to the positive impact of the depreciation of the Japanese yen. However, lower export margins on products manufactured in France and advance investment in expansion of the sales network in North America caused a slight decrease in profits. Meanwhile, in order to address a surge in demand in Asia, we accelerated our efforts to expand sales of hematology and CRP analyzer, which has been a strategic product of Japan in the Chinese, Indian and other Asian markets, with the aim of a higher market share and improved profitability.

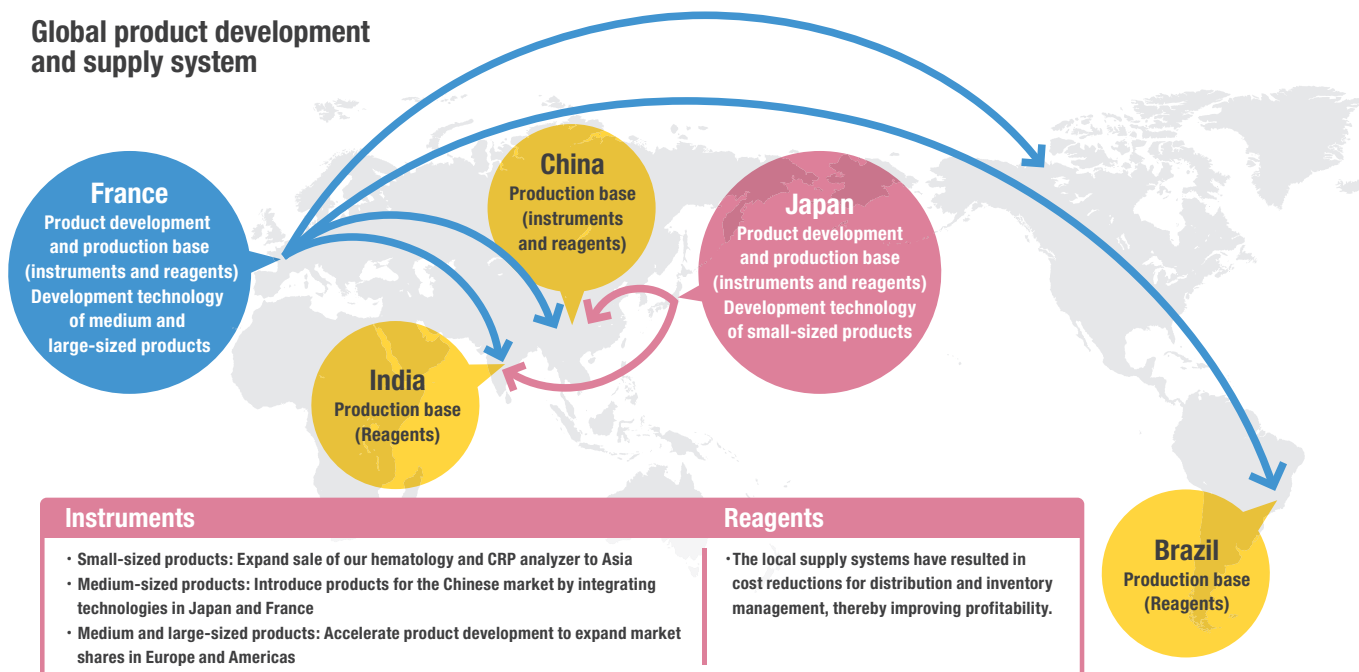
Our focus in fiscal 2014 is to strengthen the organization and speed up development of medium and large-sized products. In addition, we will strive to raise profitability when the expanded reagent plant in Brazil and a new reagent plant in India start full-scale operation.

Strengthen the organizational structure to develop next-generation products Aiming for stable supply of reagents

HORIBA ABX S.A.S. (France) will establish a new development base to accelerate the introduction of new products to expand the market share and address growing customer needs in Europe and Americas.

Regarding testing reagents, which are important profit sources in this segment, our strategy is to initiate local production of reagents in mass-consumption areas. The end result is to reduce costs of distribution and inventory management, to respond promptly to customer needs, and to improve profitability. We have been making steady progress accordingly. Reagent plants in Aso, Kumamoto Prefecture, and in China began operation in 2012 while a plant in India began operation and capacity expanded in Brazil in 2013.

Global product development and supply system



Instruments

- Small-sized products: Expand sale of our hematology and CRP analyzer to Asia
- Medium-sized products: Introduce products for the Chinese market by integrating technologies in Japan and France
- Medium and large-sized products: Accelerate product development to expand market shares in Europe and Americas

Reagents

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

Joint initiatives to develop products for China, in Japan and France

We have been developing medium and large-sized products in France and small systems in Japan. In the case of "Pentra MS CRP", a new medium-sized hematology and CRP analyzer, with the aim of selling in the Chinese market, we have succeeded in our development by merging the technologies of our bases in Japan and France. Triggered by the sharing of technological know-how through the development of the new product, our intention is to speed up new product development both in Japan and in France.



Pentra MS CRP

Business development by test category

Test category	Clinical chemistry	Hematology	Immunology	Coagulation
Market size	¥1 trillion	¥0.2 trillion	¥1 trillion	¥0.1 trillion
Hospitals	Large hospitals Testing centers	Hematology analyzer systems	Field in which HORIBA exhibits strength	
	Small and medium-sized hospitals	Clinical chemistry analyzers	Small and medium-sized hematology analyzers	CRP analysis
Private practitioners	Blood glucose measurement systems	Coagulation reagents		
Hospital units and surgery rooms (POCT*)				

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

Major products and market shares

NOTE: Market shares quoted are estimates by HORIBA.

Hematology analyzers

8% 80%



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

Hematology and CRP analyzers

100% 10%

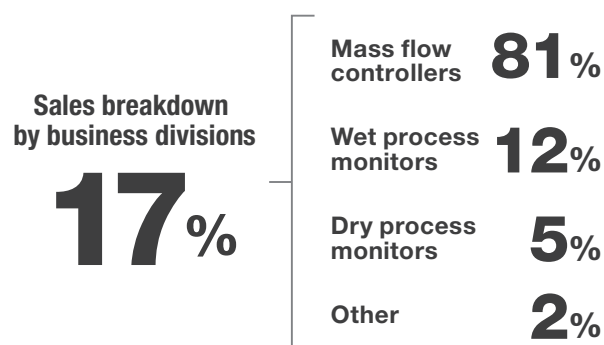


This is the first analyzer in the world to simultaneously measure blood cell counts and C-Reactive Protein (CRP), which the body produces in response to internal inflammation, thus facilitating faster and more accurate diagnosis.

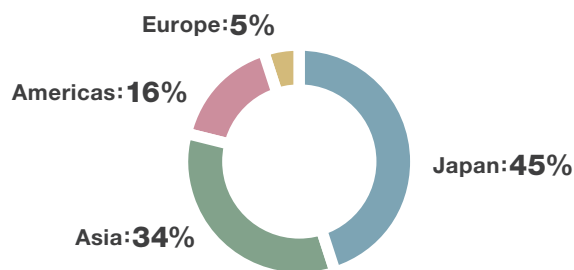


Semiconductor Instruments & Systems

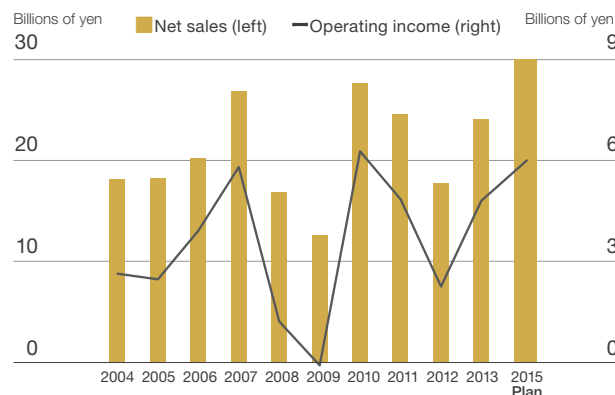
Sales breakdown



Sales breakdown by region



Net sales and operating income



Products that fulfill the needs of new markets and new applications

HORIBA has products used throughout the semiconductor manufacturing process such as mass flow controllers which are essential for dry chamber semiconductor manufacturing equipment, and chemical concentration monitors, which are used in semiconductor wafer cleaning and etching processes. In particular, our mass flow controllers have a leading 48%* global semiconductor market share. These highly sophisticated products satisfy customer requirements for improved productivity and performance enhancements in next-generation miniaturized manufacturing processes. HORIBA aims at further raising its market share. (*HORIBA's estimate)

Fiscal 2014 Response to strong demand and focus on developing next-generation products

In the first half of fiscal 2013, a rapid recovery in demand for semiconductors triggered favorable sales of mass flow controllers to makers of equipment for manufacturing silicon semiconductors and other products. We rapidly increased production for a broad range of products at our Aso plant, which had just completed a capacity expansion in 2012. HORIBA's global share of mass flow controllers is inching up, partly because our overseas customers in semiconductor manufacturing equipment-related makers are shifting more production to Asia.

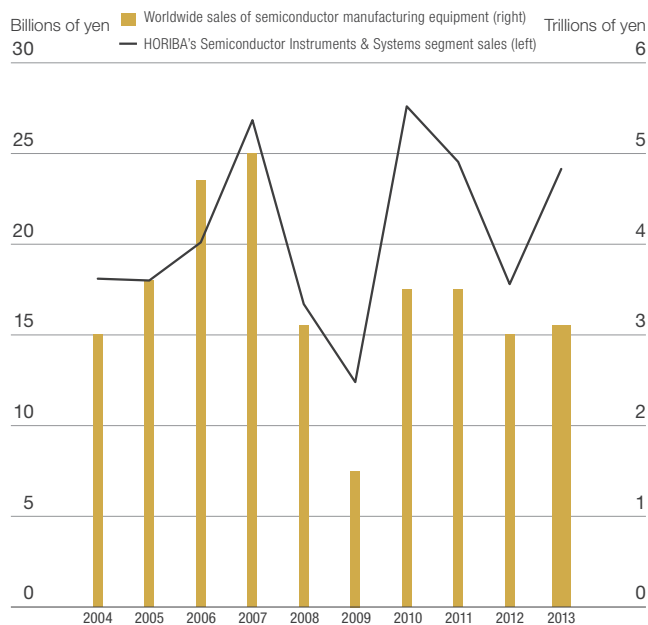
In fiscal 2014, we expect high levels of demand to persist for the first six months, but moving toward the second half of fiscal 2014, we need to watch carefully the investment outlook for semiconductor makers, particularly in South Korea and Taiwan. Another area we are focusing on is a potential increase in demand from makers of manufacturing equipment for solar cells and LEDs.

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

Much of HORIBA's service strength lies in its capability to support customers in Asia. Our strategy is to expand our market share by earning more credibility not only from semiconductor, solar cell, and LED manufacturing equipment makers, but also from semiconductor device makers by developing enhanced, quality products that satisfy anticipated customer demand.

At the Aso plant, which is operated by the Semiconductor Instruments & Systems segment, we are building a system to adjust production with the needs of the Medical- Diagnostic Instruments & Systems segment. We are thus prepared to meet customers' delivery requirements during phases of expanding demand. Flexible plant management according to fluctuations in production demand is one of HORIBA's greatest strengths.

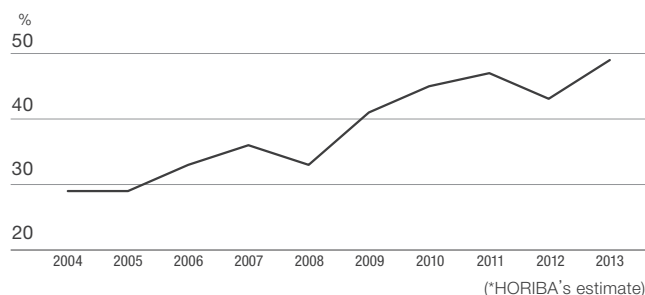
HORIBA's Semiconductor Instruments & Systems segment sales compared to worldwide sales of semiconductor manufacturing equipment



HORIBA's global market share for mass flow controllers

HORIBA has maintained more than 40%* of the global mass flow controller market share since fiscal 2009. It is noteworthy that our share expanded in the period from a downturn phase, which started in 2009 and lasted until a recovery in 2010, by successfully meeting our customers' needs through new product introductions and expanded production capacity. In our view, this is attributed to the success of our balanced management, which minimized the reduction in manufacturing investment and production capacity during a significant downturn in the market.

Our global market share rose to 48%* in fiscal 2013, as a result of an increase in the ratio of standard adoption at semiconductor manufacturers for new products and the shift of production to Asia by semiconductor manufacturing equipment-related makers. (* HORIBA's estimates)



Enhanced development facilities to accelerate response to customer needs

HORIBA STEC Kyoto Fukuchiyama Technology Center opened in 2013 as the first research-only facility. Its main focus is to develop mass flow controllers and next-generation advanced material control equipment.

Moreover, HORIBA Advanced Technology Center, which is under construction in a site adjacent to HORIBA STEC Co., Ltd., is scheduled to be completed by the end of 2014. By assembling our semiconductor sensor-related development teams at the Center, each group company's know-how will be brought together to enhance production technology. We also intend to accelerate development speed by promptly conducting actual gas and liquid tests on new sensors for use on manufacturing lines for mass flow controllers and other products. We will establish a structure to respond more quickly to the needs of semiconductors and semiconductor manufacturing equipment-related makers that are engaged in advanced research.



HORIBA STEC
Kyoto Fukuchiyama
Technology Center
(Fukuchiyama City,
Kyoto Prefecture)



HORIBA Advanced
Technology Center
(Kyoto City, Kyoto
Prefecture)

(Rendering)

Major products and market shares

NOTE: Market shares quoted are estimates by HORIBA.

Mass flow controllers

48% 81%



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

Chemical concentration monitors

80% 12%

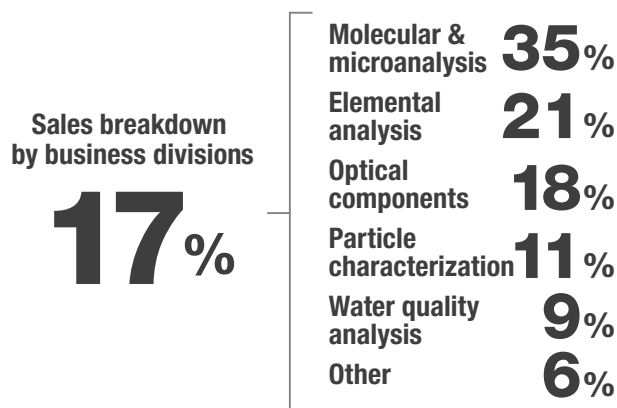


These compact units are used in semiconductor manufacturing to monitor concentrations of chemical cleaning agents. They ensure cleansing fluids are precisely delivered and properly used, thereby optimizing the cleaning process and boosting production yields.

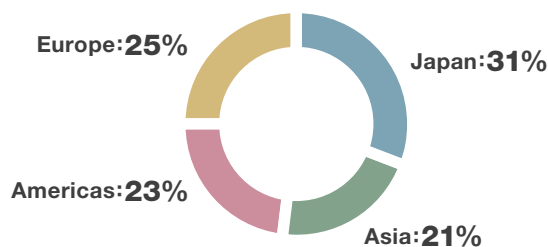


Scientific Instruments & Systems

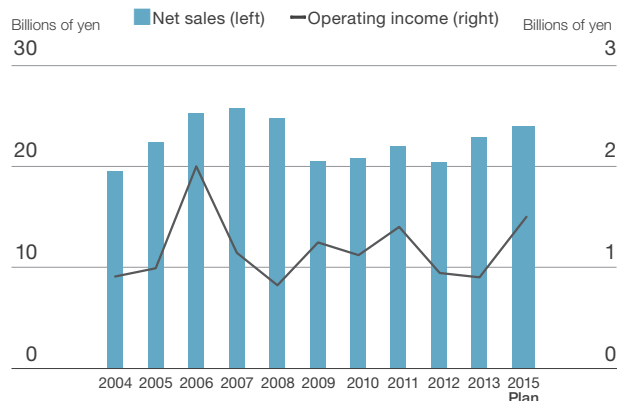
Sales breakdown



Sales breakdown by region



Net sales and operating income



HORIBA's technology for nano-level analysis provides essential sample measurement and characterization

Behaviors of nanometer sized atoms and molecules have been highlighted in microscopic analysis. HORIBA solutions for data analysis support advanced research that ventures into unknown territories where discoveries may lead to new materials or advanced, high-tech products. Additionally, HORIBA's analyzers are widely used in foreign-object examinations and defect analysis for food, drugs, electronic components, forensic science, and archaeological survey.

Fiscal 2014

Expecting recovery in sales to industrial markets Focus on government spending trends in various nations

In fiscal 2013, Scientific Instruments & Systems segment sales decreased from the previous year, due to a drop in demand in government spending in various nations. This is despite the positive impact of the depreciation of the Japanese yen in boosting sales in yen terms. In Japan, the supplementary budget induced demand for our high-end spectroscopic instruments and resulted in steady product sales.

In fiscal 2014, we foresee sales growth due to ongoing solid budget-induced demand for the research and development of scientific technology in Japan. A recovery in fiscal budgets is also expected in overseas markets. Additional sales from the newly-acquired fluorescence spectroscopy business (details on the next page) and growth triggered by economic recovery will also help realize steady sales.

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

Demand is growing for products manufactured by HORIBA Jobin Yvon S.A.S. (France) for data analysis and basic research for organic and inorganic materials such as rare-earth metals and advanced lithium ion batteries, which are expected to become a core component in next-generation automobiles. Specific products include diffraction gratings, fluorescence spectroscopy and Raman spectrometers, which command a high global market share. We expect to increase our global sales and market share, as the markets respond to tighter regulations and more government spending, especially in the BRICs markets.

In the particle characterization market, the need to accurately measure finer particle-size distribution is increasing for R&D activities and quality management in a wide range of areas such as battery materials, automobile catalysts and pharmaceuticals. With our new product launches of 2013, with world top-class measurement precision, we aim at expanding market share in the high-growth Asian market.

In addition to product development, the Scientific segment continues to invest in basic research and provide new technologies to our other business segments.

Acquired fluorescence spectroscopy business of Photon Technology International

HORIBA acquired Photon Technology International (PTI), which operates in four countries and commands a high market share in high-end research fluorescence spectroscopy. After the acquisition, HORIBA has a combined 21% share*. We will use synergies between both companies to accelerate fluorescence product line growth. PTI has a long standing collaboration with a prestigious laboratory in the Faculty of Medicine and Dentistry of the University of Western Ontario in Ontario, Canada. PTI has been involved with this renowned university in the development of application software directly targeted to users' needs.

*Source: SDI report in 2012



Employees of Photon Technology International at an exhibition

Applications covered

Research on iPS cells and other regenerative medical therapies; drug discovery; and development of next-generation food and agricultural products

Products

Fluorometer, fluorescence microscopy, lifetime measurement equipment and optical components including spectrometers, light sources and lasers



Expanding functions of demonstration labs, which will support sales expansion in growth markets

With regards to the many products in HORIBA's Scientific Instruments & Systems segment, it is important to address the requirements of scientists and engineers for high precision and to provide diverse analytical applications. We are setting up demonstration labs in various parts of the world so that our customers can actually touch and experience products. We also provide services to analyze measurement samples brought in by customers as a way to expand the number of users.

In recent years, we have focused on setting up demonstration labs in Asia and opened the demonstration lab in Shanghai, China in 2013. We also plan to expand the lab in Brazil into a new location in 2014.



HORIBA's demonstration lab in Shanghai, China

Major products and market shares

NOTE: Market shares quoted are estimates by HORIBA.

Raman spectrometers

30% 17%



Raman spectroscopy is a spectroscopic technique that provides information about the molecular structure of molecules by measuring the vibrational modes of a molecule. The vibrational modes of a molecule, which are a molecular fingerprint offering a quantitative measurement, can be used to identify the chemical under analysis. In recent years, Raman spectroscopy has attracted attention for new applications in material research. Raman has a very weak light scattering mechanism, so a highly-sensitive and optimal optical design is necessary. HORIBA Jobin Yvon's outstanding know-how in optics-related technology has been successfully applied in the core development of our extremely high performance Raman spectrometers.



pH meters

50% 7%



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





Process & Environmental Instruments & Systems

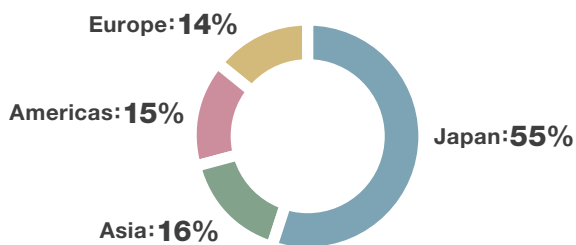
Sales breakdown

Sales breakdown by business divisions

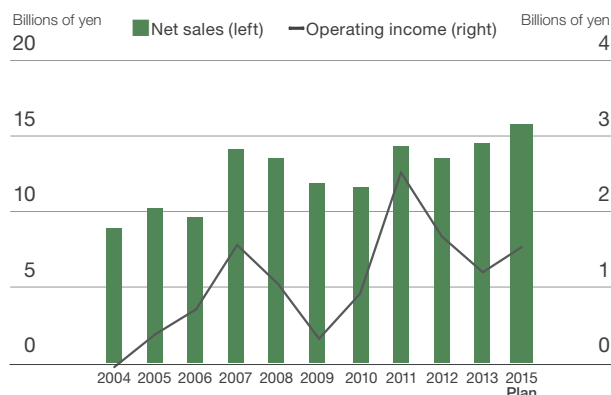
11%

Stack gas analysis	36%
Water quality analysis	32%
Air pollution analysis	14%
Other	18%

Sales breakdown by region



Net sales and operating income



HORIBA supports global environmental measures and new energy industries

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

Fiscal 2014 Explore demand in Japan's water-related market Focus on demand trends for stack gas analyzers

In fiscal 2013, despite no significant change in private investment, demand for stack gas analyzers at thermal power plants was firm.

In fiscal 2014, we will focus on creating demand in Japan with our new water quality measurement instruments. In addition, we will continue to pay attention to demand growth for air pollution analyzers, triggered by PM2.5 and other problems, and we expect an increase in present sales and profits.

Aiming to become No. 1 in the global environmental regulation business

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

Target market: Environmental regulation market



Stack gas analyzers

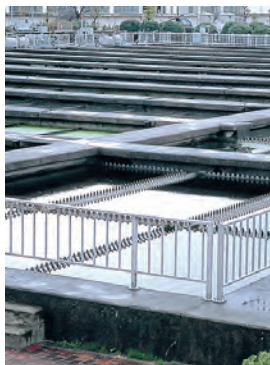
HORIBA has a leading market share in Japan in continuous emission monitoring systems used in plants and other facilities that generate gaseous emissions and soot. Our instruments have established a widely recognized credibility for robust and reliable sampling systems, which are essential in continuous measurement of a variety of gases. The analyzers are used in 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 private industries. Demand has been expanding for PM2.5-related monitoring.

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



Water quality analyzers

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

Customers' life cycle costing (LCC) approach in making proposals on water quality measurement

HORIBA aims at reducing life cycle costs (LCC) of products, in addition to improving performance. On top of a reduction in maintenance costs for customers, a decrease in LCC enables savings in energy, water, and waste, thereby helping to lower the environmental burden. We will continue to be active in making LCC proposals to expand our market share.

Target markets		
Sales breakdown in water quality measurement in 2013	Target area	
30%	Water quality measurement and monitoring in lakes and rivers	Environmental measurement
10%	Used in quality management and other process management in the electric power, chemical, and pharmaceutical industries	Process management
20%	Contribution to water quality management through HORIBA's sensitive analysis technology, which is required for water management at drinking water treatment plants, etc.	Water
40%	Monitoring activated sludge treatment process at sewage treatment plants, for industrial liquid waste, etc.	Sewage

Progress of the process measurement equipment business in North America

The process measurement equipment business, which was acquired from the U.S. company Cameron in February 2013, generated ¥1.2 billion in sales in fiscal 2013. At present, a new measurement demand is emerging in the U.S., where the shale gas revolution is taking place, as there is a switch from coal to gas as fuel for power generation.

By capturing such measurement demand, we expect the synergy effect to increase sales of HORIBA's stack gas analyzers. The Process & Environmental Instruments & System segment in the U.S. aims to generate sales of ¥6 billion by fiscal 2018.

Major products and market shares

NOTE: Market shares quoted are estimates by HORIBA.

Stack gas analyzers



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



H-1 series of industrial water quality analyzers



These 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 environment by strengthening their toughness, thereby reducing the frequency of electrode replacement and maintenance operations. By responding to expanding worldwide needs for remote monitoring services in water and sewage quality management and process monitoring, HORIBA pursues sales growth in the global market.

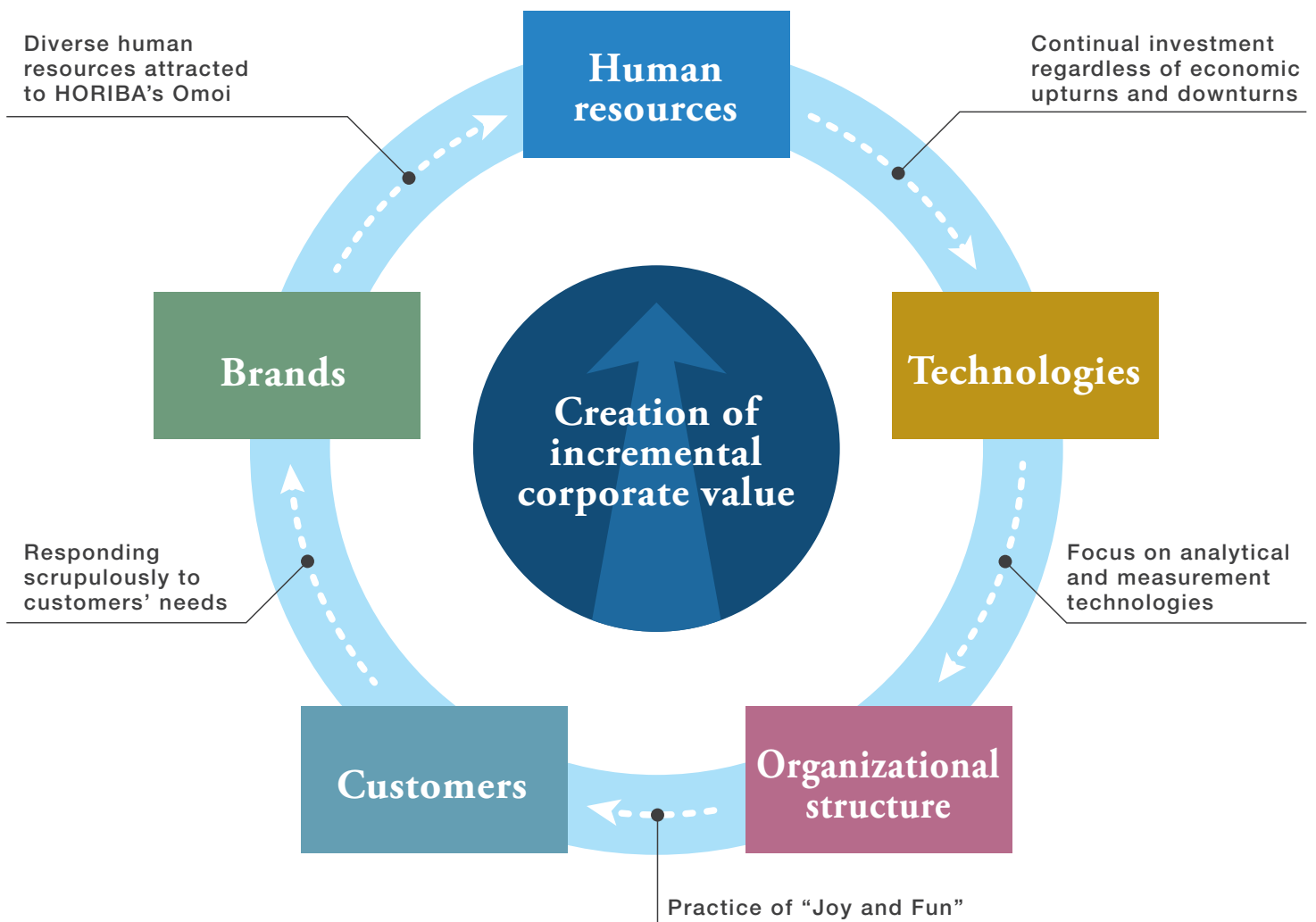


Invisible Values

Assets not visible in the financial statements

Value-creating spiral

Creating values by using our “Invisible Values” is one of HORIBA’s important management philosophies. The earnings statement and balance sheet both embody visible and important values. However, we believe that the essence of good management is to increase “Invisible Values” which are firmly rooted in corporate culture. Management’s emphasis on maximizing short-term earnings will not foster sustainable growth or an increase in corporate value; these two objectives cannot be achieved if there is neglect to invest in Invisible Values.



Human resources

At HORIBA, employees are considered to be not simply “employees” but “human resources” in the sense of resources that are assets. In order for all employees to achieve self-realization through “Joy and Fun”, we have set forth, shared, and been striving to realize HORIBA’s five Omoi shown below. HORIBA’s strong organizational power is generated from the compelling desire of all highly-diversified HORIBA employees to practice HORIBA’s five Omoi.



HORIBA's
five Omoi

1. To be a part of a collaborative community, at the forefront of new ideas and creations.
2. To achieve goals and making my life memorable by fostering the highest intellectual potential.
3. To reach across the globe to expand learning that captures key business developments, wherever they occur.
4. To be proud of sharing what I do and what HORIBA delivers.
5. I want to participate all around and where I can be of help.

Technologies

Technological development is the most important growth driver that will enable HORIBA to achieve the Mid-Long Term Management Plan [2011-2015] 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, we need to keep training in order to maintain the power to make a dash forward in a recovery phase of the economy.



Organizational structure

HORIBA operates five businesses in 26 countries. We believe it is important that our human resources in each business and each region take the initiative in promoting their business and that we have the cohesive power to sustain HORIBA as an integrated group. With that aim, we are spreading our “Joy and Fun” corporate culture into our global group-wide organization and promoting “One Company Matrix Management.”



Customers

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



Brands

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





Human resources

Regardless of economic upturns and downturns, HORIBA has consistently invested in human resources, which are precious "Invisible Values".

What lays the foundation for sustainable value creation is the understanding each HORIBA employee has of our corporate motto "Joy and Fun" and a corporate culture that is symbolized by "open and fair" and "entrepreneurial spirit," and puts this heritage into practice at work.

Ratio of female managers

13%

At the end of 2013, females accounted for 13% of HORIBA managerial level persons. At HORIBA, Ltd., the ratio was 5%.

The percentage of females among all group employees was 25%. We believe that we have ample opportunities for females to develop their abilities and advance within the organization. The HORIBA Stained Glass Project is one way whereby we provide an environment for that.

Overseas employee ratio

58%

Largely as a result of mergers and acquisitions, of the present 5,787 HORIBA group employees, 58% work outside of Japan (31% in Europe, 14% in the Americas, and 13% in Asia except Japan). This high ratio was not achieved by pursuing low-cost overseas labor forces. In fact, HORIBA has acquired very talented people, many holding doctorate degrees, through acquisitions.

Number of Japanese nationals who have received overseas training

204 employees

As early as 1984 we adopted a policy of sending people abroad for one-year period to acquire international experience and an international perspective. Applications for this are made at the initiative of each individual and the final decision is made at an interview with the president. By 2014, 204 employees had been given this opportunity for personal development. We will continue to value the willingness of employees to take up challenges, send them to overseas bases, and develop human resources with multicultural perspective.



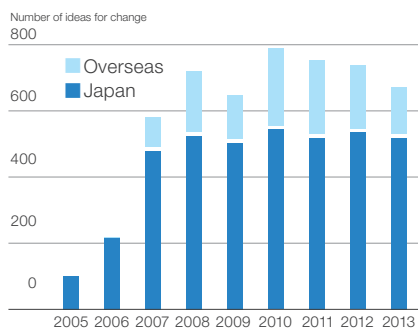


Moreover, unique value creation, taking advantage of diversity in different experiences, cultural attributes, and viewpoints, is critical for each and every one of us to go about our business around the globe. We launched the HORIBA Stained Glass Project in January 2014 in order to further enhance our organization so as to make the most of the abilities and individuality of each of us. Through facilitating communication among employees, we will optimize the stage for creating greater value.

Blackjack Project

672 ideas for change

The Blackjack Project, which began in 1997 with the objective of changing the awareness and activities of employees, has resulted in the submission of 672 suggestions and proposals for change in 2013. These proposals extend over a wide range, from quality control to health management. We hold an internal World Cup competition among candidate proposals from each region where we operate. This annual competition also provides an opportunity to demonstrate to management and employees how we make Omoi a reality. We see the Blackjack Project as having an important function to globally share and promote the understanding of corporate culture, experience and knowledge.



Users of Fun House

5,512 persons

With the belief that a training center could create more value than a manufacturing plant, we opened a training center that we named the Fun House. In 2013, 5,512 people in total used the facility to attend the HORIBA COLLEGE courses, training sessions for new employees, Blackjack Project World Cup competition, Global Strategy and Budget Meetings by global top management, and many more events. Attendees can actively communicate face to face by spending time together while being away from everyday assignment.



Face to face communication with management

Every month

The President and other executives host birthday parties in various locations every month for employees with birthdays falling in the month. The parties create opportunities for face to face communication between management and employees and provide an opportunity to exchange their Omoi, resulting in an atmosphere of openness between them.



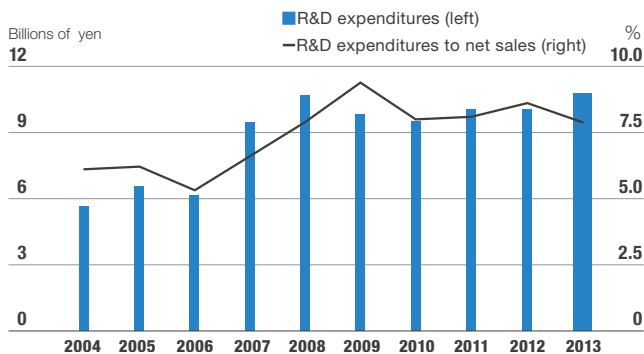
Technologies

Technological development will accelerate further growth

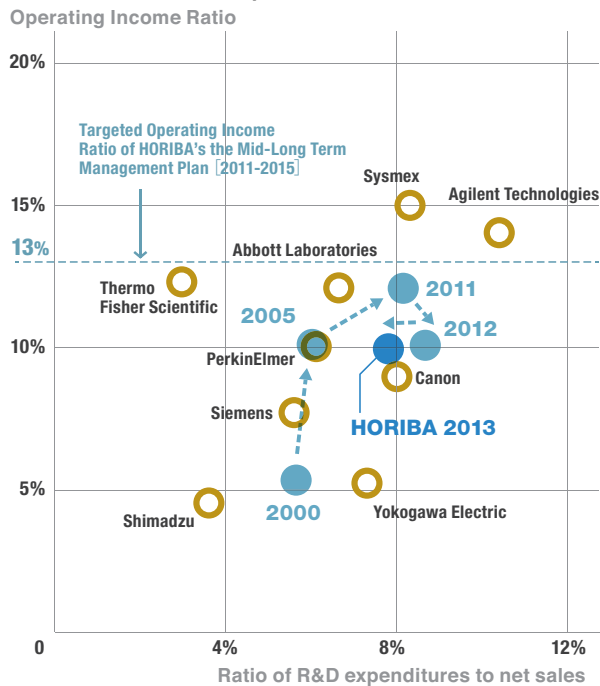
The development of analytical technologies and engineering technologies are the core value of HORIBA as an analytical and measurement equipment manufacturer. In recognition of this we have maintained R&D investment at the level of 7-8% of sales, even during economic downturns when our competitors have reduced their investments.

This strategy has helped to boost our market share during subsequent upturn phases. In fiscal 2009, 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. We aim to improve the efficiency of our R&D investments and realize a higher operating income ratio.

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



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



Other companies' information is extracted from their disclosed materials, which are available as of April 1, 2014.

From core technology to product development

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

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

HORIBA BIWAKO E-HARBOR

Ensuring our technological legacy to the next generation

HORIBA gas measurement technology is a central feature in many of our core products, such as the MEXA series automotive emission measuring equipment (recognized as one of the top brand in the world) and stack gas analyzers. At our new HORIBA BIWAKO E-HARBOR, we will work at improving the time-to-market of new products and efficiency of production by an organic integration of development, design, and production. When we carried out a reorganization in 2011, we combined the gas measurement businesses in the Automotive Test Systems and Process & Environmental Instruments & Systems segments at HORIBA, Ltd. Combining these groups allows us to speed up the development process and improve our ability to meet customer requirements.

The amount of investment planned is on the order of ¥10 billion, the largest amount we have ever invested at a single location at one time. Construction is to be completed in autumn of 2015.

A new global pacesetter among manufacturing facilities

At this new location, in the same place where HORIBA originated, we will take a giant step forward in integrating design, development, production, sales operations, and post-sales services. We will introduce a new manufacturing method by organically combining design, development, and production, with the aim of responding to different customer needs in Japan where we have the expertise and accumulated know-how based on our strength in core technology. Production capacity will be doubled, and delivery time will be reduced to a third, resulting in enhanced competitiveness.

We will install analytic and testing equipment for gas measurement equipment for Automotive Test Systems and Process & Environmental Instruments & Systems segments use. In addition to development of applications, we will be able to provide clients with training services and demonstrations. The location, on the west shore of Lake Biwa, is adjacent to our logistics center, reducing logistic cost. By bringing together design, development, production, sales functions, and post-sales services at a single site, HORIBA's creativity, quality assurance, technology and know-how will be available to serve customers on a global scale.

Ensuring our technological legacy

Transferring the accumulated core technology HORIBA has acquired in its first 60 years of existence to each new generation of engineers and technical personnel is vital in order for us to improve and grow. With this knowledge transfer, we intend to provide an undying driver of technological innovation.

The single capital letter "E" of HORIBA BIWAKO E-HARBOR symbolizes "effects," representing the various effects HORIBA is aiming to impact at the new facility. The "E" incorporates our passions for the new facility that are related to Engineering, Environment, Energy system, Enhancement, and Efficiency.

**Engineering, Environment,
Energy system, Enhancement,
and Efficiency.**

HORIBA Ltd. Kyoto headquarters

Aso plant (Semiconductor, Medical)

HORIBA BIWAKO E-HARBOR
(Automotive, Process & Environmental)



Rendering of HORIBA BIWAKO E-HARBOR

Corporate Governance Philosophy

Appointment of outside director and auditor

To avoid managing with an introverted approach, HORIBA has always appointed at least one director and one auditor from outside the company. This practice started with the company's origin in 1953 and has been continued through to the present day. HORIBA's outside director and two outside auditors qualify as independent, as specified by the Tokyo Stock Exchange, because their current posts and backgrounds indicate that they have little risk of having conflict of interests with general shareholders and can maintain independence between their current duties and past careers.

Implementing shareholder return linked to earnings growth

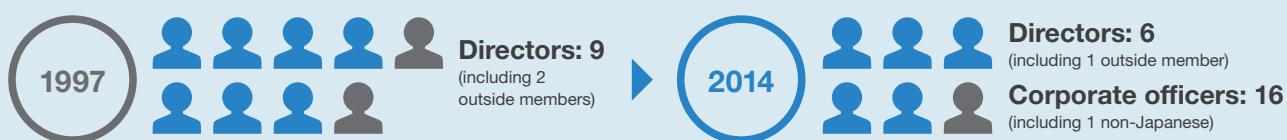
HORIBA was the first listed Japanese company to start paying shareholder dividends based on a predetermined payout ratio in 1974 when HORIBA was listed in the Second Section of the Tokyo Stock Exchange. Since 2013, HORIBA has changed the base amount of profit returns to shareholders (the combined amount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

Open general meetings of shareholders

Since its initial stock listing in the Second Section of the Osaka Securities Exchange in 1971, HORIBA has encouraged all shareholders (whom it frequently calls owners) to attend the annual General Shareholders Meeting. These meetings are held on Saturdays to facilitate public attendance. An informal get-together event is held afterwards to enable shareholders to talk directly with the management.

Adoption of a corporate officer system

Since 2005, HORIBA has limited the number of directors to five members to prevent the Board of Directors meetings from becoming inflexible and to promote lively, in-depth discussion. In April 2014, the Board was increased by one member to six directors to strengthen company management. In addition, HORIBA introduced a corporate officer system in 1998 to make decisions at the Board meetings more prompt and augment managerial capability. At present, HORIBA has 16 corporate officers including Dr. Jai Hakhu, who joined HORIBA in 2010 and now serves as a head of HORIBA's U.S. operations.



The first female to be a corporate officer at HORIBA

In 2014, for the first time since its foundation, the female corporate officer was appointed at HORIBA.

Since 2001, Haruko Nozaki made efforts toward establishing many progressive personnel systems and education systems as General Manager of HORIBA's Human Resources Division. She is also president of HORIBA COLLEGE which started in 2009 and is supporting the HORIBA Stained Glass Project, launched in 2014, as an advisor.

Outside the HORIBA, she is also actively engaged in expressing opinions from a viewpoint of a private sector in some educational institutions and administrative advisory committees and councils.

She is expected to contribute greatly in areas such as fostering HORIBA's human resources, CSR promotion, and improvement in communication.

Haruko Nozaki

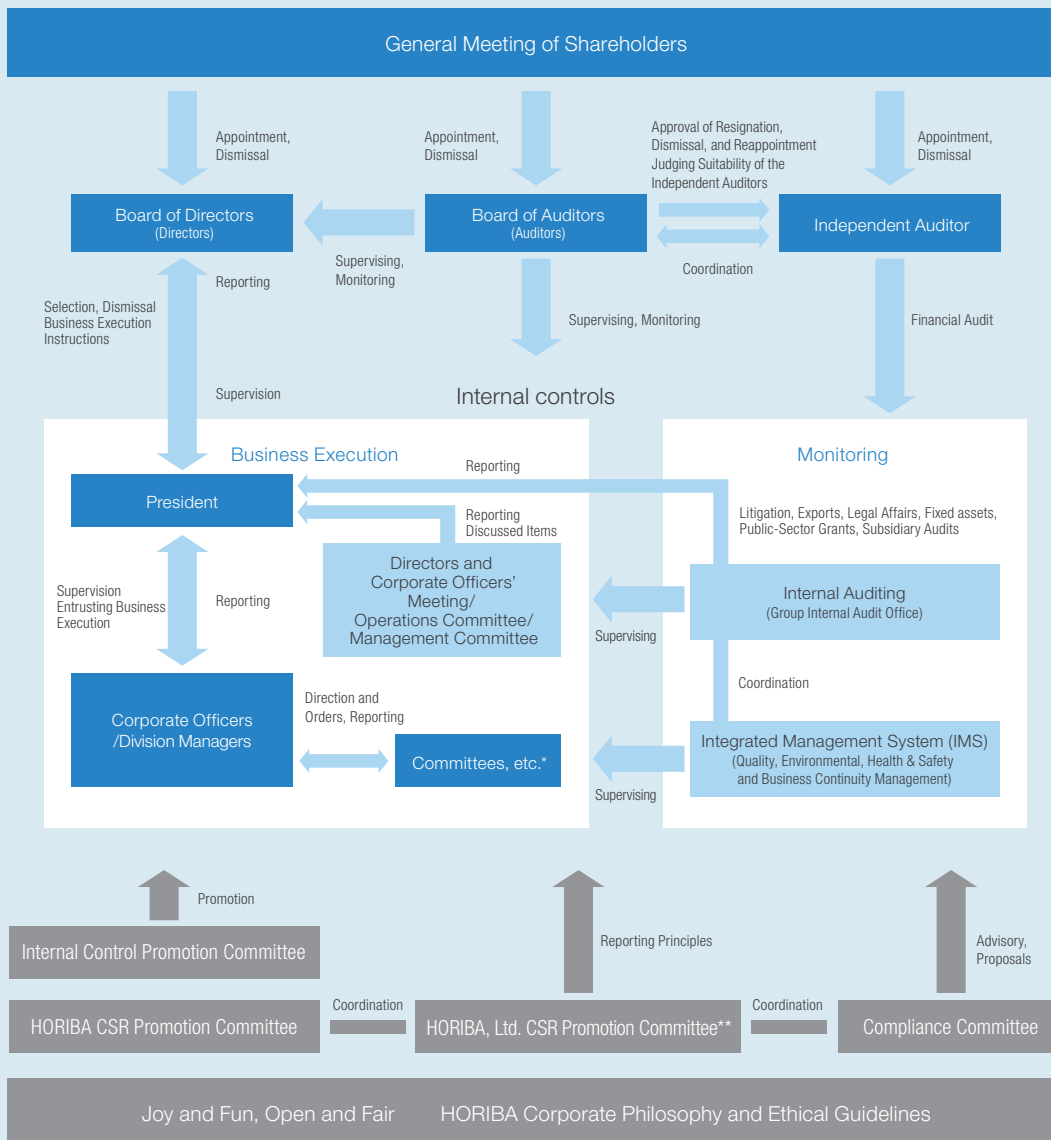
Junior Corporate Officer



Haruko Nozaki joined HORIBA Community Corporation (in charge of employee welfare and service administration of HORIBA, Ltd.) in 1978 and was transferred to HORIBA, Ltd. in 1980. She was named General Manager of the Human Resources Department in 2001 and Junior Corporate Officer in 2014. She concurrently is president of HORIBA COLLEGE in the General Administration Division and is in charge of CSR.

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.

Corporate governance structure chart



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

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

Board of directors, auditors, and corporate officers

Board of directors and auditors

Chairman, President and CEO		Atsushi Horiba
1972	Joined HORIBA, Ltd. and held positions such as General Manager of Overseas Technology Department and General Manager of Overseas Headquarters	
1982	Appointed as HORIBA's Director	
1992	Appointed as President and CEO	
2005	Appointed as Chairman, President and CEO up to the present	

Executive Vice Chairman		Dr. Kozo Ishida
1970	Joined HORIBA, Ltd. and held positions such as General Manager of Products Department I of Development and Sales Headquarters and President of HORIBA Europe GmbH	
1988	Appointed as HORIBA's Director	
2002	Appointed as Executive Vice President	
2005	Appointed as Executive Vice President and Representative Director	
2014	Appointed as Executive Vice Chairman up to the present	

Executive Vice President and General Manager of Corporate & Segment Strategy Division		Juichi Saito
1982	Joined HORIBA, Ltd. and held positions such as General Manager of Engine Measurement Planning & Development Department and President of HORIBA Instruments Inc. (US)	
2005	Appointed as HORIBA's Director	
2013	Appointed as Executive Vice President up to the present	

Managing Director, General Manager of General Administration Division, and Tokyo Branch Manager		Fumitoshi Sato
1976	Joined the Bank of Japan and held positions such as Aoyama Branch Manager and Fukuoka Branch Manager	
2004	Joined HORIBA, Ltd. and appointed as Senior Corporate Officer	
2005	Appointed as Managing Director up to the present	

Director and General Manager of Research & Development Division		Dr. Masayuki Adachi
1985	Joined HORIBA, Ltd. and held positions such as General Manager of Emission analysis Research & Development Division and General Manager of Engine Measurement System Management Division.	
2006	Appointed as HORIBA's Corporate Officer	
2007	Appointed as President of HORIBA International Corporation (US)	
2014	Appointed as Director up to the present Appointed as President of HORIBA Jobin Yvon S.A.S. up to the present	

Director (Outside), Independent Director		Masahiro Sugita
See page 36.		

Auditor		Toshihiko Uno
1974	Joined HORIBA, Ltd. and held positions such as General Manager of Hardware Development and General Manager of Production Center	
2002	Appointed as HORIBA's Corporate Officer	
2004	Appointed as Senior Corporate Officer	
2011	Resigned as Senior Corporate Officer	
2012	Appointed as HORIBA's Auditor up to the present	

Auditor (Outside), Independent Auditor		Kanji Ishizumi
1971	Joined the Ministry of International Trade and Industry 1975 Registered as Attorney at Law	
1981	Appointed as representative partner of the Chiyoda Kokusai Law Offices up to the present	
1995	Appointed as HORIBA's Auditor up to the present	

Auditor (Outside), Independent Auditor		Keisuke Ishida
1978	Appointed as Representative Director and CEO, SHASHIN KAGAKU CO., LTD.	
2000	Appointed as Representative Director, Chairman of the Board, CEO, SHASHIN KAGAKU CO., LTD. up to the present	
2001	Appointed as Chairman of the Board, SK-Electronics Co., Ltd. up to the present	
2005	Appointed as HORIBA's Auditor up to the present	

Corporate officers

Executive Corporate Officer	Dr. Jai Hakhu
Senior Corporate Officer	Sunao Kikkawa Takashi Nagano Hideyuki Koishi
Corporate Officer	Yuichi Muroga Hiroshi Kawamura Atsushi Nakamine
Junior Corporate Officer	Seiji Usui Narihiro Oku Tadao Nakamura Tsukasa Satake Yasuo Yamashita Kenichi Obori Hideyuki Nishibun Haruko Nozaki Yoshimasa Tanaka

An Outside Director's views on HORIBA's corporate governance

Board meetings

I have been delighted to attend HORIBA's board meetings, where lively and constructive small-group discussions are conducted in a casual atmosphere. During the meetings, I tend to ask

candid questions from a broader general perspective, rather than from my area of expertise, which is macroeconomics and international finance. My goal is to affirm management's attitude and commitments.

Risk management from a global viewpoint

Recent world conditions show a tendency for risk to become more diverse than in the past. This is of concern to HORIBA, as the company is actively investing in industrialized Western nations as well as emerging nations. It is important to the company, therefore, to obtain timely information on local conditions in those nations and astutely analyze country

risk there, giving attention to macro level aspects of finance, politics, and economics. At HORIBA's board meetings, the president and directors comment, from the vantage point of the expertise and experience of each person, on current information from overseas, thereby pooling knowledge and diverse viewpoints.

An emphasis on ROE

HORIBA has been chosen as one of 400 companies which constitute the JPX-Nikkei Index 400, a new stock price benchmark of the Tokyo Stock Exchange. This Index uses ROE as its most important Key Performance Indicators. HORIBA emphasizes consistent management style rather than short-term

profit-oriented style. The company finds it important to maintain a high level of ROE or raise it continually. How to ensure satisfactory ROE and at the same time to position the company for long-term growth is one of HORIBA's major managerial issues.

Masahiro Sugita Director (Outside)

Masahiro Sugita joined the Bank of Japan in 1967 and held positions such as Matsumoto Branch Manager and Director-General of the International Department. In 1998 he was renamed Director of Overseas Investment Research Institute, the Export-Import Bank of Japan before being appointed as Auditor of the Bank of Japan in 1999. In 2003, he was appointed as Outside Auditor (full-time) of Banyu Pharmaceutical Co., Ltd., the current MSD K.K.

2006 Appointed as HORIBA's Outside Director up to the present
2010 Appointed as Auditor of MSD K.K. up to the present
2013 Appointed as Outside Director of 77 Bank Ltd. up to the present



Striving to be a valuable company to everyone

Under the corporate motto of “Joy and Fun,” HORIBA intends to make its business grow by building good partnerships with all stakeholders. By this, HORIBA means it aspires to become a valuable company to everyone.

HORIBA Group CSR Policy Promoting CSR through operations

Based on its commitments to energy, human health, the environment and safety, HORIBA will pursue corporate initiatives to contribute to the realization of “a life of content for all.”

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

Signed the United Nations Global Compact

In agreement with the ten principles in the areas of human rights, labor, the environment, and anti-corruption, which the Global Compact (GC) of the United Nations sets forth for companies within their sphere of influence, HORIBA declared its concurrence to the UN's policy initiative in April 2011.

Actions taken to date in connection with the policy initiative are shown on the following page. In addition, we have joined the Global Compact Japan Network and is actively involved in committee work in the organization.

This is one more way whereby we are engaged in activities needed and useful to society.



Integrated Management System (IMS)

To provide customers with high-quality reliable products, HORIBA has adopted the IMS*, which is a combination of the Quality Management Systems ISO9001, Environmental Management Systems ISO14001, and Occupational Health & Safety Management System OHSAS18001. With this, we became the first Japanese company in the analysis and measurement industry to acquire the JQA Integrated Management System Certifications (JQA-IG0001-08) as Group IMS from the Japan Quality Assurance Organization, or JQA.

In February 2014, we also acquired certification for ISO22301, the international standard for Business Continuity Management Systems, in the medical area, which is directly related to human life, and established a system that can supply stable number of products even in the wake of an earthquake, accident, or various diverse risk events.

We will continue to embrace the IMS activities as we aim to enhance quality, the environment, occupational health & safety, and product supply systems, and strive to raise corporate value.



* IMS (Integrated Management System) is the integration of ISO, OHSAS, and other management systems as a single management system.

* HORIBA, Ltd. and HORIBA STEC Co., Ltd. have obtained Quality Management Systems for Medical Devices (ISO 13485) certification.

* Please visit HORIBA Report [WEB: G] for more details.

HORIBA's initiatives

For a company to achieve sustained business growth, it must be valuable to all stakeholders, which encompass not only those in business fields but also those in local communities, those concerned with the global environment, and suppliers. Further details of HORIBA's activities, which do not appear in the financial statements, are in the HORIBA Report Web Data Book.

HORIBA Report Web Data Book <http://www.horiba.com/horibareport/data/>

Stakeholders	Themes	Major activities	
Society [WEB: A]	Contributing to Analysis and Measurement Industry, and Local Communities	Masao Horiba Awards; leadership in associations and groups; support for recovery from to the Great East Japan Earthquake	NEXT PAGE
	Employees' contribution to society	Publishing a technical report, Readout; participating community events; hosting interns; environmental preservation activities; environmental classes at schools	NEXT PAGE
	Unique corporate messages	Corporate advertisements in newspapers and magazines; "Gaiapress" (an information website on the environment, nature, space, and science)	
Environment [WEB: B]	Prevention and alleviation of environmental problems (GC Principles 7 & 8)	Popularize instruments for working with new material, new energy, next-generation vehicles R&D and of environmental monitoring systems; conserving resources and energy in production activities: waste water monitoring; chemical substance management; reduction in waste	
Suppliers [WEB: C]	Establishments of partnerships with production partner companies (GC Principle 10)	Conference with production partner companies; workshops on products and quality; plant tours; quality study group; World Skills International; QC workshops; Kaizen activity presentations; technical study groups	NEXT PAGE
Customers [WEB: D]	Improvement in customer satisfaction	Quality initiatives; customer support center; services by HORIBA Techno Service Co., Ltd.; organizing in-house technical exhibitions, Craftsmanship competition; initiatives to enhance efficiency	
	Develop Eco-design friendly products (GC Principle 9)	Evaluation of design for environment; response to various regulations; customer usability enhancement	NEXT PAGE
Owners* [WEB: E]	Responsibility to owners and investors	General Shareholder Meetings; informal get-together events with shareholders; IR briefings for institutional investors; IR visits (Europe, Americas, Asia); tours for investors at exhibitions; briefings for individual investors; timely information disclosure	
Employees [WEB: F]	Respect rights, personality, and individuality of employees (GC Principles 1-6)	Promote diversity through the HORIBA Stained Glass Project; HORIBA COLLEGE; various work systems; job posting system; sending trainees overseas; use of various hiring routes; office visits by employees' family members; communication with executives at employees' birthday parties	
	Ensure safe, healthy, pleasant workplaces for employees	Executives' workplace safety patrol; installation of the Health Management Office; seminars by obstetricians; promote health and near-mile diet by a nutritionist at cafeteria; safety and crime-prevention workshop; self-defense firefighters' training	

* HORIBA considers shareholders as important stakeholders and frequently calls them "owners".

Working together with society

Contributing to analysis and measurement industry and local communities

Masao Horiba Awards

The Masao Horiba Award, named after the founder of HORIBA Ltd., was established to promote research in the field of analysis and measurement technology by researchers working at universities or public research institutes in Japan and overseas. HORIBA has made awards to 37 promising researchers and engineers from 2004 to 2013 and has supported their activities. We hope the award will continue to serve as a source of motivation and encouragement for those winners.



Specific themes



- 2004: pH measurement
- 2005: Infrared related analysis and measurement technologies
- 2006: X-ray analysis
- 2007: Measurement technologies for cells or biological particles
- 2008: Measurement and analytical technologies related to internal combustion engines
- 2009: The analysis of the surface of material for the semiconductor and related industries
- 2010: In situ and continuous measurement of harmful airborne substances affecting human health, safety, and security
- 2011: Ultra high-sensitive or ultra high-speed analytical method and technology using electromagnetic radiation from the NIR to the X-ray
- 2012: Radiation measurement
- 2013: Measurement of water property
- 2014: Gas measurement



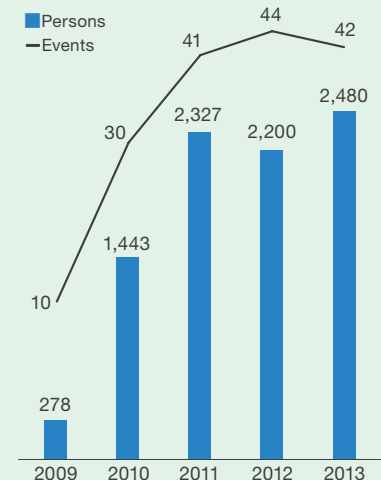
Ties to local community and employees' families

Based on HORIBA's wish to show children how interesting and important the science of "measuring" is, in 1994 the company started a program of enlisting employees to give talks at school or at events. HORIBA employees demonstrate scientific matters by using ordinary objects and materials from daily life and show pupils how plants and animals use their sensory capabilities, with the thought that some of these pupils may go on later in life to work with analytic technology.

So that the families of employees can better know what HORIBA does, HORIBA has held Open House events every year since 2003 and invited employees' families to visit the company offices or work sites. Up to 2013, 951 family members have accepted HORIBA's invitation. In this way HORIBA is working to assure the families that HORIBA is a great place to work.



The number of pupils who have been present at our classes, and the number of such events



Working alongside customers

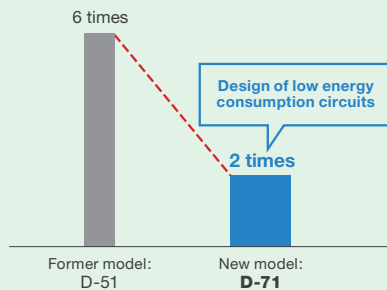
Considerate attention to products

Development of long-life, low-energy “Eco-design” products

HORIBA has adopted an internal standard to determine “Eco-design” products in order to provide products that reflect responsible product life cycles, such as, longer operating life and energy savings. This standard is used when developing new products. With social and economic matters such as the rise in energy costs, we use quantitative measurement to determine how products represent a reduction in energy requirements or a reduction in materials used. HORIBA’s “Eco-design” products target a 25% reduction compared to conventional models.

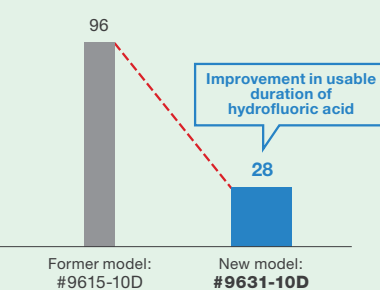
Reduction in annual number of batteries replaced

The number of batteries when using 5 hours/day X 240 days



Reduction in annual number of electrodes replaced

Calculation of electrode life when a 1% solution of hydrofluoric acid is used 2 hours/day for 240 days



“Eco-design” product
Portable pH/water quality meters
LAQUAact

Working together with suppliers

Establishment of partnerships with production partner companies

Increasing market shares together with suppliers during downturns

HORIBA considers the relationships we have built and maintained with our regular production partner companies as “Invisible Values.” Over the long term we have developed strong ties with these suppliers, which has enabled us to provide customers with high-quality products and reliable delivery scheduling. We are now increasing procurement on a global basis through our network of overseas companies. In Japan, in order to ensure continuation of our Win-Win relationships, we provide opportunities to share our thoughts and experience in business matters with the suppliers, and help them to develop the next generation of managers. The regular suppliers that have been doing business with HORIBA for 6 years or longer since 2008 is 777 (74% of a total of 1,055 suppliers). They have been able to prosper in good times and survive tough times, together with us. One reason we have been able to keep up with demand and increase our market shares, even during a period of a strong surge in demand, is that our relationships with these suppliers has enabled us to respond very quickly to customer demand.

Total number of production partner companies

1,055 companies

Of which have been with us for 6 years or longer

777 companies
(74%)

One Company Song

HORIBA beyond borders

When HORIBA celebrated its 60th anniversary in 2013, one of our activities was to adopt a company song, which was named “Joy & Fun” by employees. It conveys the message that HORIBA is “One Company” while incorporating a number of nationalities and cultures. Based on words from employees worldwide, incorporating their Omoi (meaning an emotional feeling, passion, commitment, mission and objective) on the One Company message, lyrics and music were commissioned to Hiroaki Hayama, a well-known songwriter in Japan.

Joy & Fun

lyrics & music by Hiroaki Hayama

Looking to the future in your innocent eyes
I am trying for the best for your life
Not afraid of going against the wind
Cause' everything's going to be alright
We were born in a different place
There is surely a different sky
Just as long as you see the light
Let us cry together as one
Hand in hand, why not speak out
And in no time you'll be fine
Joy & Fun, tomorrow's a new day
I'll be there by your side
In search of brighter days
We are one, oh cannot be replaced
And facing each other
So we're there for the world

HORIBA on YouTube



One Company Song

検索

The “Joy & Fun” song is on YouTube and is accessible to all interested in HORIBA. Please watch our employees singing the song in various locations worldwide.





FINANCIAL DATA

Year Ended December 31, 2013

Eleven-Year Summary

	2004.3	2005.3	2006.3	2006.12	2007.12	
For the Year:						
Net sales	¥85,073	¥92,492	¥105,665	¥116,099	¥144,283	
Operating costs and expenses	78,223	83,119	94,390	104,392	127,753	
Operating income	6,850	9,373	11,275	11,707	16,530	
Net income	2,074	3,524	6,473	6,510	8,691	
Capital expenditures	3,501	3,956	5,664	5,059	9,336	
Depreciation and amortization	3,037	2,944	3,173	3,246	4,161	
Research and development expenses	5,129	5,636	6,553	6,136	9,474	
At Year-End:						
Total assets	¥92,657	¥99,913	¥119,976	¥129,236	¥154,367	
Cash and cash equivalents	13,603	16,108	14,884	15,673	20,565	
Trade notes and accounts receivable	Affiliated companies	-	-	-	-	
	Other	29,143	30,595	37,408	42,485	45,873
Inventories	19,402	22,012	27,273	30,947	33,734	
Property, plant and equipment, net	18,841	18,481	20,223	21,700	24,071	
Trade notes and accounts payable	Affiliated companies	58	26	45	44	53
	Other	8,700	11,264	13,017	14,917	16,792
Liabilities with interest	21,460	16,042	13,866	16,224	25,177	
Shareholders' equity	43,348	52,263	65,446	72,371	80,377	
Share price at end of fiscal period (¥)	1,380	1,950	3,690	4,400	4,100	
Number of employees (consolidated)	3,808	3,984	4,461	4,697	4,976	
Per Share Information:						
Net income - basic	¥62.90	¥98.33	¥154.27	¥154.23	¥205.01	
Net income - diluted	50.10	83.81	146.97	153.70	204.39	
Net assets	1,350.31	1,415.75	1,548.08	1,710.75	1,892.64	
Cash dividends	10.00	16.00	28.00	26.00	39.00	
Financial Ratios:						
Operating income to net sales (%)	8.1	10.1	10.7	10.1	11.5	
Return on assets (%)	2.2	3.7	5.9	5.2	6.1	
Return on equity (%)	5.0	7.4	11.0	9.4	11.4	
Shareholders' equity ratio (%)	46.8	52.3	54.6	56.0	52.1	
Consolidated dividend payout ratio (%)	15.3	16.5	18.1	16.9	19.0	
Nonconsolidated dividend payout ratio (%)	30.3	41.8	33.8	30.0	30.1	

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

1. The U.S. dollar amounts are provided solely for convenience at the rate of ¥105.39 to US\$1.00, the rate prevailing on December 31, 2013.
2. 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.
3. 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.

2008.12	2009.12	2010.12	2011.12	2012.12	2013.12	2013.12
Millions of yen						Thousands of U.S. dollars
¥134,248	¥104,538	¥118,556	¥123,456	¥117,609	¥138,136	\$1,310,712
123,290	99,394	106,256	108,549	105,857	124,402	1,180,396
10,958	5,144	12,299	14,906	11,751	13,733	130,306
6,039	3,161	7,927	8,664	7,396	8,999	85,387
6,645	4,534	4,033	4,670	7,882	7,680	72,872
4,955	4,573	4,523	4,146	3,743	4,279	40,601
10,662	9,831	9,480	10,060	10,092	10,774	102,229
Millions of yen						Thousands of U.S. dollars
¥133,279	¥129,580	¥137,290	¥144,649	¥153,836	¥189,269	\$1,795,891
22,660	27,590	34,459	35,767	38,858	49,246	467,273
63	6	1	126	4	25	237
37,330	34,505	36,425	39,249	37,516	47,386	449,625
29,802	23,363	24,843	26,288	28,101	33,085	313,929
23,115	23,602	22,516	22,924	28,179	33,326	316,215
40	52	60	0	-	-	-
11,063	10,515	13,423	13,196	11,829	16,409	155,697
20,984	18,348	17,128	18,358	18,083	24,577	233,200
76,829	79,906	84,019	90,232	99,248	114,209	1,083,679
1,237	2,250	2,303	2,320	2,489	3,590	U.S. dollars 34.06
5,146	5,133	5,202	5,448	5,530	5,787	
Yen						U.S. dollars
¥142.76	¥74.77	¥187.46	¥204.88	¥174.87	¥212.76	\$2.01
142.71	74.68	187.11	204.41	174.37	212.01	2.01
1,816.96	1,889.58	1,986.77	2,133.44	2,346.45	2,699.88	25.61
44.00	13.00	17.00	40.00	50.00	60.00	0.56
8.2	4.9	10.4	12.1	10.0	9.9	
4.2	2.4	5.9	6.1	5.0	5.2	
7.7	4.0	9.7	9.9	7.8	8.4	
57.6	61.7	61.2	62.4	64.5	60.3	
30.8	17.4	9.1	19.5	28.6	28.2	
30.0	30.0	30.3	30.5	37.5	48.9	

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

Net income per share (¥) = (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)

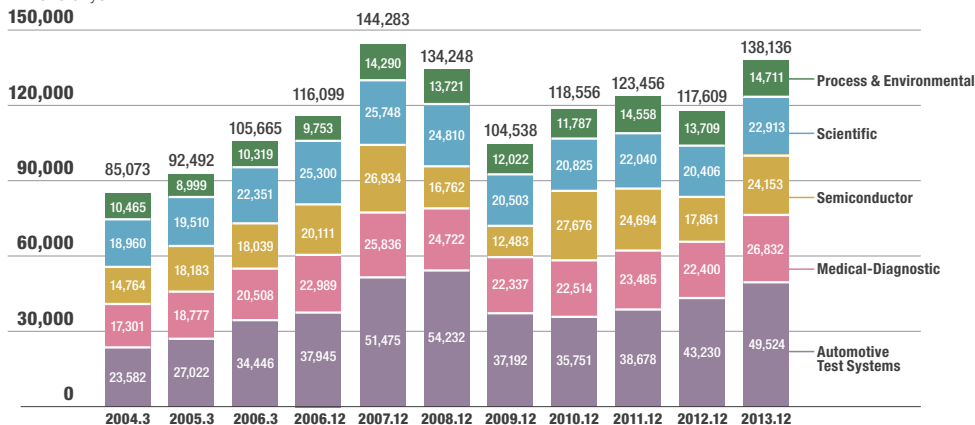
Nonconsolidated dividend payout ratio (%) = 100 x dividends paid / net income (nonconsolidated)

*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

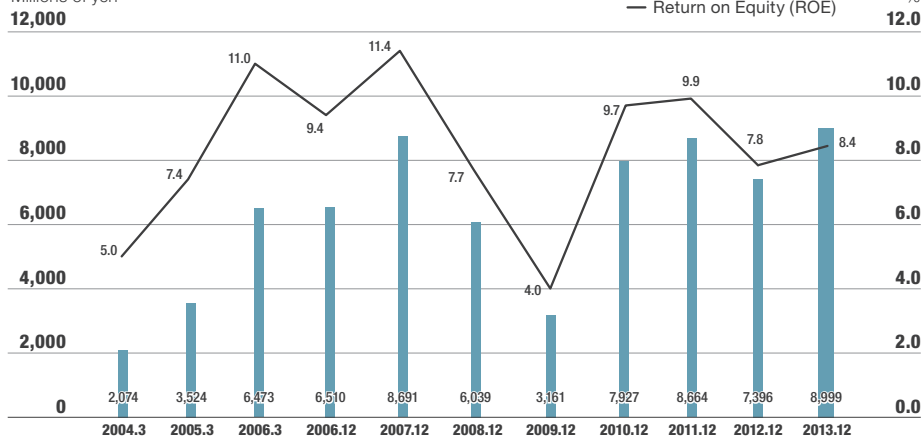
Millions of yen



In fiscal 2013, ended December 31, 2013, HORIBA's net sales increased from the previous year in all segments, as the weaker yen boosted the value of overseas sales when converted into yen and investments by semiconductor manufacturers and automakers also grew. The net sales amount was the second highest following that of fiscal 2007.

Net Income and Return on Equity (ROE)

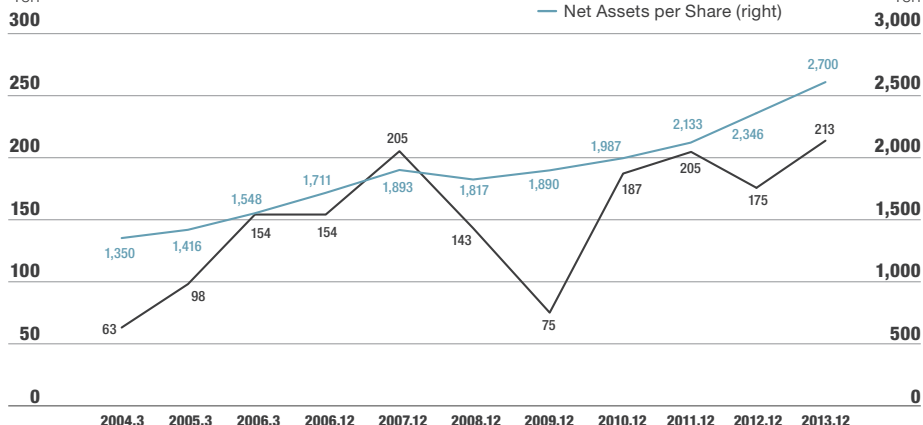
Millions of yen



In addition to an increase in operating income, an extraordinary gain associated with the sale of a building in the U.S. contributed to record-high net income. This resulted in ROE rising by 0.6 percentage points to 8.4%.

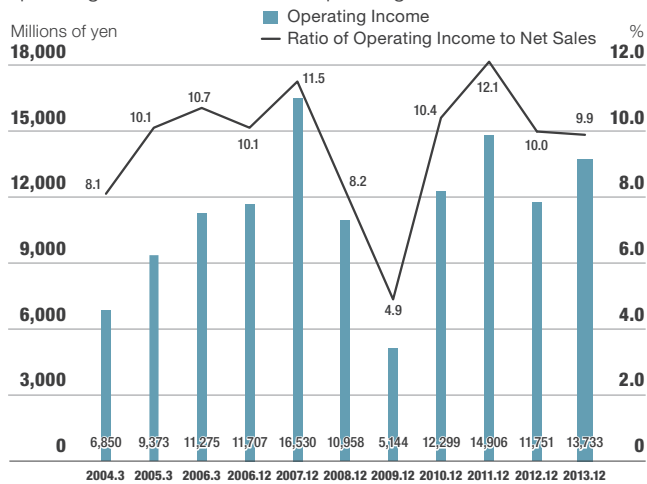
Net Income per Share and Net Assets per Share

Yen

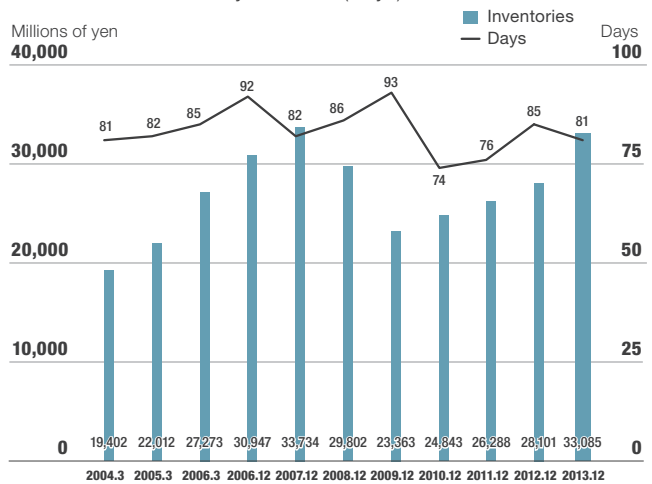


Fiscal 2013 net assets per share reached a record high of ¥2,700, while net income per share also ended up at a record high of ¥213, up ¥38 from the previous year. The price to book value ratio was approximately 1.3 times.

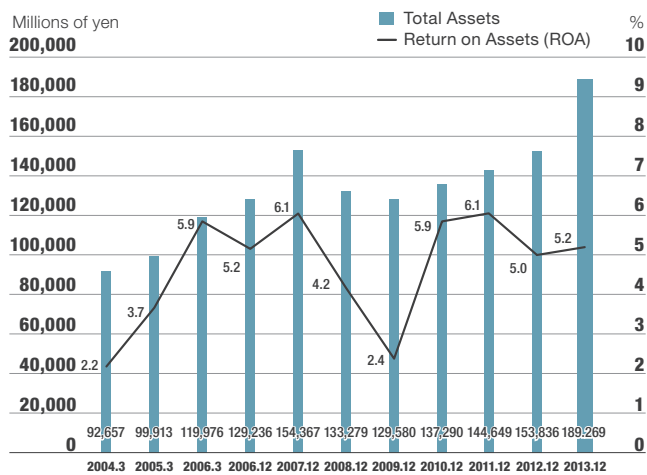
Operating Income and Ratio of Operating Income to Net Sales



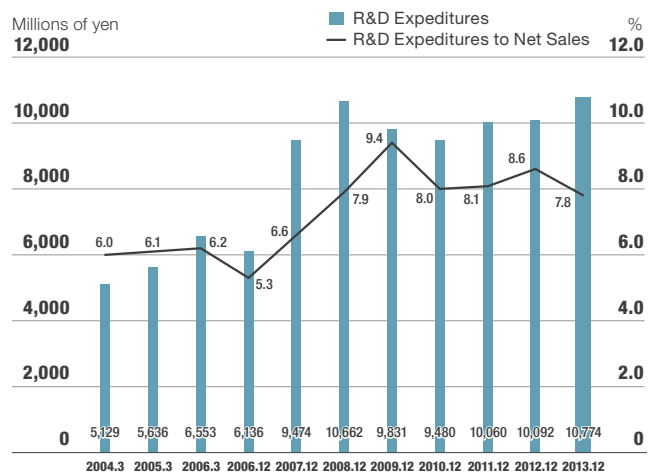
Inventories and Inventory Turnover (Days)



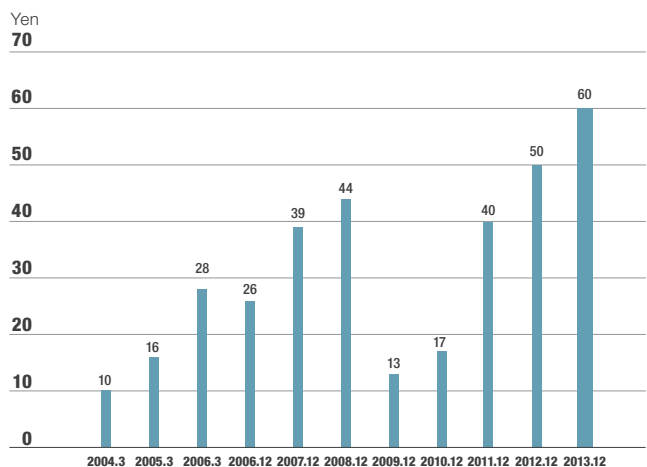
Total Assets and Return on Assets (ROA)



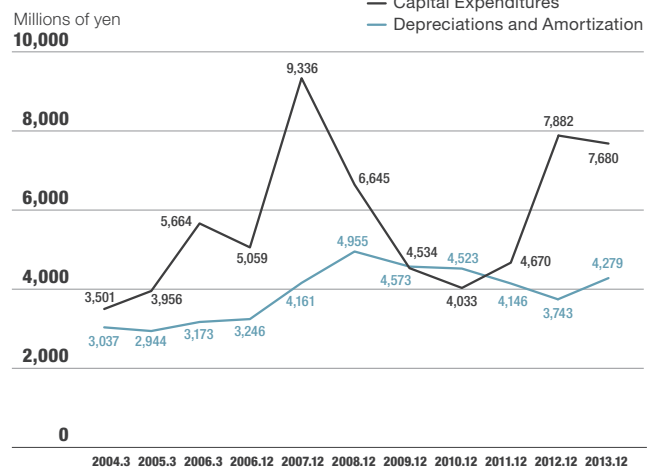
R&D Expenditures and R&D Expenditures to Net Sales



Cash Dividends per Share



Capital Expenditures and Depreciations and Amortization



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During the fiscal year ended December 31, 2013, the U.S. economy saw a moderate recovery mainly due to a mild increase in consumer spending and some recovery in housing starts and capital spending. The European economy remained sluggish, partly due to the impact of fiscal tightening in several countries, but showed signs of bottoming out toward the latter half of the year. With regard to Asia, China's economy continued to expand but at a slower rate of growth, while the economy in other areas in Asia slowed down. In Japan, the economy recovered gradually on the back of some recovery in consumer spending and steady public spending, and despite lackluster growth in exports. The annual average exchange rates for 2013 were 97.73 yen against the U.S. dollar and 129.78 yen against the euro, marking respective depreciation of 18% against the U.S. dollar and 21% against the euro, compared to the previous year.

In the analytical and measurement equipment market, a recovery in capital spending by semiconductor manufacturers led to an increase in demand from the first half of 2013 and helped the semiconductor-related market sustain its strength. In the automobile-related market, capital spending and R&D investment by Japanese and overseas automakers sustained firm trends from the previous year. With regard to the scientific and environmental-related markets, however, private companies were cautious in capital spending and R&D investments in analytical and measurement equipment, resulting in a sustained weakness in demand.

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 2013. The HORIBA Group promoted business restructuring through the Corporate & Segment Strategy Division, which was established in fiscal year 2011 to design and promote overall business strategy, and accelerated the launch of products that met market needs.

By business segment, in the Automotive Test System Segment, the MCT (Mechatronics) business which had been

acquired from Carl Schenck AG (Germany) in 2005 continued to realize profits thanks to the successful transfer of production bases and cost reduction. Also, the segment promoted sales of its new engine emission measurement systems which began the sales from 2013, a mainstay HORIBA product.

In the Process & Environmental Instruments & Systems Segment, the acquisition of the U.S. company Cameron's process analysis product line resulted in the business growth in the oil refining market including shale oil and gas.

In the Medical-Diagnostic Instruments & Systems Segment, with the aim of responding to growing demand for testing reagents in various countries, HORIBA completed building its first reagent plant in India and expanded a reagent plant in Brazil.

In the Semiconductor Instruments & Systems Segment, HORIBA STEC Co., Ltd. completed construction of a technology center in Fukuchiyama, Kyoto, while the company started to build an advanced technology center in Kyoto city, Kyoto. These efforts are intended to accelerate the development speed of semiconductor-related products and promote efficiency in manufacturing.

The Scientific Instruments & Systems Segment acquired electron beam technologies of Topcon Corp, which will accelerate product development by using microscopic imaging technologies.

Furthermore, HORIBA opened an office in Turkey with the aim of expanding sales channel in the automotive business. Moreover in Europe, HORIBA Jobin Yvon S.A.S. in France implemented the HORIBA Group's Enterprise Resource Planning System (GEO System), with the aim of speeding up its decision making and promoting common operational processes, and began to use the system in January 2014. On the financial side, HORIBA issued 15 billion yen of straight corporate bonds (7 years to maturity; coupon rate, 0.609% per annum) to gain funds for future capital investment, working capital, and repaying HORIBA, Ltd. No.3 Unsecured Straight Bonds.

On the background of the yen's depreciation, as a result of

such measures and sales efforts, both of consolidated net sales and profits increased from a year ago.

Net Sales

In the fiscal year ended December 31, 2013, consolidated net sales increased by ¥20,526 million, or 17.5%, year-on-year to ¥138,136 million. The average foreign exchange rate applied in book closings was ¥97.73 to the U.S. dollar, compared with ¥79.81 for the previous year, and ¥129.78 to the euro, compared with ¥102.55 for the previous year. Using the exchange rates for the previous year, consolidated sales for fiscal 2013 would have been ¥122,486 million. Thus, ¥15,649 million in increased sales can be attributed to the depreciation of the yen.

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

Consolidated cost of sales increased by ¥12,405 million to ¥80,625 million. The cost of sales ratio increased by 0.4 percentage points from a year ago to 58.4%, due mainly to the decline in sales of environmental radiation monitors, which had seen increased demand after the Great East Japan Earthquake. Excluding ¥7,176 million from fluctuations in foreign exchange rates, however, the actual increase in cost was ¥5,228 million rather than the nominal increase of ¥12,405 million.

Selling, general and administrative (SG&A) expenses increased by ¥6,139 million from the previous year to ¥43,777 million. The ratio to net sales improved by 0.3 percentage points to 31.7%, due mainly to the depreciation of the yen, and a significant increase in sales of mass flow controllers, which owes to an increased production at semiconductor production equipment manufacturers, supported by a rise in capital investment by semiconductor makers. Excluding ¥4,520 million from fluctuations in foreign exchange rates, however, the actual increase in SG&A expenses was ¥1,618 million rather than the nominal increase of ¥6,139 million. As a result, consolidated operating income increased by ¥1,981 million, or 16.9%, year-on-year to ¥13,733 million. The operating income ratio was 9.9%, down 0.1 percentage

points from 10.0% for the previous year.

Business Segments

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

(Automotive Test Systems)

In addition to a recovery in capital spending and R&D spending by automakers in Japan, Europe, and North America, the yen weakness was attributable to an increase in sales. However, the profitability of the driving management systems and drive recorders business deteriorated mainly due to an increase in development cost of new products and a drop in orders. Consequently, sales in the segment increased by 14.6% year-on-year to 49,524 million yen, but operating income decreased by 2.8% to 4,287 million yen.

(Process & Environmental Instruments & Systems)

The segment sales showed underlying strength on the back of steady sales of stack gas analyzers for thermal power plants and an increase in sales of process analysis product lines which were acquired in February 2013. However, sales of environmental radiation monitors, which had seen increased demand after the Great East Japan Earthquake, declined.

As a result, although sales in the segment rose by 7.3% year-on-year to 14,711 million yen, operating income declined by 23.1% to 1,263 million yen.

(Medical-Diagnostic Instruments & Systems)

The segment increased sales, due to steady sales of blood cell testing instruments in some Asian countries, and the weaker yen. However, expenses for developing sales channels in North America increased, which was mainly because of an increase in selling, general and administrative expenses. Consequently, sales in the segment increased by 19.8% year-on-year to 26,832 million yen, but operating income decreased by 2.0% to 2,429 million yen.

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(Semiconductor Instruments & Systems)

Owing to increased production at semiconductor production equipment manufacturers supported by a rise in capital investment by semiconductor makers, sales of mass flow controllers, the segment's major product, increased significantly. As a result, segment sales rose by 35.2% year-on-year to 24,153 million yen and operating income soared by 111.7% to 4,815 million yen.

(Scientific Instruments & Systems)

Although sales were higher after yen conversion due to the weaker yen, sales to universities and government laboratories decreased due to a reduction in government budgets in Europe. Consequently, although sales in the segment increased by 12.3% year-on-year to 22,913 million yen, operating income declined by 0.6% to 937 million yen.

Net Income

Consolidated operating income increased from a year ago. In addition, other income (expenses) improved by ¥380 million from fiscal 2012 to a loss of ¥201 million, mainly due to the gain on sales of the fixed assets by the transfer of the headquarter of the subsidiary in the U.S. As a result, pretax income increased by ¥2,361 million, or 21.1%, to ¥13,532 million, and net income increased by ¥1,603 million, or 21.7%, to ¥8,999 million.

Financial Position

As of December 31, 2013, total consolidated assets were ¥189,269 million, up ¥35,432 million from December 31, 2012. The main factors contributing to the increase of total assets were an increase in cash and cash equivalents of ¥10,388 million and an increase in trade notes and accounts receivable of ¥9,890 million.

Total consolidated liabilities increased by ¥20,423 million from the previous year to ¥74,723 million. The increase in total liabilities was due mainly to an increase of ¥4,580 million in trade notes and accounts payable, and ¥5,420 million in long-term debt. HORIBA, Ltd. No.3 Unsecured Straight

Bonds were assigned under a debt assumption agreement with financial institutions, to which a transitional measure for the accounting standard for financial instruments was applied. Thus, it is treated as having been redeemed.

Total consolidated net assets amounted to ¥114,545 million, up ¥15,009 million from a year ago, due mainly to an increase of ¥6,752 million in retained earnings and ¥6,882 million in foreign currency translation adjustments.

Cash Flows

(Cash Flow from Operating Activities)

Net cash provided by operating activities amounted to ¥15,076 million, compared to ¥13,395 million provided in the previous year. Factors contributing to this amount included posting of income before tax and depreciation and amortization expense.

(Cash Flow from Investing Activities)

Net cash used in investment activities amounted to ¥8,111 million, compared to ¥7,891 million used in the previous year, due mainly to payments for purchases of property, plant and equipment.

(Cash Flow from Financing Activities)

Net cash provided by financing activities amounted to ¥2,324 million, compared to ¥3,304 million used in the previous year. This was mainly attributable to proceeds from issuance of corporate bonds, despite payments for redemption of corporate bonds and payments for dividends.

As a result, there was a net increase of ¥10,388 million in cash and cash equivalents to ¥49,246 million as of December 31, 2013.

Dividend Policy

The Company believes that the distribution of profits to shareholders is one of its priority issues while giving due consideration to ensuring a stable management base and internal reserves for business expansion. Its basic policy

regarding dividends is to maintain a total shareholder return ratio of around 30% of consolidated net income of the Company, combined with the amount of dividend payments and the amount of share buyback. In addition, The Company will appropriate internal reserves as basic funds for working capital for business expansion, capital expenditure, investment in research and development, and the reinforcement of the financial strength, making returns to shareholders through the development of businesses for the future.

Major Risks

1. Business Risks

(1) Risks Associated with International Business Activities

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

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

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

HORIBA has actively promoted corporate acquisitions and

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

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

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

(4) Risks Associated with Contracts and Transactions

HORIBA enters into various contracts with customers, suppliers and other stakeholders and conducts its business activities based on these contracts. Nevertheless, there is a possibility of claims for damages arising from different views of performance or different understandings of business terms between parties. It is possible that such circumstances could result in HORIBA facing a claim for compensation.

(5) Litigation Risks

Arising from HORIBA's violation of the Antimonopoly Law in past bidding, HORIBA has received claims for damages from 13 municipal government agencies as of December 31, 2013. HORIBA found that certain parts of the claims regarding the scope of the transaction and calculation of the damages amounts were unacceptable and has decided to ask for

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judicial relief. Nevertheless, HORIBA has set aside provisions for possible losses from litigation, and it is possible that the HORIBA Group's financial condition and business performance could be affected depending on the progress of the litigation.

(6) Other Business Risks

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

2. Risks Associated with Development and Production

(1) Compensation for Product Liability

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

(2) Delays in Development of New Products

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

(3) Risks Concerning Intellectual Property Rights

HORIBA possesses a wide range of intellectual property rights related to the products it manufactures, including patents, trademarks and expertise, which give it superiority in terms of competitiveness. HORIBA exercises all possible

caution regarding the management and protection of these intellectual property rights. However, in the case of infringement by a third party, it is possible that HORIBA will be unable to attain its expected earnings. There is also a possibility of disputes over intellectual property rights with other companies. Such disputes could significantly affect HORIBA's financial condition and business performance.

(4) Risks Associated with Fluctuations in Raw Material Prices

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

3. Financial Risks

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

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

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

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

(3) Dissolution of Employees' Pension Fund

The Kyoto Machinery and Metal Employees' Pension Fund (general type), of which the Company and a domestic consolidated subsidiary are members, resolved to adopt a policy to carry out a special dissolution at the representative assembly.

Accordingly, HORIBA plans to post an estimated loss in association with the dissolution as "Provision for loss on dissolution of the employees' pension fund" for fiscal 2014. However, it expects to be approved for dissolution in early 2018. It is possible that an estimated loss will change, due to changes in the operating environment for the Fund, and in case of such as voluntary withdrawals, closures and bankruptcies of the Fund members other than HORIBA.

4. Risks by Business Segment

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

(1) Automotive Test Systems

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

(2) Process & Environmental Instruments & Systems

Demand for environmental-related products such as analyzers for air pollution and water quality may be affected by changes in environmental regulations. Changes in the demand for these products could have a significant impact on HORIBA Group's financial condition and business performance.

(3) Medical-Diagnostic Instruments & Systems

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

(4) Semiconductor Instruments & Systems

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

(5) Scientific Instruments & Systems

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

Consolidated Balance Sheets

HORIBA, Ltd. and Consolidated Subsidiaries

For the years ended December 31, 2012 and December 31, 2013

Thousands of

U.S. dollars

(Note 1)

ASSETS	Millions of yen		12/2013
	12/2012	12/2013	
Current assets:			
Cash and cash equivalents.....	¥38,858	¥49,246	\$467,273
Trade notes and accounts receivable (Note 7)			
Affiliated companies.....	4	25	237
Other.....	37,516	47,386	449,625
Allowance for doubtful receivables.....	(856)	(914)	(8,672)
Marketable securities (Note 5).....	1,501	1,800	17,079
Inventories (Note 6).....	28,101	33,085	313,929
Deferred tax assets (Note 15).....	2,881	3,186	30,230
Other current assets.....	3,980	6,419	60,907
Total current assets.....	111,988	140,235	1,330,629
Property, plant and equipment:			
Land.....	8,172	9,504	90,179
Buildings and structures.....	24,210	27,688	262,719
Machinery, equipment and vehicles.....	12,807	16,175	153,477
Construction in progress.....	1,851	1,783	16,728
Other property, plant and equipment.....	13,386	14,952	141,873
Total.....	60,428	70,085	665,006
Accumulated depreciation.....	(32,249)	(36,758)	(348,780)
Net property, plant and equipment.....	28,179	33,326	316,215
Investments and other noncurrent assets:			
Investment securities (Note 5).....	3,977	5,984	56,779
Investments in nonconsolidated subsidiaries and affiliates.....	67	105	996
Deferred tax assets (Note 15).....	2,030	1,750	16,604
Allowance for doubtful accounts.....	(74)	(45)	(426)
Other investments and other assets.....	3,176	2,801	26,577
Total.....	9,178	10,597	100,550
Intangibles:			
Goodwill (Note 20).....	319	314	2,979
Software.....	3,488	3,054	28,978
Other intangibles.....	681	1,741	16,519
Total.....	4,490	5,110	48,486
Total assets.....	¥153,836	¥189,269	\$1,795,891
LIABILITIES AND NET ASSETS			
Current liabilities:			
Short-term loans (Note 8).....	¥4,300	¥5,534	\$52,509
Current portion of long-term debt (Note 8).....	1,388	1,229	11,661
Trade notes and accounts payable:			
Affiliated companies.....	-	-	-
Other.....	11,829	16,409	155,697
Accounts payable - other.....	9,195	12,112	114,925
Accrued income taxes.....	1,317	3,523	33,428
Deferred tax liabilities (Note 15).....	6	87	825
Accrued bonuses to employees.....	902	905	8,587
Accrued bonuses to directors and corporate auditors.....	38	56	531
Reserve for product warranty.....	1,176	1,492	14,156
Other current liabilities.....	7,504	10,786	102,343
Total current liabilities.....	37,662	52,138	494,714
Long-term liabilities:			
Long-term debt (Note 8).....	12,394	17,814	169,029
Deferred tax liabilities (Note 15).....	153	659	6,252
Employees' retirement benefits (Note 9).....	2,066	2,406	22,829
Directors' and corporate auditors' retirement benefits.....	195	-	-
Provision for compensation losses.....	457	158	1,499
Other noncurrent liabilities.....	1,370	1,546	14,669
Total long-term liabilities.....	16,637	22,585	214,299
Total liabilities.....	54,299	74,723	709,014
Contingent liabilities (Note 13)			
Net assets (Note 10):			
Shareholders' equity:			
Common stock.....	12,011	12,011	113,967
Authorized - 100,000,000 shares			
Issued and outstanding - 42,297,169 shares (excluding treasury stock) at 12/2012			
Issued and outstanding - 42,301,569 shares (excluding treasury stock) at 12/2013			
Capital surplus.....	18,717	18,717	177,597
Retained earnings.....	71,725	78,477	744,634
Treasury stock - 235,583 shares at 12/2012 and 231,183 shares at 12/2013.....	(780)	(765)	(7,258)
Total shareholders' equity.....	101,674	108,441	1,028,949
Accumulated other comprehensive income:			
Unrealized gains (losses) on available-for-sale securities.....	987	2,296	21,785
Deferred gains or losses on hedges (Note 14).....	-	3	28
Foreign currency translation adjustments.....	(3,413)	3,468	32,906
Total accumulated other comprehensive income.....	(2,426)	5,768	54,730
Subscription rights to shares (Note 11).....	245	335	3,178
Minority interests in consolidated subsidiaries.....	42	0	0
Total net assets.....	99,536	114,545	1,086,867
Total liabilities and net assets.....	¥153,836	¥189,269	\$1,795,891

See the notes to the consolidated financial statements.

Consolidated Statements of Income

HORIBA, Ltd. and Consolidated Subsidiaries
For the years ended December 31, 2012 and December 31, 2013

	Millions of yen		Thousands of U.S. dollars (Note 1)
	12/2012	12/2013	12/2013
Net sales (Note 20)	¥117,609	¥138,136	\$1,310,712
Operating costs and expenses (Note 20):			
Cost of sales.....	68,220	80,625	765,015
Selling, general and administrative expenses.....	37,637	43,777	415,380
Total operating costs and expenses.....	105,857	124,402	1,180,396
Operating income (Note 20)	11,751	13,733	130,306
Other income (expenses):			
Interest and dividend income.....	312	294	2,789
Interest expense.....	(478)	(560)	(5,313)
Foreign exchange gains (losses), net.....	(206)	(274)	(2,599)
Gain on sales of property, plant and equipment.....	31	431	4,089
Loss on sales of property, plant and equipment.....	(0)	(7)	(66)
Loss on disposal of property, plant and equipment.....	(143)	(65)	(616)
Impairment loss (Note 16).....	(135)	(190)	(1,802)
Gain on sales of investment securities (Note 5).....	-	17	161
Loss on valuation of investment securities (Note 5).....	(2)	(15)	(142)
Gain on sales of subsidiaries and affiliates' stocks.....	-	67	635
Subsidy income.....	55	70	664
Reversal of provision for compensation losses.....	67	173	1,641
Gain on bargain purchase (Note 20).....	-	64	607
Other, net.....	(81)	(206)	(1,954)
Total other expenses, net.....	(581)	(201)	(1,907)
Income before income taxes and minority interests	11,170	13,532	128,399
Income taxes (Note 15):			
Current.....	3,236	4,280	40,611
Deferred.....	538	299	2,837
Total income taxes.....	3,774	4,580	43,457
Income before minority interests	7,395	8,951	84,932
Minority interests in earnings (losses) of consolidated subsidiaries	(0)	(47)	(445)
Net income	¥7,396	¥8,999	\$85,387

	Yen		U.S. dollars (Note 1)
	12/2012	12/2013	12/2013
Per share information:			
Net income – basic.....	¥174.87	¥212.76	\$2.01
Net income – diluted.....	174.37	212.01	2.01
Cash dividends.....	50.00	60.00	0.56

Consolidated Statements of Comprehensive Income

HORIBA, Ltd. and Consolidated Subsidiaries
For the years ended December 31, 2012 and December 31, 2013

	Millions of yen		Thousands of U.S. dollars (Note 1)
	12/2012	12/2013	12/2013
Income before minority interests	¥7,395	¥8,951	\$84,932
Other comprehensive income (Note 19)			
Unrealized gains (losses) on available-for-sale securities.....	270	1,308	12,411
Deferred gains or losses on hedges.....	-	3	28
Foreign currency translation adjustments.....	3,297	6,896	65,433
Share of other comprehensive income of affiliates accounted for using equity method.....	(2)	(8)	(75)
Total other comprehensive income.....	3,565	8,199	77,796
Comprehensive income	¥10,960	¥17,151	\$162,738
Total comprehensive income attributable to			
Owners of the parent.....	10,956	¥17,193	\$163,136
Minority interests.....	4	(42)	(398)

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, 2012 and December 31, 2013

Thousands of
U.S. dollars
(Note 1)

	Millions of yen		12/2013
	12/2012	12/2013	
Shareholders' equity			
Common stock			
Balance at beginning of current fiscal year.....	¥12,011	¥12,011	\$113,967
Balance at end of current fiscal year.....	¥12,011	¥12,011	\$113,967
Capital surplus			
Balance at beginning of current fiscal year.....	¥18,717	¥18,717	\$177,597
Balance at end of current fiscal year.....	¥18,717	¥18,717	\$177,597
Retained earnings			
Balance at beginning of current fiscal year.....	¥66,278	¥71,725	\$680,567
Changes in items during the period:			
Cash dividends.....	(1,945)	(2,241)	(21,263)
Net income.....	7,396	8,999	85,387
Disposal of treasury stock.....	(3)	(5)	(47)
Total.....	5,446	6,752	64,066
Balance at end of current fiscal year.....	¥71,725	¥78,477	\$744,634
Treasury stock			
Balance at beginning of current fiscal year.....	(¥788)	(¥780)	(\$7,401)
Changes in items during the period:			
Disposal of treasury stock.....	8	14	132
Total.....	8	14	132
Balance at end of current fiscal year.....	(¥780)	(¥765)	(\$7,258)
Shareholders' equity, total			
Balance at beginning of current fiscal year.....	¥96,219	¥101,674	\$964,740
Changes in items during the period:			
Cash dividends.....	(1,945)	(2,241)	(21,263)
Net income.....	7,396	8,999	85,387
Disposal of treasury stock.....	4	9	85
Total.....	5,455	6,766	64,199
Balance at end of current fiscal year.....	¥101,674	¥108,441	\$1,028,949
Accumulated other comprehensive income			
Unrealized gains (losses) on available-for-sale securities			
Balance at beginning of current fiscal year.....	¥717	¥987	\$9,365
Changes in items during the period:			
Net changes in items other than shareholders' equity.....	270	1,308	12,411
Total.....	270	1,308	12,411
Balance at end of current fiscal year.....	¥987	¥2,296	\$21,785
Deferred gains or losses on hedges			
Balance at beginning of current fiscal year.....	-	-	-
Changes in items during the period:			
Net changes in items other than shareholders' equity.....	-	3	28
Total.....	-	3	28
Balance at end of current fiscal year.....	-	¥3	\$28
Foreign currency translation adjustments			
Balance at beginning of current fiscal year.....	(¥6,703)	(¥3,413)	(\$32,384)
Changes in items during the period:			
Net changes in items other than shareholders' equity.....	3,289	6,882	65,300
Total.....	3,289	6,882	65,300
Balance at end of current fiscal year.....	(¥3,413)	¥3,468	\$32,906
Accumulated other comprehensive income, total			
Balance at beginning of current fiscal year.....	(¥5,986)	(¥2,426)	(\$23,019)
Changes in items during the period:			
Net changes in items other than shareholders' equity.....	3,560	8,194	77,749
Total.....	3,560	8,194	77,749
Balance at end of current fiscal year.....	(¥2,426)	¥5,768	\$54,730
Subscription rights to shares			
Balance at beginning of current fiscal year.....	¥186	¥245	\$2,324
Changes in items during the period:			
Net changes in items other than shareholders' equity.....	58	90	853
Total.....	58	90	853
Balance at end of current fiscal year.....	¥245	¥335	\$3,178
Minority interests in consolidated subsidiaries			
Balance at beginning of current fiscal year.....	¥40	¥42	\$398
Changes in items during the period:			
Net changes in items other than shareholders' equity.....	2	(42)	(398)
Total.....	2	(42)	(398)
Balance at end of current fiscal year.....	¥42	¥0	\$0
Net assets, total			
Balance at beginning of current fiscal year.....	¥90,460	¥99,536	\$944,453
Changes in items during the period:			
Cash dividends.....	(1,945)	(2,241)	(21,263)
Net income.....	7,396	8,999	85,387
Disposal of treasury stock.....	4	9	85
Net changes in items other than shareholders' equity.....	3,621	8,242	78,204
Total.....	¥9,076	¥15,009	\$142,413
Balance at end of current fiscal year.....	¥99,536	¥114,545	\$1,086,867

See the notes to the consolidated financial statements.

Consolidated Statements of Cash Flows

HORIBA, Ltd. and Consolidated Subsidiaries
For the years ended December 31, 2012 and December 31, 2013

Thousands of
U.S. dollars
(Note 1)

	Millions of yen		Thousands of U.S. dollars (Note 1)
	12/2012	12/2013	
Cash flows from operating activities:			
Income before income taxes and minority interests.....	¥11,170	¥13,532	\$128,399
Adjustments to reconcile income before income taxes and minority interests to net cash provided by operating activities:			
Depreciation and amortization.....	3,743	4,279	40,601
Impairment loss.....	135	190	1,802
Increase (decrease) in allowance for doubtful receivables.....	55	(160)	(1,518)
Increase (decrease) in provision for business structure improvement.....	(177)	-	-
Increase (decrease) in employees' retirement benefits.....	186	104	986
Increase (decrease) in directors' and corporate auditors' retirement benefits	(26)	(195)	(1,850)
Increase (decrease) in provision for compensation losses.....	(159)	(299)	(2,837)
Interest and dividend income.....	(312)	(294)	(2,789)
Interest expense.....	478	560	5,313
Foreign exchange losses (gains).....	13	(17)	(161)
Loss (gain) on sales of property, plant and equipment.....	(30)	(424)	(4,023)
Loss on disposal of property, plant and equipment.....	143	65	616
Loss (gain) on valuation of investment securities.....	2	15	142
Loss (gain) on sales of investment securities.....	-	(17)	(161)
Decrease (increase) in trade notes and accounts receivable.....	4,133	(4,222)	(40,060)
Decrease (increase) in inventories.....	40	(630)	(5,977)
Increase (decrease) in trade notes and accounts payable.....	(2,345)	1,989	18,872
Other, net.....	1,417	3,209	30,448
Subtotal.....	18,468	17,684	167,795
Interest and dividends received.....	305	289	2,742
Interest paid.....	(499)	(591)	(5,607)
Income taxes (paid) refund.....	(4,879)	(2,307)	(21,890)
Net cash provided by (used in) operating activities.....	13,395	15,076	143,049
Cash flows from investing activities:			
Increase in time deposits.....	(2,410)	(2,363)	(22,421)
Decrease in time deposits.....	2,410	1,505	14,280
Decrease in time deposits restricted for use.....	32	32	303
Payments for purchase of marketable securities.....	(2,904)	(2,404)	(22,810)
Proceeds from sales or redemption of marketable securities.....	2,509	2,103	19,954
Payments for purchase of property, plant and equipment.....	(6,741)	(6,040)	(57,310)
Proceeds from sales of property, plant and equipment.....	79	870	8,255
Payments for purchase of intangibles.....	(712)	(1,535)	(14,564)
Payments for purchase of investment securities.....	(147)	(23)	(218)
Proceeds from sales or redemption of investment securities.....	7	32	303
Payments for purchase of stocks of subsidiaries and affiliates.....	(18)	-	-
Proceeds from sales of stocks of subsidiaries and affiliates.....	-	77	730
Payments for transfer of business.....	-	(322)	(3,055)
Other, net.....	3	(45)	(426)
Net cash provided by (used in) investing activities.....	(7,891)	(8,111)	(76,961)
Cash flows from financing activities:			
Proceeds from issuance of corporate bonds.....	-	14,919	141,559
Payments for redemption of corporate bonds.....	-	(10,106)	(95,891)
Net increase (decrease) in short-term borrowings.....	(2,395)	185	1,755
Increase in long-term debt.....	1,827	1,285	12,192
Repayments of long-term debt.....	(635)	(1,534)	(14,555)
Repayments on finance lease obligations.....	(156)	(183)	(1,736)
Net decrease (increase) of treasury stock.....	0	0	0
Cash dividends paid.....	(1,943)	(2,242)	(21,273)
Net cash provided by (used in) financing activities.....	(3,304)	2,324	22,051
Effect of exchange rate changes on cash and cash equivalents.....	891	1,098	10,418
Net increase (decrease) in cash and cash equivalents.....	3,090	10,388	98,567
Cash and cash equivalents at beginning of year.....	35,767	38,858	368,706
Cash and cash equivalents at end of year.....	¥38,858	¥49,246	\$467,273

See the notes to the consolidated financial statements.

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

1. Basis of presenting consolidated financial statements

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

The accounts of the consolidated overseas subsidiaries have been prepared in accordance with either International Financial Reporting Standards or U.S. generally accepted accounting principles, with adjustments for the five specified items as applicable. The accompanying consolidated financial statements have been restructured and translated into English, with some expanded descriptions, from the consolidated financial statements of the Company prepared in accordance with Japanese GAAP and filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Japanese Financial Instruments and Exchange Law. Some supplementary information included in the statutory Japanese language consolidated financial statements, but not required for fair presentation, is not presented in the accompanying consolidated financial statements.

At the shareholders’ meetings of the Company’s domestic consolidated subsidiaries, held in March 2013, a resolution was made to abolish a program of retirement benefits for directors and corporate auditors. As it has been decided to pay directors and corporate auditors the equivalent amount of their retirement benefits of 201 million yen when each of them would retire from his position, the retirement benefits for directors and corporate auditors were drawn down and included in “Other noncurrent liabilities.”

Following a review of the risk management policy, HORIBA applies the hedge accounting method to a portion of scheduled foreign currency-denominated transactions from fiscal 2013.

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, 2013, which was ¥105.39 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 37 (36 in fiscal 2012) of its subsidiaries (“HORIBA” as a consolidated group). In fiscal 2013, one company was newly incorporated.

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

December 31 is the year-end of the consolidated subsidiaries and that of the consolidated financial

statements for fiscal 2012 and fiscal 2013.

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

For one of the two nonconsolidated subsidiaries, the equity method was applied.

The Company has two affiliated companies (four in fiscal 2012). Investments in the 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 at fair market value. Unrealized gains and losses on these securities are reported, net of applicable income taxes, as a separate component of net assets. Realized gains and losses on the sale of such securities are computed using moving average cost. Available-for-sale securities with no available fair market value are stated mainly at moving average cost.

(d) Inventories

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

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

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

lives of buildings and structures range from 3 to 60 years and those of machinery, equipment and vehicles from 2 to 18 years.

(f) Goodwill

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

(g) Software

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

(h) Leases

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

(i) Allowance for doubtful receivables

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

(j) Accrued bonuses to employees

Accrued bonuses to employees are provided for the expected payment of employee bonuses for fiscal 2013 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 2013 to those directors and corporate

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

auditors serving at the end of the fiscal year.

(l) Reserve for product warranty

The reserve for product warranty is provided for accrued warranty expenses for products of the Company and certain subsidiaries. The provision is based on estimates made from actual past experience and product warranty records and takes into account individual cases.

(m) Retirement benefits and pension plans

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

Actuarial gains and losses are recognized in expenses using the straight-line method over a fixed term of years (5 to 8 years), which is within the average of the estimated remaining service years of employees, commencing with the following period. In the Company and some domestic consolidated subsidiaries, prior service costs are recognized in expenses using the straight-line method over a fixed term of years (10 years), which is within the average of the estimated remaining service years of employees, commencing in the period they arise. In some consolidated subsidiaries, they are expensed as incurred.

(n) 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.

(o) 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 2013 was deemed to be certain (estimates of the ratio of completion of construction work are based on the cost-to-cost method). In the case of other construction, sales and costs were recorded using the completed contract method.

(p) 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.

(q) 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. Regarding derivative transactions, in addition to conducting exchange agreement transactions within the limit of the balance of foreign currency-denominated receivables and payables, HORIBA conducts forward exchange agreement transactions for the expected foreign currency-denominated receivables and payables, which would be generated with certainty by scheduled export or import trading. 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.

(r) Hedge accounting

i) Hedge accounting method

Deferred hedge accounting is applied.

ii) Hedging instruments and hedged items

Hedging instruments: Forward foreign exchange contracts, etc.

Hedged items: Foreign currency-denominated forecast transactions

iii) Hedging policy

Forward foreign exchange transactions are used to avoid foreign currency risks, based on the Company's Administrative Rules.

iv) Assessment of hedge effectiveness

The effectiveness of hedges is assessed by comparing the cumulative change of cash flows of both hedging instruments and corresponding hedged items. However, the assessment of effectiveness is not conducted for forward foreign exchange contracts as the significant conditions of both hedging instruments and corresponding hedged items are the same.

(s) Research and development expenses

Research and development expenses are charged to income when incurred. Research and development expenses charged to income for fiscal 2012 and fiscal 2013 were ¥10,092 million and ¥10,774 million (\$102,229 thousand), respectively.

(t) Income taxes

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

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

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

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

(u) Per share information

The computations of net income per share are based on

the weighted average number of shares of common stock outstanding during each period. The weighted average number of shares of common stock used in the computation for fiscal 2012 and fiscal 2013 was 42,297 thousand and 42,299 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 2012 and fiscal 2013 was 42,418 thousand and 42,448 thousand, respectively.

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

3. Accounting standards issued but not yet effective

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

(a) Overview

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

(b) Date of application

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

(c) Effect of applying these accounting standards

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

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

4. Financial instruments

(1) Overview of financial instruments

Management policy

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

Financial instruments, risks and risk management

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

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

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

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

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

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

Regarding derivative transactions, in addition to conducting exchange agreement transactions within the limit of the balance of foreign currency-denominated receivables and payables, HORIBA conducts forward exchange agreement transactions for the expected foreign currency-denominated receivables and payables, which would be generated with certainty by scheduled export or import trading. HORIBA 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.

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, 2012 and December 31, 2013 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		
	12/2012			12/2013		
	Book value	Fair value	Difference	Book value	Fair value	Difference
Assets:						
(1) Cash and time deposits.....	¥34,685	¥34,685	-	¥42,228	¥42,228	-
(2) Trade notes and accounts receivable.....	37,521	37,521	-	47,412	47,412	-
(3) Marketable securities and investment securities						
Available-for-sale securities.....	9,931	9,931	-	16,127	16,127	-
Total.....	¥82,138	¥82,138	-	¥105,767	¥105,767	-
Liabilities:						
(1) Trade notes and accounts payable.....	¥11,829	¥11,829	-	¥16,409	¥16,409	-
(2) Short-term loans.....	5,523	5,523	-	6,606	6,606	-
(3) Accounts payable - other.....	9,195	9,195	-	12,112	12,112	-
(4) Accrued income taxes.....	1,317	1,317	-	3,523	3,523	-
(5) Bonds.....	10,000	10,239	239	15,000	14,891	(108)
(6) Long-term loans.....	2,113	2,145	32	2,576	2,477	(99)
Total.....	¥39,979	¥40,251	¥272	¥56,229	¥56,021	(¥207)
Derivative transactions						
(1) Hedge accounting not applied.....	(¥190)	(¥190)	-	(¥188)	(¥188)	-
(2) Hedge accounting applied.....	-	-	-	5	5	-
Total.....	(¥190)	(¥190)	-	(¥182)	(¥182)	-

	Thousands of U.S. dollars		
	12/2013		
	Book value	Fair value	Difference
Assets:			
(1) Cash and time deposits.....	\$400,683	\$400,683	-
(2) Trade notes and accounts receivable.....	449,871	449,871	-
(3) Marketable securities and investment securities			
Available-for-sale securities.....	153,022	153,022	-
Total.....	\$1,003,577	\$1,003,577	-
Liabilities:			
(1) Trade notes and accounts payable.....	\$155,697	\$155,697	-
(2) Short-term loans.....	62,681	62,681	-
(3) Accounts payable - other.....	114,925	114,925	-
(4) Accrued income taxes.....	33,428	33,428	-
(5) Bonds.....	142,328	141,294	(1,024)
(6) Long-term loans.....	24,442	23,503	(939)
Total.....	\$533,532	\$531,558	(\$1,964)
Derivative transactions			
(1) Hedge accounting not applied.....	(\$1,783)	(\$1,783)	-
(2) Hedge accounting applied.....	47	47	-
Total.....	(\$1,726)	(\$1,726)	-

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

Assets

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

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

(3) Marketable securities and investment securities

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

Liabilities

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

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

(5) Bonds

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

(6) Long-term loans

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

Derivative transactions

See Note 14 for derivative transactions.

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

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

	Millions of yen		Thousands of
	12/2012	12/2013	U.S. dollars
			12/2013
Non-listed equity securities.....	¥146	¥129	\$1,224
Investments in nonconsolidated subsidiaries and affiliates.....	67	105	996

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

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

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

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

	Millions of yen			
	12/2013			
	Within one year	Over one year but within five years	Over five years but within ten years	Over ten years
Cash and time deposits.....	¥42,228	-	-	-
Trade notes and accounts receivable.....	47,412	-	-	-
Marketable securities and investment securities				
Available-for-sale securities with maturities				
(1) Governmental/municipal bonds.....	-	10	-	-
(2) Corporate bonds.....	401	200	-	-
(3) Other bonds.....	1,099	-	-	-
(4) Other.....	799	27	14	-
Total.....	¥91,941	¥238	¥14	-

	Thousands of U.S. dollars			
	12/2013			
	Within one year	Over one year but within five years	Over five years but within ten years	Over ten years
Cash and time deposits.....	\$400,683	-	-	-
Trade notes and accounts receivable.....	449,871	-	-	-
Marketable securities and investment securities				
Available-for-sale securities with maturities				
(1) Governmental/municipal bonds.....	-	94	-	-
(2) Corporate bonds.....	3,804	1,897	-	-
(3) Other bonds.....	10,427	-	-	-
(4) Other.....	7,581	256	132	-
Total.....	\$872,388	\$2,258	\$132	-

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

5. Securities

The following table summarizes acquisition costs and book values (fair values) of available-for-sale securities as of December 31, 2012 and December 31, 2013.

	Millions of yen			Millions of yen		
	12/2012			12/2013		
	Book value	Acquisition cost	Difference	Book value	Acquisition cost	Difference
Securities with book values exceeding acquisition costs:						
Equity securities.....	¥2,470	¥860	¥1,609	¥5,636	¥2,178	¥3,457
Governmental/municipal bonds..	-	-	-	10	10	0
Corporate bonds.....	600	599	1	100	100	0
Other.....	1,010	1,010	0	500	500	0
Subtotal.....	4,081	2,470	1,611	6,247	2,788	3,459
Securities with book values not exceeding acquisition costs:						
Equity securities.....	1,151	1,310	(158)	-	-	-
Corporate bonds.....	498	499	(0)	301	301	(0)
Other bonds.....	599	600	(0)	1,299	1,300	(0)
Other.....	3,598	3,598	-	8,278	8,278	(0)
Subtotal.....	5,849	6,008	(159)	9,879	9,880	(0)
Total.....	¥9,931	¥8,479	¥1,451	¥16,127	¥12,668	¥3,458

	Thousands of U.S. dollars		
	12/2013		
	Book value	Acquisition cost	Difference
Securities with book values exceeding acquisition costs:			
Equity securities.....	\$53,477	\$20,666	\$32,801
Governmental/municipal bonds.....	94	94	0
Corporate bonds.....	948	948	0
Other.....	4,744	4,744	0
Subtotal.....	59,275	26,454	32,820
Securities with book values not exceeding acquisition costs:			
Corporate bonds.....	2,856	2,856	(0)
Other bonds.....	12,325	12,335	(0)
Other.....	78,546	78,546	(0)
Subtotal.....	93,737	93,747	(0)
Total.....	\$153,022	\$120,201	\$32,811

Note. Non-listed equity securities, etc. of ¥146 million and ¥129 million (\$1,224 thousand) for the fiscal year ended December 31, 2012 and December 31, 2013, 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, 2012 and December 31, 2013.

	Millions of yen		Thousands of U.S. dollars
	12/2012	12/2013	12/2013
Total sales of available-for-sale securities.....	-	¥30	\$284
Related gains.....	-	17	161

Impairment loss on marketable securities

The Company recognized an impairment loss of ¥2 million and ¥15 million (\$142 thousand) in fiscal 2012 and fiscal 2013, respectively, on available-for-sales securities. When applying impairment accounting, if the market value at the end of the term has fallen by more than 50% from the acquisition price, an impairment loss is applied to the entire amount. If the market value has fallen by approximately 30% to 50%, an impairment loss is applied to the amount recognized as necessary after considering the possibility of recovery, etc.

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

6. Inventories

Inventories at December 31, 2012 and December 31, 2013 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	12/2012	12/2013	12/2013
Merchandise and finished goods.....	¥10,099	¥11,111	\$105,427
Work-in-process.....	10,053	12,755	121,026
Raw materials and supplies.....	7,947	9,218	87,465
Total.....	¥28,101	¥33,085	\$313,929

7. Notes receivable maturing on December 31, 2012 and December 31, 2013, which were bank holidays

December 31, 2012 and December 31, 2013, 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 ¥318 million were included in the ending balance at December 31, 2012 and notes in the amount of ¥290 million (\$2,751 thousand) were included in the ending balance at December 31, 2013.

8. Short-term loans and long-term debt

Short-term loans are generally represented by bank notes with annual interest rates ranging from 0.49% to 12.24% and 0.48% to 15.93% at December 31, 2012 and December 31, 2013, respectively.

Long-term debt at December 31, 2012 and December 31, 2013 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	12/2012	12/2013	12/2013
Unsecured:			
1.98% bonds due in 2014.....	¥10,000	-	-
0.609% bonds due in 2020.....	-	15,000	142,328
Loans from banks due serially from 2014 to 2022 at rates from 2.00% to 17.65% per annum.....	3,335	3,648	34,614
Lease obligations at 6.77% maturing serially through 2018	447	394	3,738
Total.....	13,783	19,043	180,690
Current portion.....	(1,388)	(1,229)	(11,661)
Long-term debt, less current portion.....	¥12,394	¥17,814	\$169,029

The aggregate annual maturities of long-term debt outstanding at December 31, 2013 were as follows:

Year ending December 31	Millions of yen	Thousands of U.S. dollars
2014.....	¥1,229	\$11,661
2015.....	837	7,941
2016.....	543	5,152
2017.....	342	3,245
2018.....	284	2,694
Thereafter.....	15,807	149,985
Total.....	¥19,043	\$180,690

As of December 31, 2013, the Company and its 9 subsidiaries had entered into agreements for bank overdrafts or loan commitments with 11 banks as follows:

	Millions of yen	Thousands of U.S. dollars
The maximum aggregate principal.....	¥17,376	\$164,873
Amount utilized.....	1,077	10,219
Balance available.....	¥16,299	\$154,654

9. Employees' severance and pension benefits

Outline of adopted retirement pension fund

The Company and domestic consolidated subsidiaries have adopted a defined contribution pension plan and a defined benefit pension plan (cash balance type). The Company and a domestic consolidated subsidiary have been members of the Kyoto Machinery and Metal Employees' Pension Fund (general 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, 2012 and December 31, 2013 (available information as of March 31, 2012 and 2013), 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
	12/2012	12/2013	12/2013
Fair value of plan assets.....	¥46,533	¥49,891	\$473,394
Pension benefits obligation recorded by pension fund.....	77,138	71,774	681,032
Net balance.....	(¥30,604)	(¥21,883)	(\$207,638)

(b) The ratio of pension premiums expensed from March 1, 2013 to March 31, 2013 by the Company and its subsidiaries to the total premium amount was 15.71% (15.55% from March 1, 2012 to March 31, 2012).

Note 1. Net balance resulted from the prior service cost of ¥20,604 million and ¥20,390 million (\$193,471 thousand), and the shortage of reserve for plan assets of ¥10,000 million and ¥1,493 million (\$14,166 thousand) for the years ended December 31, 2012 and December 31, 2013, 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.

Note 4. The Fund resolved to adopt a policy to carry out a special dissolution at the representative assembly that took place on February 20, 2014. Accordingly, HORIBA plans to post an approximately 2 billion yen estimated loss in association with the dissolution as "Provision for loss on dissolution of the employees' pension fund" (Other expenses) for fiscal 2014.

(2) Liabilities for employees' retirement benefits at December 31, 2012 and December 31, 2013 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	12/2012	12/2013	12/2013
Projected benefit obligation.....	(¥6,432)	(¥7,782)	(\$73,840)
Pension assets.....	4,240	5,406	51,295
Unfunded projected benefit obligation.....	(2,191)	(2,375)	(22,535)
Unrecognized actuarial differences.....	1	(41)	(389)
Unrecognized prior service costs.....	123	9	85
Employees' retirement benefits.....	(¥2,066)	(¥2,406)	(\$22,829)

Employees' retirement benefits expense for the years ended December 31, 2012 and December 31, 2013 comprised the following:

	Millions of yen		Thousands of U.S. dollars
	12/2012	12/2013	12/2013
Service cost.....	¥845	¥908	\$8,615
Interest expense on projected benefit obligation.....	145	159	1,508
Expected return on plan assets.....	(71)	(118)	(1,119)
Amortization of actuarial differences.....	209	82	778
Amortization of prior service costs.....	117	114	1,081
Other.....	438	539	5,114
Retirement benefits expense.....	¥1,684	¥1,684	\$15,978

Note 1. Premiums on the contributory funded retirement plan in the amount of ¥447 million and ¥478 million (\$4,535 thousand) expensed for the year ended December 31, 2012 and December 31, 2013, 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:

	12/2012	12/2013
Discount rate (mainly).....	2.00%	1.20-1.50%
Expected rate of return on plan assets (mainly).....	1.50%	2.50%

The estimated amount of all retirement benefits to be paid at future retirement dates is allocated equally to each service year using the estimated total number of service years. Actuarial differences are recognized in the income statement using the straight-line method mainly over 5-8 years. Prior service costs are recognized in the income statement using the straight-line method mainly over 10 years.

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10. Net assets

Under Japanese laws and regulations, the entire amount paid for new shares is required to be designated as common stock. However, a company may, by a resolution of the Board of Directors, designate an amount not exceeding one half of the price of the new shares as additional paid-in capital, which is included in capital surplus.

Under the Japanese Corporate Law ("the Law"), in cases where a dividend distribution of surplus is made, the smaller of an amount equal to 10% of the dividend or the excess, if any, of 25% of common stock over the total of additional paid-in capital and legal earnings reserve must be set aside as additional paid-in capital or legal earnings reserve. Legal earnings reserve is included in retained earnings in the accompanying consolidated balance sheets.

Additional paid-in capital and legal earnings reserve may not be distributed as dividends. Under the Law, all additional paid-in capital and all legal earnings reserve may be transferred to other capital surplus and retained earnings, respectively, which are potentially available for dividends. Both of these appropriations generally require a resolution of the shareholder's meeting.

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

At the Board of Directors' meeting held on February 13, 2014, the Board of Directors approved cash dividends in the amount of ¥1,776 million (\$16,851 thousand). The appropriation had not been accrued in the consolidated financial statements as of December 31, 2013. Such appropriations are recognized in the period in which they are approved by the Board of Directors.

11. Stock options

(1) Expenses and items related to stock options

	Millions of yen		Thousands of
	12/2012	12/2013	U.S.dollars
			12/2013
Selling, general and administrative expenses.....	¥63	¥99	\$939

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

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

(a) Details of stock options

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

	No. 5 Stock-based Compensation Type Stock Option
Persons granted options	4 directors and 14 corporate officers of the Company, 2 directors and 3 corporate officers of the subsidiaries
Number of shares by type of stock (Note 1)	Common stock 33,200 shares
Date of grant	May 8, 2013
Vesting conditions	(Note 2)
Service period	(Note 3)
Exercise period	May 9, 2013 to May 8, 2043

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

Note 2. Vesting conditions are not stipulated.

Note 3. 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	No. 4 Stock-based Compensation Type Stock Option
Options before vesting (number of shares)				
Balance at December 31, 2012	-	-	-	-
Granted	-	-	-	-
Forfeited	-	-	-	-
Vested	-	-	-	-
Balance at December 31, 2013	-	-	-	-
Options after vesting (number of shares)				
Balance at December 31, 2012	47,400	24,200	30,400	28,200
Vested	-	-	-	-
Exercised	1,300	600	700	1,100
Forfeited	-	-	-	-
Balance at December 31, 2013	46,100	23,600	29,700	27,100

	No. 5 Stock-based Compensation Type Stock Option
Options before vesting (number of shares)	
Balance at December 31, 2012	-
Granted	33,200
Forfeited	-
Vested	33,200
Balance at December 31, 2013	-
Options after vesting (number of shares)	
Balance at December 31, 2012	-
Vested	33,200
Exercised	700
Forfeited	-
Balance at December 31, 2013	32,500

(ii) Price per share

	No. 1 Stock-based Compensation Type Stock Option	No. 2 Stock-based Compensation Type Stock Option	No. 3 Stock-based Compensation Type Stock Option	No. 4 Stock-based Compensation Type Stock Option
Option price (yen)	1	1	1	1
Weighted average stock price (yen)	3,073	3,073	3,073	3,073
Fair value at grant date (yen)	1,091	2,628	2,208	2,245

	No. 5 Stock-based Compensation Type Stock Option
Option price (yen)	1
Weighted average stock price (yen)	3,648
Fair value at grant date (yen)	2,988

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

The grant date fair value of No. 5 Stock-based Compensation Type Stock Option in the year ended December 31, 2013 was estimated using the Black-Scholes option pricing model as follows:

	No. 5 Stock-based Compensation Type Stock Option
Stock price volatility (Note 1)	36.9%
Expected remaining period (Note 2)	15 Years
Expected dividend (Note 3)	¥50/share
Risk free interest rate (Note 4)	1.14%

Note 1. Stock price volatility was calculated based on actual weekly stock prices over 15 years (from the week of May 4, 1998 to the week of April 29, 2013).

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

Note 3. Expected dividend was calculated by using the actual dividend paid for the year ended December 31, 2012.

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

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

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

12. Leases

Finance leases which do not transfer ownership at December 31, 2012 and December 31, 2013 consisted of leases for office equipment and software. The method of depreciation and amortization of lease assets is described in Note 2(h), "Summary of significant accounting policies - Leases."

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

At December 31, 2012 and December 31, 2013, 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
	12/2012	12/2013	12/2013
Machinery, equipment and vehicles.....	¥109	¥109	\$1,034
Other property, plant and equipment.....	117	45	426
Other intangibles.....	4	-	-
Less accumulated depreciation and amortization.....	(181)	(128)	(1,214)
Total.....	¥50	¥27	\$256

Note. The above depreciation and amortization was calculated by the straight-line method over the term of the lease. If the above leases had been capitalized, interest of ¥1 million and ¥0 million (\$0 thousand) and depreciation and amortization of ¥52 million and ¥23 million (\$218 thousand) would have been recorded for the years ended December 31, 2012 and December 31, 2013, respectively. Lease payments under non-capitalized finance leases were ¥56 million and ¥25 million (\$237 thousand) for the years ended December 31, 2012 and December 31, 2013, respectively. Obligations under finance leases at December 31, 2012 and December 31, 2013 were as follows:

	Millions of yen		Thousands of U.S. dollars
	12/2012	12/2013	12/2013
Payments remaining:			
Payments due within 1 year.....	¥25	¥20	\$189
Payments due after 1 year.....	29	8	75
Total.....	¥54	¥29	\$275

Payments remaining under operating leases at December 31, 2012 and December 31, 2013 were as follows:

	Millions of yen		Thousands of U.S. dollars
	12/2012	12/2013	12/2013
Payments remaining:			
Payments due within 1 year.....	¥626	¥805	\$7,638
Payments due after 1 year.....	1,846	1,603	15,210
Total.....	¥2,472	¥2,409	\$22,857

13. Contingent liabilities

The Company and certain consolidated subsidiaries were contingently liable as guarantors of loans to affiliated companies and nonconsolidated subsidiaries in the amounts of ¥116 million at December 31, 2012.

The outstanding amount for which the Company was contingently liable under a debt assumption agreement was ¥10,000 million (\$94,885 thousand) of the HORIBA, Ltd. No. 3 Unsecured Straight Bonds at December 31, 2013.

14. Derivative transactions

Derivative transactions for which hedge accounting was not applied at December 31, 2012 and December 31, 2013 were as follows:

Currency related:

	Millions of yen				Millions of yen			
	12/2012				12/2013			
	Contract amount	Amount of principal due over 1 year	Market value	Gain (loss)	Contract amount	Amount of principal due over 1 year	Market value	Gain (loss)
Forwards								
Selling								
US dollar	¥1,797	-	(¥32)	(¥32)	¥3,575	-	(¥84)	(¥84)
Euro	1,018	193	(98)	(98)	1,861	-	(141)	(141)
Pound	95	-	(6)	(6)	225	-	(9)	(9)
Hong Kong dollar	-	-	-	-	8	-	(0)	(0)
Buying								
US dollar	-	-	-	-	52	-	2	2
Euro	-	-	-	-	597	-	41	41
Pound	-	-	-	-	25	-	0	0
Yen	-	-	-	-	160	-	(6)	(6)
Currency swap								
Receiving in US dollar and paying in Real	-	-	-	-	147	121	9	9
Total	¥2,911	¥193	(¥136)	(¥136)	¥6,656	¥121	(¥188)	(¥188)

Note. Market value is determined by banking institutions.

	Thousands of U.S. dollars			
	12/2013			
	Contract amount	Amount of principal due over 1 year	Market value	Gain (loss)
Forwards				
Selling				
US dollar	\$33,921	-	(\$797)	(\$797)
Euro	17,658	-	(1,337)	(1,337)
Pound	2,134	-	(85)	(85)
Hong Kong dollar	75	-	(0)	(0)
Buying				
US dollar	493	-	18	18
Euro	5,664	-	389	389
Pound	237	-	0	0
Yen	1,518	-	(56)	(56)
Currency swap				
Receiving in US dollar and paying in Real	1,394	1,148	85	85
Total	\$63,155	\$1,148	(\$1,783)	(\$1,783)

Interest rate related:

	Millions of yen				Millions of yen			
	12/2012				12/2013			
	Contract amount	Amount of principal due over 1 year	Market value	Gain (loss)	Contract amount	Amount of principal due over 1 year	Market value	Gain (loss)
Interest rate swap contracts								
Receiving floating rates and paying fixed rates	¥1,957	-	(¥53)	(¥53)	-	-	-	-
Total	¥1,957	-	(¥53)	(¥53)	-	-	-	-

Note. Market value is determined by banking institutions.

Derivative transactions for which hedge accounting was applied at December 31, 2012 and December 31, 2013 were as follows:

Currency related:

	Millions of yen				Millions of yen			
	12/2012				12/2013			
	Hedged items	Contract amount	Amount of principal due over 1 year	Market value	Hedged items	Contract amount	Amount of principal due over 1 year	Market value
Forwards								
Selling								
Euro	-	-	-	-	Accounts receivable	¥8	-	(¥0)
Buying								
Euro	-	-	-	-	Accounts payable	54	-	6
Total	-	-	-	-	¥63	-	¥6	¥6

Note. Market value is determined by banking institutions.

	Thousands of U.S. dollars			
	12/2013			
	Hedged items	Contract amount	Amount of principal due over 1 year	Market value
Forwards				
Selling				
Euro	Accounts receivable	\$75	-	(\$0)
Buying				
Euro	Accounts payable	512	-	56
Total		\$597	-	\$47

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

15. Income taxes

The Company is subject to a number of taxes based on income, which, in the aggregate, indicate a statutory income tax rate in Japan of approximately 40.6% for the year ended December 31, 2012 and 37.9% for the year ended December 31, 2013.

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, 2012 and December 31, 2013.

	12/2012	12/2013
Statutory tax rate.....	40.6%	37.9%
Expenses not qualifying for permanent deduction, e.g. entertainment expenses.....	1.2	1.0
Nontaxable dividend income.....	(0.2)	(0.7)
Per capita inhabitants tax.....	0.4	0.3
Increase/decrease in valuation allowance for deferred tax assets.....	0.0	0.7
Differences in tax rate between foreign subsidiaries and the Company.....	(3.3)	(2.6)
Tax credits.....	(4.3)	(4.2)
Other.....	(0.6)	1.4
Effective tax rate.....	<u>33.8%</u>	<u>33.8%</u>

Significant components of HORIBA's deferred tax assets and liabilities at December 31, 2012 and December 31, 2013 were as follows:

	Millions of yen		Thousands of U.S. dollars
	12/2012	12/2013	12/2013
Deferred tax assets			
Accrued enterprise tax.....	¥162	¥243	\$2,305
Loss on write-down of inventory.....	829	981	9,308
Allowance for doubtful receivables.....	66	79	749
Accrued bonuses.....	200	220	2,087
Loss carryforwards.....	1,463	2,146	20,362
Unrealized gains.....	999	1,379	13,084
Employees' retirement benefits.....	608	641	6,082
Depreciation.....	644	558	5,294
Loss on valuation of investment securities.....	103	108	1,024
Retirement benefits for directors and corporate auditors.....	319	-	-
Loss on impairment of fixed assets.....	115	117	1,110
Other.....	2,033	2,406	22,829
Total deferred tax assets.....	<u>7,546</u>	<u>8,885</u>	<u>84,305</u>
Valuation allowance.....	(1,206)	(1,807)	(17,145)
Net deferred tax assets.....	<u>6,339</u>	<u>7,078</u>	<u>67,160</u>
Deferred tax liabilities			
Unrealized losses.....	(390)	(399)	(3,785)
Net unrealized holding gains on securities.....	(463)	(1,161)	(11,016)
Other.....	(733)	(1,326)	(12,581)
Total deferred tax liabilities.....	<u>(1,587)</u>	<u>(2,888)</u>	<u>(27,402)</u>
Net deferred tax assets.....	<u>¥4,751</u>	<u>¥4,189</u>	<u>\$39,747</u>

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

	Millions of yen		Thousands of U.S. dollars
	12/2012	12/2013	12/2013
Current assets.....	¥2,881	¥3,186	\$30,230
Investments and other noncurrent assets.....	2,030	1,750	16,604
Current liabilities.....	(6)	(87)	(825)
Long-term liabilities.....	(153)	(659)	(6,252)
Net deferred tax assets.....	<u>¥4,751</u>	<u>¥4,189</u>	<u>\$39,747</u>

16. Impairment loss

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

Location	Use	Type	Millions of yen
Montpellier, France	Idle	Machinery and equipment	
		Other equipment	¥104
Neuhausen, Germany	–	Goodwill	21
Kyoto, Japan	Idle	Land	8

(Background)

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

(Method used for grouping)

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

(Method used for calculating a recoverable amount)

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

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, 2013.

Location	Use	Type	Millions of yen	U.S. dollars
Beijing, China	–	Goodwill	¥143	\$1,356
Longjumeau, France	Idle	Buildings and structures		
		Land	32	303
Montpellier, France	Idle	Machinery and equipment	10	94
Kyoto, Japan	Idle	Land	4	37

(Background)

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

(Method used for grouping)

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

(Method used for calculating a recoverable amount)

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

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

17. Asset retirement obligations

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

18. Investment and rental property

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

19. Consolidated statement of comprehensive income

Components of other comprehensive income for the years ended December 31, 2012 and December 31 2013, consisted of the following

	Millions of yen		Thousands of U.S. dollars
	2012	2013	2013
Unrealized gains (losses) on available-for-sale securities:			
Increase (decrease) during the year.....	¥413	¥2,024	\$19,204
Reclassification adjustment.....	-	(17)	(161)
Subtotal, before tax.....	413	2,006	19,034
Tax (expense) or benefit.....	(143)	(698)	(6,623)
Subtotal, net tax.....	270	1,308	12,411
Deferred gains or losses on hedges			
Increase (decrease) during the year.....	-	5	47
Tax (expense) or benefit.....	-	(2)	(18)
Subtotal, net tax.....	-	3	28
Foreign currency translation adjustments			
Increase (decrease) during the year.....	3,297	6,896	65,433
Share of other comprehensive income of associates accounted for using the equity method			
Increase (decrease) during the year.....	(2)	(8)	(75)
Total other comprehensive income.....	¥3,565	¥8,199	\$77,796

20. Segment information

General information regarding reportable segments

(1) Calculation method for reportable segments

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

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

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

Major products of each segment are described below.

(a) Automotive Test Systems

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

(b) Process & Environmental Instruments & Systems

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

(c) Medical-Diagnostic Instruments & Systems

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

(d) Semiconductor Instruments & Systems

Mass Flow Controllers, Chemical Concentration Monitors, Reticle/Mask Particle Detection Systems, Residual Gas Analyzers

(e) Scientific Instruments & Systems

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

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

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

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

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

	Millions of yen						
	12/2013						
	Automotive	Process & Environmental	Medical-Diagnostic	Semiconductor	Scientific	Adjustment	Consolidated
Sales							
Sales to outside customers.....	¥49,524	¥14,711	¥26,832	¥24,153	¥22,913	-	¥138,136
Intersegment sales and transfers.....	-	-	-	-	-	-	-
Total.....	49,524	14,711	26,832	24,153	22,913	-	138,136
Segment income (loss).....	¥4,287	¥1,263	¥2,429	¥4,815	¥937	-	¥13,733
Segment assets.....	¥43,148	¥13,676	¥23,931	¥25,025	¥21,710	¥61,776	¥189,269
Other items:							
Depreciation.....	1,344	440	1,095	646	655	-	4,182
Amortization of goodwill.....	-	-	-	47	48	-	96
Increase in tangible and intangible fixed assets.....	2,231	672	1,751	1,939	1,084	-	7,680

	Thousands of U.S. dollars						
	12/2013						
	Automotive	Process & Environmental	Medical-Diagnostic	Semiconductor	Scientific	Adjustment	Consolidated
Sales							
Sales to outside customers.....	\$469,911	\$139,586	\$254,597	\$229,177	\$217,411	-	\$1,310,712
Intersegment sales and transfers.....	-	-	-	-	-	-	-
Total.....	469,911	139,586	254,597	229,177	217,411	-	1,310,712
Segment income (loss).....	\$40,677	\$11,984	\$23,047	\$45,687	\$8,890	-	\$130,306
Segment assets.....	\$409,412	\$129,765	\$227,070	\$237,451	\$205,996	\$586,165	\$1,795,891
Other items:							
Depreciation.....	12,752	4,174	10,389	6,129	6,215	-	39,681
Amortization of goodwill.....	-	-	-	445	455	-	910
Increase in tangible and intangible fixed assets.....	21,168	6,376	16,614	18,398	10,285	-	72,872

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 amounts of ¥48,865 million and ¥61,776 million (\$586,165 thousand) of segment assets for the years ended December 31, 2012 and December 31, 2013 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 | Note to Consolidated Financial Statements

<Related Information>

1. Information regarding geographic areas

(1) Net sales

	Millions of yen		Thousands of U.S. dollars
	2012	2013	2013
Japan.....	¥45,777	¥48,496	\$460,157
United States.....	14,170	19,237	182,531
Europe.....	27,421	33,577	318,597
Asia.....	26,270	30,985	294,003
Others.....	3,969	5,839	55,403
Total.....	¥117,609	¥138,136	\$1,310,712

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

(2) Property, plant and equipment

	Millions of yen		Thousands of U.S. dollars
	2012	2013	2013
Japan.....	¥15,649	¥16,096	\$152,727
France.....	5,624	6,387	60,603
Others.....	6,904	10,842	102,875
Total.....	¥28,179	¥33,326	\$316,215

2. Information regarding major customers

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

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

	Millions of yen		Thousands of U.S. dollars
	2012	2013	2013
Automotive Test Systems.....	¥21	-	-
Medical-Diagnostic Instruments & Systems.....	104	10	94
Semiconductor Instruments & Systems.....	-	143	1,356
Scientific Instruments & Systems.....	-	32	303
Others.....	8	4	37
Total.....	¥135	¥190	\$1,802

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

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

	Millions of yen		Thousands of U.S. dollars
	2012	2013	2013
Semiconductor Instruments & Systems.....	¥164	-	-
Scientific Instruments & Systems.....	154	314	2,979
Total.....	¥319	¥314	\$2,979

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

5. Information regarding gain on bargain purchase by reporting segment

The year ended December 31, 2012

Not applicable

The year ended December 31, 2013

HORIBA acquired the process analytical product line from the U.S. company Cameron, in the Process & Environmental Instruments & Systems Segment and recorded gain on bargain purchase. In fiscal 2013, the amount of gain on bargain purchase was ¥64 million (\$607 thousand).

21. Related party transactions

(1) Related party transactions with the Company

Directors and major shareholders (individuals only) of the Company

The year ended December 31, 2012

Category		Director's close family member	
Name		Masao Horiba	
Address		-	
Amount of capital stock (millions of yen)		-	
Business or occupation		Advisor	
Percentage of voting rights held		3.0% (direct)	
Relationship		Consulting contract	
Transaction	Transaction amount	Consulting fee (Note 2)	¥24 million
Account	Balance at December 31, 2012	-	-

The year ended December 31, 2013

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		2.8% (direct)	
Relationship		Consulting contract	
Transaction	Transaction amount	Consulting fee (Note 2)	¥24 million (\$227 thousand)
Account	Balance at December 31, 2013	-	-

Note 1. The above transaction amounts do not include consumption taxes, while the balance at December 31, 2012 and December 31, 2013 includes consumption taxes.

Note 2. Transaction conditions and policy on determining transaction conditions

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

(2) Related party transactions with consolidated subsidiaries of the Company that submitted consolidated financial statements

Directors and major shareholders (individuals only) of the Company

The year ended December 31, 2012

Category		Director's close family member	
Name		Masao Horiba	
Address		-	
Amount of capital stock (millions of yen)		-	
Business or occupation		Advisor	
Percentage of voting rights held		3.0% (direct)	
Relationship		Consulting contract	
Transaction	Transaction amount	Consulting fee (Note 2)	¥25 million
Account	Balance at December 31, 2012	-	-

The year ended December 31, 2013

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		2.8% (direct)	
Relationship		Consulting contract	
Transaction	Transaction amount	Consulting fee (Note 2)	¥30 million (\$284 thousand)
Account	Balance at December 31, 2013	-	-

Note 1. The above transaction amounts do not include consumption taxes, while the balance at December 31, 2012 and December 31, 2013 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.

22. Subsequent events

(Special Dissolution of Employees' Pension Fund)

The Kyoto Machinery and Metal Employees' Pension Fund (general type), of which the Company and a domestic consolidated subsidiary are members, resolved to adopt a policy to carry out a special dissolution at the representative assembly that took place on February 20, 2014.

Accordingly, HORIBA plans to post an approximately 2 billion yen estimated loss in association with the dissolution as "Provision for loss on dissolution of the employees' pension fund" (Other expenses) for fiscal 2014.

Independent Auditor's Report

To the Board of Directors of HORIBA, Ltd.:

We have audited the accompanying consolidated financial statements of HORIBA, Ltd. and its consolidated subsidiaries, which comprise the consolidated balance sheet as at December 31, 2013, and the consolidated income statement, statement of comprehensive income, statement of changes in net assets and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of HORIBA, Ltd. and its consolidated subsidiaries as at December 31, 2013, and their financial performance and cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 22 to the consolidated financial statements, which describes that the Kyoto Machinery and Metal Employees' Pension Fund (general type), of which HORIBA, Ltd. and a domestic consolidated subsidiary are members, resolved to adopt a policy to carry out a special dissolution at the representative assembly that took place on February 20, 2014.

Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended December 31, 2013 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.

KPM G AZSA LLC

April 9, 2014
Kyoto, Japan

HORIBA's corporate 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 Information

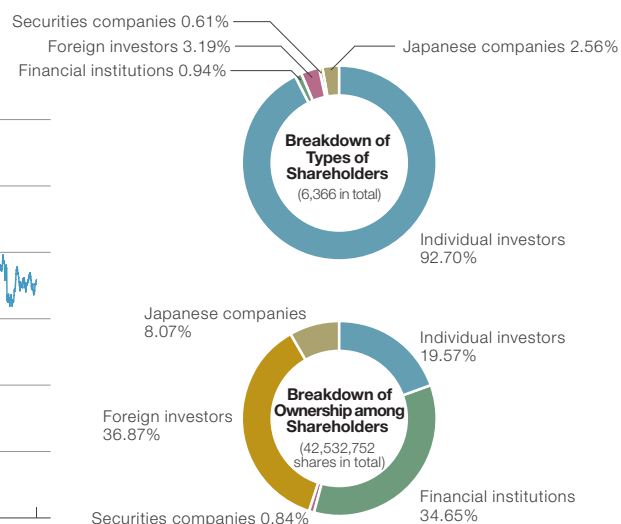
Head Office	2, Miyanohigashi-cho, Kisshoin, Minami-ku, Kyoto 601-8510, Japan	
Founded	October 17, 1945	
Incorporated	January 26, 1953	
Paid in Capital	12,011 million yen	As of December 31, 2013
Number of Employees	5,787 (Consolidated)	As of December 31, 2013
Fiscal Closing Date	December 31, annually	
Annual Meeting of Shareholders	Held in March	
Transfer Agent	Sumitomo Mitsui Trust Bank, Limited	
Independent Auditor	KPMG AZSA LLC	
Stock Listings	Tokyo Stock Exchange, First Section Securities Code: 6856	

Major Shareholders

As of December 31, 2013

Name of Shareholders	Shares (Thousands)	Percentage (%)
Japan Trustee Service Bank, Ltd.	2,899	6.82
The Master Trust Bank of Japan, Ltd.	2,173	5.11
Taiyo Fund, L. P.	2,003	4.71
National Mutual Insurance Federation of Agricultural Cooperatives	1,287	3.03
Masao Horiba	1,200	2.82
NOMURA BANK (LUXEMBOURG) S.A. S/A NOMURA MULTI CURRENCY JAPAN STOCK LEADERS FUND	917	2.16
The Bank of Kyoto, Ltd.	828	1.95
Atsushi Horiba	809	1.90
HORIBA Raku-Raku Kai	789	1.86
JAPAN RE FIDELITY	708	1.66

Stock Price Trend



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