

# HORIBA Report 2014

[Year ended December 31, 2014]

Omoshiro-okashiku  
Joy and Fun

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おかし

眞峰  

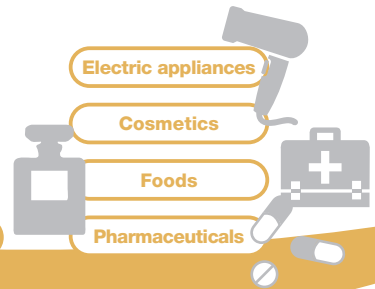
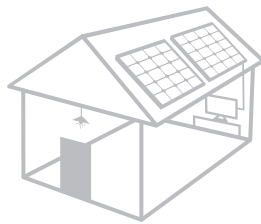

# Everything begins with measurement

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.



# HORIBA's measuring products are contributing in various scenes, from global-scale events to invisible nano-sized things.

- Solar cells
- Semiconductor devices
- Printed circuit boards
- Paints and coating
- Petrochemical plants



Flat panel displays

Productivity improvement in manufacturing process; Quality management

- Next-generation materials
- Next-generation displays
- Secondary batteries



- Clean energy
- Ultra-low emission gas
- Fuel efficiency
- Greenhouse gas
- Alternative fuels



- Engines, drive-lines and brakes
- Electric motors
- Eco-driving



R&D on new materials and new energy technologies; R&D on next-generation vehicles

- Food safety
- Drinking water

- Medical tests
- Driving safety
- Environmental radiation measurement



- Plant emission regulations
- Water quality regulations

- Air pollution monitoring
- Water quality monitoring for rivers, lakes, and oceans

- Agricultural and daily use water
- Hazardous substances
- Chemical fertilizers

Human health and safety; Environmental preservation

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

HORIBA believes that the essence of its CSR is demonstrated in a growth of its underlying business of providing “measurement” technologies.

### 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.

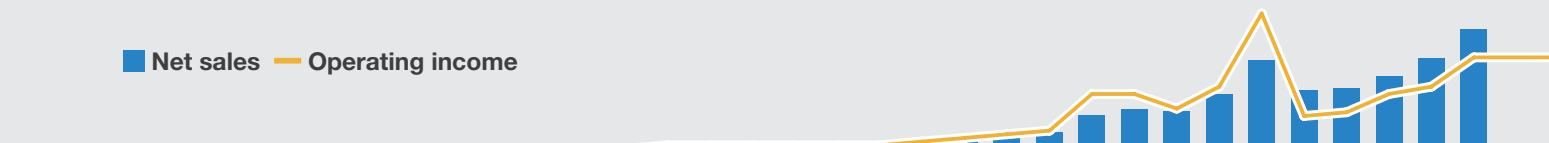
### Responsibility to shareholders and investors

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.

■ Net sales — Operating income



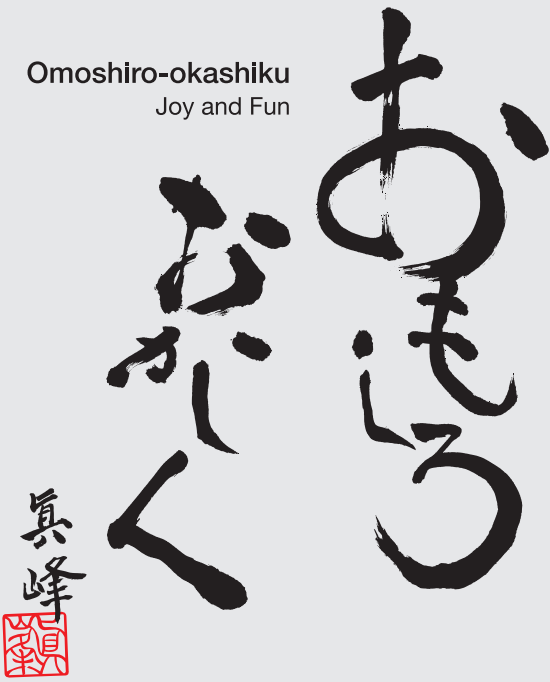
HORIBA's history

- 1945
  - Masao Horiba establishes HORIBA RADIO LABORATORY
- 1950
  - HORIBA pioneers the first made-in-Japan glass electrode pH meters made-in-Japan
- 1953
  - HORIBA, Ltd. is established
  - Masao Horiba becomes the first president
- 1950
  - HORIBA pioneers the first made-in-Japan glass electrode pH meters made-in-Japan
- 1964
  - Launched “MEXA,” a global brand for automotive exhaust gas analyzers
- 1970
  - OLSON-HORIBA, INCORPORATED, a joint venture company, is established in the U.S. HORIBA begins overseas expansion
- 1971
  - Listed in the Second Section of the Osaka Securities Exchange
- 1974
  - Listed in the Second Section of the Tokyo Stock Exchange
  - Establish Standard Technology Co., Ltd. (now HORIBA STEC, Co., Ltd.)



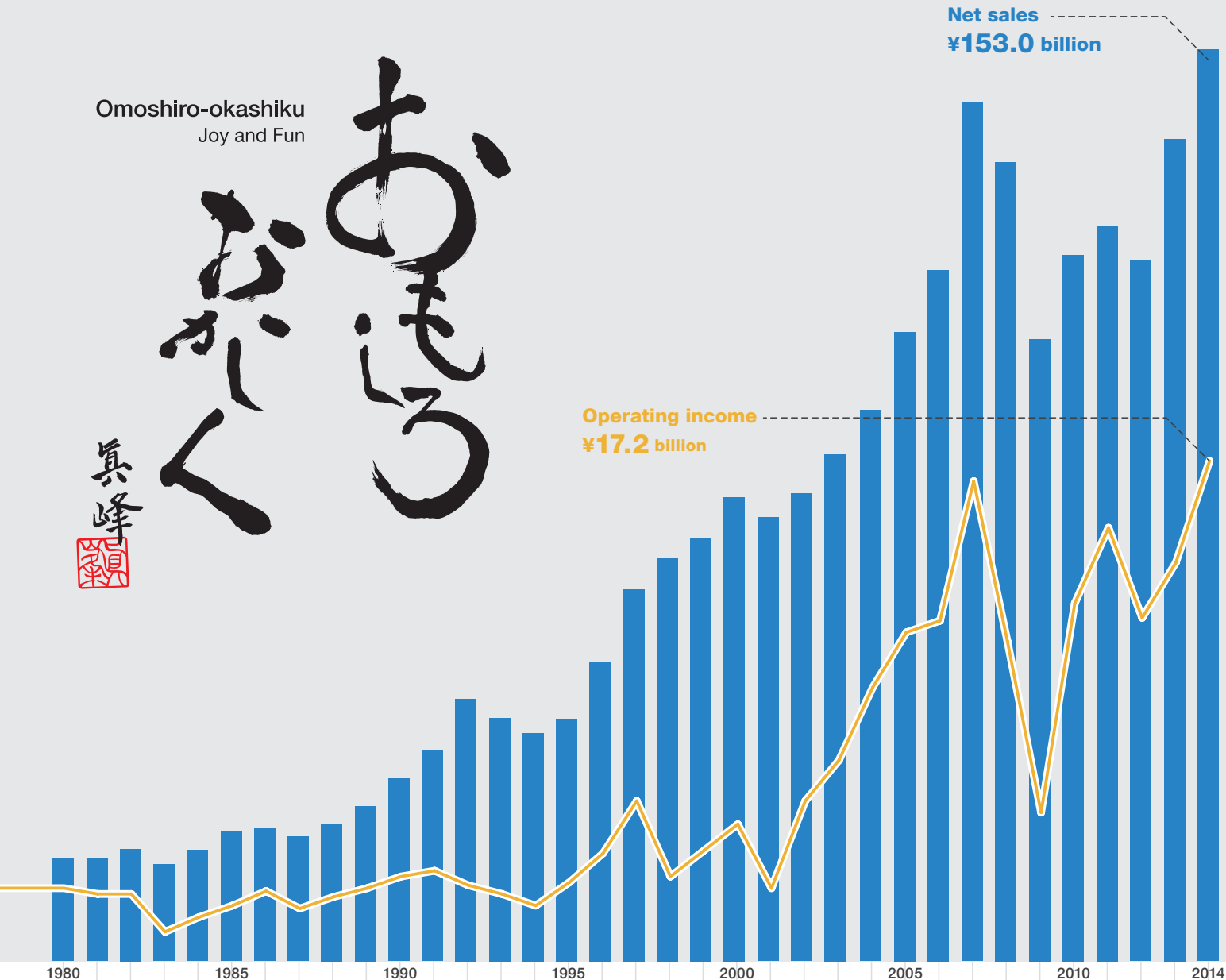
Results up to 1977 are on a nonconsolidated basis and results in and after 1978 are on a consolidated basis.

Omoshiro-okashiku  
Joy and Fun



Net sales  
¥153.0 billion

Operating income  
¥17.2 billion



1978  
• Masahiro Oura becomes the second president

○ 1992  
• Atsushi Horiba becomes the third president

○ 1987  
• Form an alliance with a hematology analyzer manufacturer ABX S.A. (France)

○ 1996  
• Acquire ABX S.A. (now HORIBA ABX S.A.S.) in France

○ 2004  
• Launch "One Company Matrix Management"

1975  
• Establish COS Co., Ltd. (now HORIBA Advanced Techno Co., Ltd.)  
• Deliver emission gas analyzers to the United States Environmental Protection Agency (EPA)



○ 1997  
• Acquire Instruments S.A. (now HORIBA Jobin Yvon S.A.S.) in France



○ 2005  
• Acquire MCT (Mechatronics) business of Carl Schenck AG in Germany



○ 1982  
• Listed in the First Section of the Tokyo Stock Exchange and the Osaka Securities Exchange

○ 2000  
• Establish HORIBA Techno Service Co., Ltd.

○ 2006  
• Launch previous Mid-Long Term Management Plan [2006-2010]

○ 2011  
• Launch current Mid-Long Term Management Plan [2011-2015]

○ 1980  
• Standard Technology Co., Ltd. (now HORIBA STEC, Co., Ltd.) launches mass flow controllers



○ 1998  
• Announce the "LC-270 CRP," the world's first hematology and CRP analyzers



## Editorial policy

We have published integrated “HORIBA Report” since 2013 to help you better understand the true value of HORIBA by introducing our unique corporate culture and “invisible values”, which cannot be found in financial statements. Additional information on our “invisible values” is available on our website.

### HORIBA Report

Booklet



This booklet summarizes primarily HORIBA's business activities and financial information, along with “invisible values” such as human resources and technologies.

### “To our stakeholders”

Website



This website provides the detailed information including the HORIBA Report web data collection, which features HORIBA's safety and environmental activities, contribution to the society, and other information.

<http://www.horiba.com/to-our-stakeholders/>

### “Invisible values” web data collection



### 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 12, 2015 when business results were announced. Actual performance may differ due to unforeseen circumstances in the operating environment.

### Notation of owners

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

### 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 2005, the fiscal year ended March 21, 2005 as 2004.

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# “JOY and FUN”

With this spirit,  
we will grow globally.

My role is to create real value for HORIBA.

Moreover, the source of value creation lies in every single employee's understanding of the company motto of “Joy and Fun” and putting it into practice every day.

By investing in human resources and technology in both economic upturns and downturns, we will grow globally.

Chairman, President & CEO 

## Mid-Long Term Management Plan 2011-2015

### Numerical targets

**Net sales**            **¥150 billion**  
**Operating Income Ratio**    **13% or more**  
**ROE**                    **11% or more**

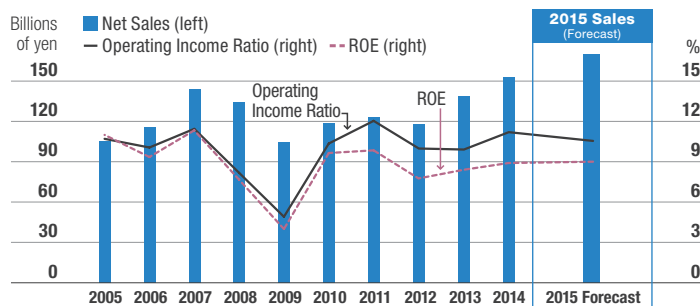
Concentrated investment  
in highly profitable business

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

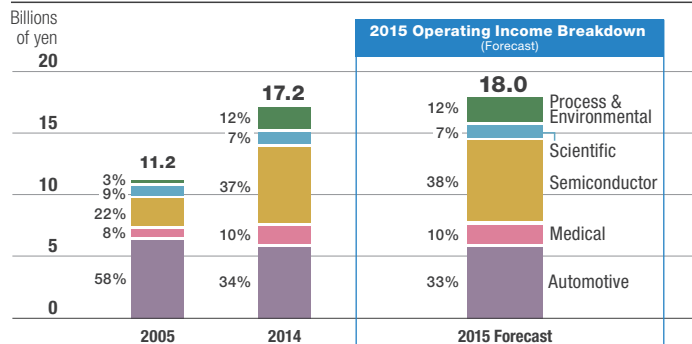
Complete  
“One Company Matrix Management”

Accelerate global product development  
and production

### Net Sales / Operating Income Ratio / ROE



### Operating Income Breakdown by Business Segment





## Sales and profits reached all-time highs in 2014.

In 2014, ended December 31, 2014, HORIBA posted record-high sales and profits, with consolidated net sales of ¥153.0 billion (up 10.8% year-on-year) and operating income of ¥17.2 billion (up 25.3% year-on-year). In the Semiconductor Instruments & Systems segment, which was the main earnings driver, sales of mainstay mass flow controllers increased, and HORIBA's global market share rose to 52% from 48% in 2013. In the Automotive Test Systems segment, sales of vehicle emission measurement systems (EMS) improved in Asia, and global operating income recorded a year-on-year increase of 35.9%. All business segments posted net sales that were higher than in 2013, but operating income declined in the Medical-Diagnostic Instruments & Systems segment, which continues to face challenges.

## We will connect five sails together to ensure that all kinds of winds propel us forward.

We achieved our Mid-Long Term Management Plan's 2015 sales target of ¥150 billion one year ahead of schedule. In 2015, we aim for an even higher target. With regard to operating income and ROE, however, the delay in improving earnings in the Medical-Diagnostic Instruments & Systems segment will make it difficult to realize our initial targets. While continuing investment and nurturing the seeds of growth, we will endeavor to post profits that are as high as possible. We will strive to recover our current investment during the next Mid-Long Term Management Plan.

The theme for today, when our business is expanding, is to refine our sense of balance in order to advance towards our targets. So far, by advocating our "HORIBA Group is One Company." policy and promoting Matrix Management with five businesses in three regions, we have been transforming our management structure. In this way, we will secure stable high earnings by managing our Automotive Test Systems, Medical-Diagnostic, Semiconductor, Scientific and Process & Environmental Instruments & Systems segments in a well-balanced manner.

Figuratively speaking, the sense of balance in management is similar to a sailing ship that advances by transforming all kinds of winds into a driving force. By efficiently connecting five sails (our five business segments), we will move the ship forward to our targets by using both tailwinds (opportunities) and headwinds (predicaments) as the driving force. A single sail without any support may have its mast be damaged by the wind and even if we have five sails, the ship may lose balance without being at right angle to the wind. In order to advance towards our targets, it is therefore vital to develop a system that we determine a few sails that can be the mainstay and that enable supporting other sails to keep the boat moving quickly even should one become slack.

At present, the Automotive Test Systems segment that is the main driving force. In 2014, we expanded the business by strengthening synergies between the EMS and MCT (Mechatronics) businesses. "MEXA-ONE", a new product in the EMS business, will also drive growth. Following the Automotive Test Systems are the supporting

sails of the Semiconductor, Process & Environmental, and Scientific Instruments & Systems segments.

In the Semiconductor Instruments & Systems segment, while a strong tailwind is blowing, and our market share is increasing, we may need to skillfully control the sails to manage the pace. In regards to the Process & Environmental Instruments & Systems segment, sales are robust on a global basis and we will resolutely capture this tailwind. The sail of the Scientific Instruments & Systems segment can capture winds from several directions. Here we will increase the speed of development while reinforcing collaboration of R&D resources based in France, the U.S. and Japan, and create a new business model in such fields as energy, automobiles, biotechnology and drug discovery. It is the Medical-Diagnostic Instruments & Systems segment that will steadily proceed with preparations to become the main sail of the future. In 2014, sales reached a record high, but this was not accompanied by profitability. This is an issue we are carefully working to tackle through expansion of the business scale. We are aiming for increased sales, including the introduction of new products from the new Medical R&D center which is due to be completed in the summer of 2015 in France. Concurrently we will continue to carry out our medium to long-term R&D focused on new markets.

## We will achieve "craftsmanship unique to Japan" at our new facility: HORIBA BIWAKO E-HARBOR.

In order to realize sustainable growth, I believe it is important to proactively invest in the future. While aiming to enhance profitability, we will continue to combine technologies and expand the scope of business operations not only through investment in human resources and M&A, but also in the enhancement of production efficiency and mass production.

We have invested a record amount of approximately ¥10 billion in HORIBA BIWAKO E-HARBOR, which is scheduled to be completed in the autumn of 2015. This new production facility will be integrated with our partner suppliers to realize greater efficiency and expanded production. By transferring the gas measurement businesses of the Automotive Test Systems and Process & Environmental Instruments & Systems segments to the new base, we aim to double production efficiency and reduce delivery time to one-third.

This transfer project also plays the important roles of "craftsmanship unique to Japan" and passing on technology through "rebuilding the shrine". The production system at our Kyoto headquarters has been established with varied know-how that was accumulated through expertise and successive generations of engineers. In transferring these businesses, we aim to bring to light the kind of minute know-how that we may have missed in daily operations so it can be passed on to the current generation of engineers. In Japan, "sengu," which means rebuilding the shrine, refers to the passing on of skills from one generation of shrine carpenters to the next and is carried out every 20 years. This "sengu" is the Japanese tradition which has been cherished for over 800 years. I intend to transfer the core technologies, fostered in Kyoto over a period of 60 years, into the hands of a new generation of engineers that will lead to the fostering of new development capabilities and the expansion of production capacity.





**Atsushi Horiba**  
Chairman, President & CEO



**Dr. Kozo Ishida**  
Executive Vice Chairman



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



**Fumitoshi Sato**  
Managing Director  
General Manager of General  
Administration Division,  
and Tokyo Branch Manager



**Dr. Masayuki Adachi**  
Director  
General Manager of Research &  
Development Division  
President of HORIBA Jobin Yvon S.A.S.  
(France)



**Dr. Jai Hakhu**  
Executive Corporate Officer  
Chairman, President & CEO of  
HORIBA International Corporation (U.S.)  
President of HORIBA Europe  
Holding S.A.S. (France)

**We will strengthen our human resources to promote balanced management.**

I believe every single employee will actually implement the realization of the management policy of “HORIBA Group is One Company.” and well balanced management. At present, there are approximately 6,000 “HORIBARIANS” (as we refer to all HORIBA employees around the world). They understand the essence of the company motto “Joy and Fun” and are playing an active role in its promotion. On the global stage, the combination of our respective cultures through business has brought about a dependable trend of creating innovative technology.

In 1984, we introduced a system of overseas training for which all employees can apply. By 2015 year end, there will be 220 alumni of this program, and each year around a dozen employees now take part. Approximately 90% of directors, 30% of managers and 15% of general employees have experience working overseas. By securing and educating our employees with a sense of balance, we maintain a strong competitive edge.

Furthermore, based on the themes of quality improvement, developing our human resources and invigorating our organization, we have worked to create an environment that encourages our employees to take on challenges. Examples include the continuation of the Blackjack Project, which operates at HORIBA around the world, and HORIBA COLLEGE, which is aimed at human resource development. In 2014, we also launched activities aimed at creating a work environment that values diversity, under the name of the “HORIBA Stained Glass Project”. There is no doubt that investing in our employees has led to the maturing of our corporate culture and is the source of our current growth momentum.

**We aim to be a great mid-sized company.**

As we enter the final chapter of our Mid-Long Term Management Plan, a new era will unfold before our eyes, but our true aspiration is to be a great mid-sized company. So, what does it mean to be a great mid-sized company? It means that not only the management but all HORIBARIANS are conducting our business with a sense of ownership. A sense of ownership means carrying out things by thinking, making decisions and taking responsibility oneself. Even as our scale grows and we continue to globalize, it is crucial to maintain and develop this attitude.

Amid the trends of expansion in business scale and globalization, we have reached a turning point in terms of management overseas. I believe that the management of our overseas divisions should now pass the baton to local personnel. On the global stage, we will be exposed to fierce competition. Under these conditions, we will further strengthen by combining the historically subtle Japanese

management style that is trusted by the world with dynamic management that is typical of global companies. With our corporate culture as the cornerstone of our management philosophy, company performance and the morale of our employees will continue to improve.

**While focusing on engagement, we will deepen our dialogue with all stakeholders.**

HORIBA will achieve an improvement in corporate earnings and sustainable growth by increasing the satisfaction of shareholders, customers, suppliers, employees and all other stakeholders. In 2011, we 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. We are monitoring our activities from the perspective of global standards to ensure that we conduct business rooted in each country and region together with local employees by understanding the diverse cultures, customs and values.

Our basic policy on returning profits to owners (shareholders) is to target total returns to shareholders at 30% of HORIBA's consolidated net income (with a combination of dividend payments and share buybacks), allocating the remainder to reserves for capital and strategic investment.

In fiscal 2014, we paid a record-high annual dividend per share of ¥67 (compared to a dividend per share of ¥60 in fiscal 2013). For fiscal 2015, we conducted a share buyback worth ¥1.0 billion in February, we are currently forecasting an annual dividend per share of ¥70, achieving a 3-year average total return to shareholders of 30% from fiscal 2013 to fiscal 2015. I intend to increase my focus on engagement with all owners and to deepen the dialogue with them. I would like to engage in constructive dialogue with everyone, not only regarding our quarterly business performance but also from a medium to long-term perspective. I have been encouraged by increasing shareholder engagement aimed at envisioning the future together such as recent support for aggressive investment. I am proud that all the business activities we conduct together with our stakeholders are contributing to the realization of a comfortable and sustainable society. This is because our company culture has been handed down from our initial foundation to the present, in line with our fundamental way of thinking regarding Corporate Social Responsibility. Now, a new generation is serving as directors, and the generation that will support the future has been growing steadily. We intend to continue to contribute to society with pride and a sense of challenge.

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

April 2015

**Chairman, President & CEO Atsushi Horiba**

**Sunao Kikkawa**

Senior Corporate Officer  
General Manager of  
Finance & Control Division



**Takashi Nagano**

Senior Corporate Officer  
General Manager of Sales Division  
President of HORIBA KOREA LTD.  
(South Korea)



**Hideyuki Koishi**

Senior Corporate Officer  
Vice President of HORIBA STEC Co., Ltd.  
(Japan)



**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.**
- **Launched the HORIBA Stained Glass Project.**

\*Shared services is to centralize specific work of more than one division of the company or group with the aim of raising productivity and cost reduction.

**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. (Plan to complete global implementation in 2015.)**

# Progress of the Mid-Long Term Management Plan

During 2014, the fourth year of the current Mid-Long Term Management Plan [2011-2015], HORIBA achieved its sales target one year ahead of the plan, due to favorable business in the Automotive Test Systems, Semiconductor and Process & Environmental Instruments & Systems segments. However, profit improvement in the Medical-Diagnostic Instruments & Systems segment, the segment on which we focus, was weaker than planned. We need to speed up our achieving the profit target.

## Numerical targets for 2015

(announced in February 2011)

Net sales

**¥150.0 billion**

2014: ¥153.0 billion

Operating income ratio

**13% or more**

2014: 11.2%

ROE\*

**11% or more**

2014: 8.9%

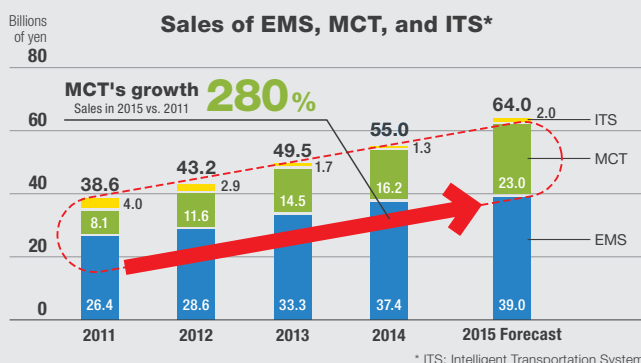
\* Return on equity

Assumed exchange rates: ¥80/U.S. dollar ¥110/Euro

## Review of the Mid-Long Term Management Plan [2011-2015]

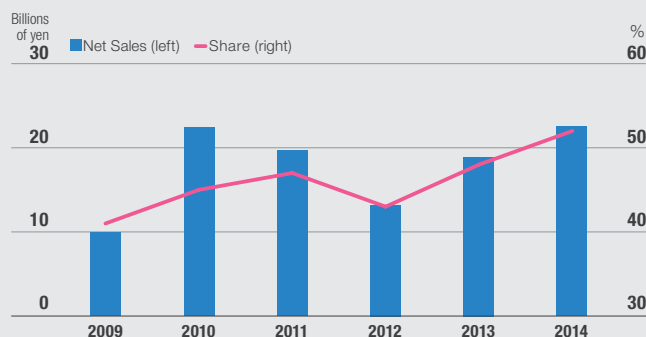
### Enhanced synergies of the EMS (Emission Measurement Systems) and MCT (Mechatronics) businesses in the Automotive Test Systems segment

The MCT business acquired from Carl Schenck AG in Germany in 2005, involving test systems for chassis, engines, power trains, and brakes, is accelerating its growth, based on the trust and brand power which was established by the MEXA-series emission measurement systems, which has high global market share. We have established a business model to make comprehensive proposals, encompassing test cell layout, design, and construction oversight of automotive R&D facilities, in order to better respond to our customers' analysis and measurement needs. This is one way whereby we strive to increase sales and enhance profitability.

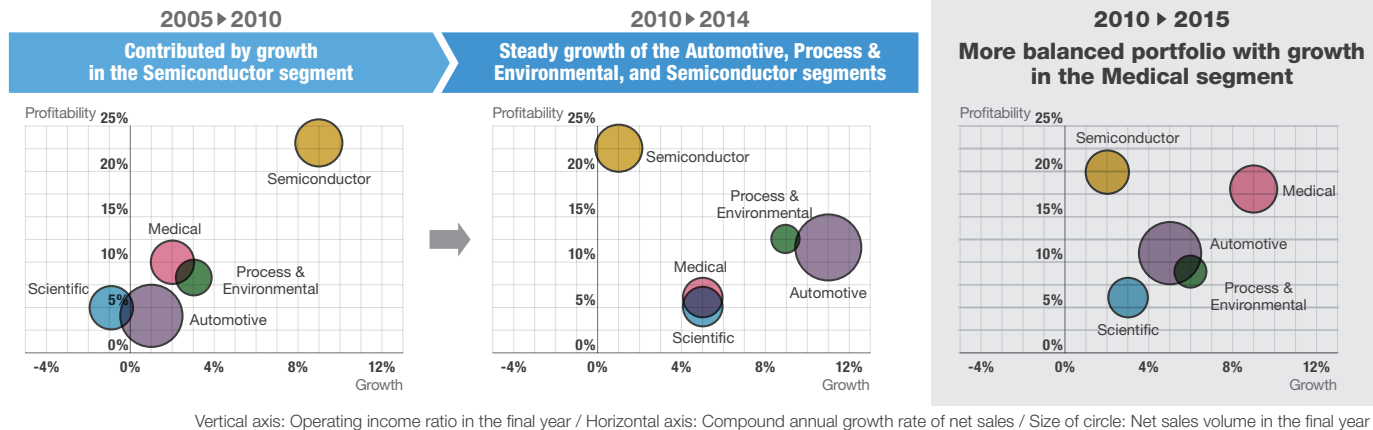


### Sales growth of mass flow controllers by acquiring a higher market share

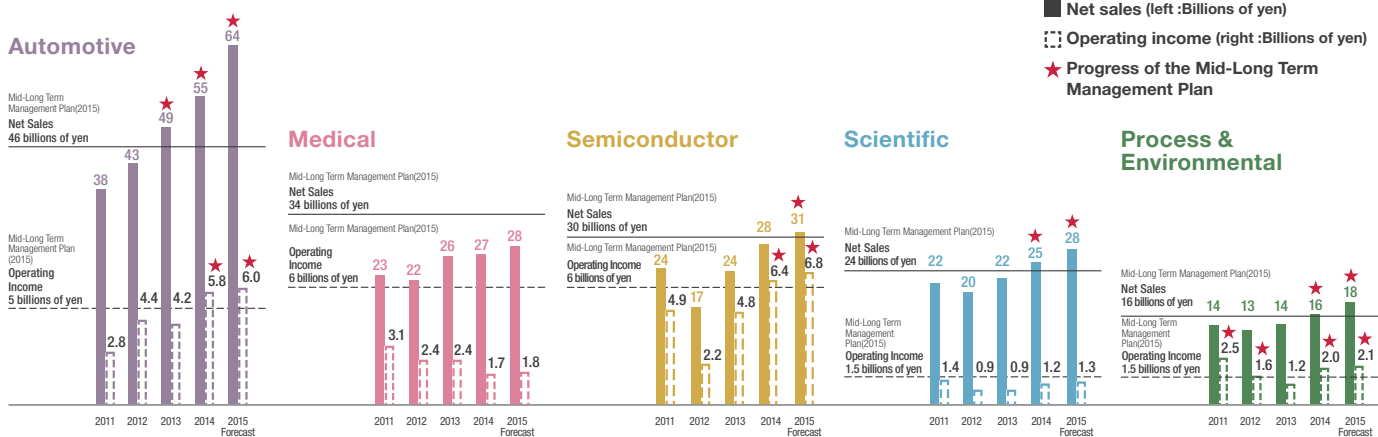
Mass flow controllers, that are the main product of the Semiconductor Instruments & Systems segment, raised its global market share to 52% in 2014. We have established a system to flexibly adjust production to match fluctuation in demand from the semiconductor industry. We believe this contributed to our market share gain. We continued our development investment and did not reduce the number of our employees in production, even during the downturn in demand of 2009 and 2012. This has enabled us to deliver products quickly during the upturn in demand. HORIBA intends to continue building a better balanced profile of the five business segments.



## Business portfolios aimed by the Mid-Long Term Management Plan

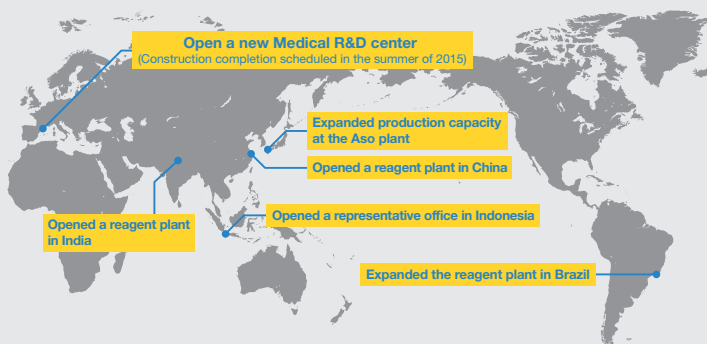


## Net sales and operating income by business segment



### Investment in building a global supply network for the Medical-Diagnostic Instruments & Systems segment

The Mid-Long Term Management Plan focuses on the Medical-Diagnostic Instruments & Systems segment, which has been improving supply efficiency by newly building or expanding reagent plants in several key countries. Aiming at accelerating new product launches, we are constructing a development facility for medium to large-sized instruments in France. We will continue to invest management resources in the segment and strive for business expansion and profitability improvement.



### Initiatives requiring further challenges

### Improve profitability of the Medical segment

#### Enhance sales network

Americas, Asia

#### Enhance development

Profit from investment in a new Medical R&D facility (France) and speed up development of new products

### Construction update on HORIBA BIWAKO E-HARBOR

At our new HORIBA BIWAKO E-HARBOR we will organically integrate development, design, and production of gas measurement technology and related devices, which have so far been separately carried out by the Automotive Test Systems and the Process & Environmental Instruments & Systems segment. By doing so, we aim to improve the time-to-market of new products, and efficiency of production. By transferring the accumulated core technology HORIBA has acquired in its first 60 years of existence in Kyoto to the next generation of engineers and technical personnel, knowledge and know-how of the previous generations will be put to use and facilitate further development and growth. Construction is scheduled to be completed by the autumn of 2015.

### Rendering of HORIBA BIWAKO E-HARBOR



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

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



## 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 40 years (See Corporate Philosophy on page 81). 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

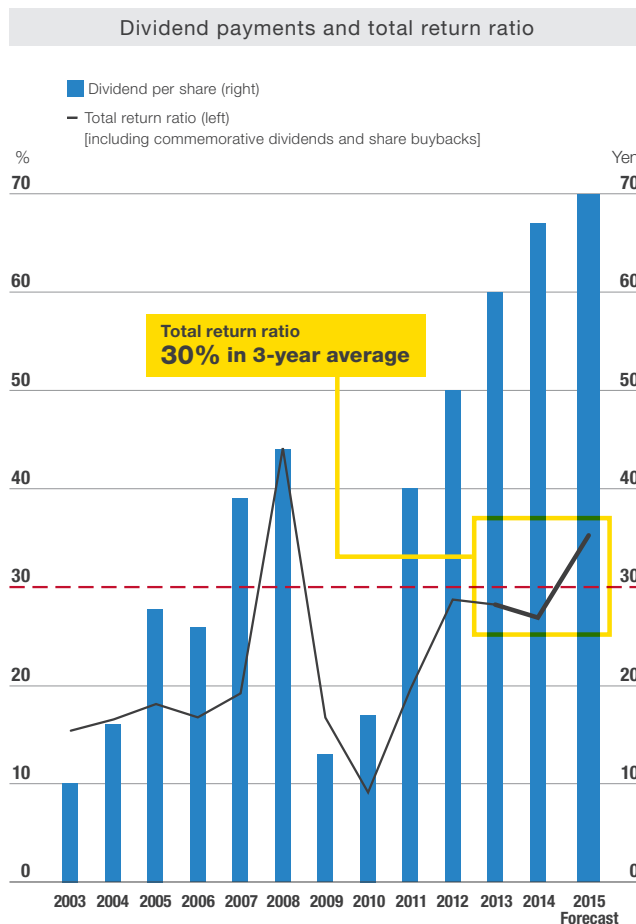
HORIBA maintains an appropriate level of liquidity in hand to ensure efficient funding in response to capital requirements. This is an important guideline for HORIBA's financing activities. We define liquidity in hand to be a sum of cash and cash equivalents and the open amount of the commitment lines that have been negotiated with financial institutions. At the end of 2014, liquidity in hand amounted to ¥56.1 billion, which included ¥51.1 billion in cash and cash equivalents and ¥5.0 billion of open commitment lines with financial institutions. We consider this cash in hand and commitment lines as reserves for future capital expenditures, M&A activities, and other investments.

#### **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.

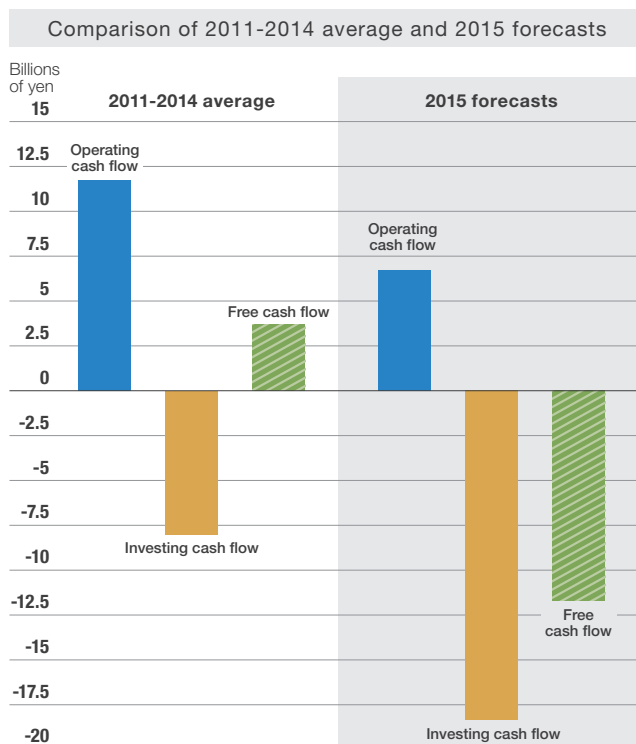
## Dividend Payments and Total Return Ratio

In fiscal 2014, we paid a record-high dividend per share of ¥67. Looking back at the recent dividend payment record, our dividend per share was at a lower level in fiscal 2009 and 2010, due to profit deterioration caused by the economic downturn that began in 2008. However, thanks to earnings recovery in each business segment, we made a significant increase in dividend value per share in fiscal 2011 and changed the dividend policy to one targeting total returns to shareholders (the combined amount of dividend payments and share buybacks) at 30% of consolidated net income. If we recalculate the 10-year dividend payment record up to fiscal 2012, when the dividend policy targeted a payout of 30% of nonconsolidated net income, using the new dividend policy of the total return ratio based on consolidated net income, our payout ratio would have been 20.8%. Thus, we believe that our new dividend policy has allowed us to return more to our owners (shareholders). In fiscal 2015, we are projecting a dividend per share of ¥70, based on our net income forecast of ¥11.5 billion as of February 12, 2015. In addition, we conducted a share buyback worth ¥1.0 billion in February 2015. As a result, our three-year (2013-2015) average total return ratio is expected to be 30%, meaning that we will achieve the target of 30% in total return ratio, which is one of our capital policies. We intend to continually increase rewards to owners (shareholders) by growing earnings per share (EPS) and achieving higher ROEs on a medium-term basis.



## Cash flow in the Mid-Long Term Management Plan [2011-2015]

HORIBA consistently 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], we have invested mainly in overseas R&D facilities and reagent production facilities (new construction and capacity expansion) from the first year of the plan. From 2014, our focus was shifted to setting up bases in Japan. We are investing about ¥10.0 billion, the highest amount for one base, in building HORIBA BIWAKO E-HARBOR, scheduled to be completed by the autumn of 2015. This will be a primary reason that our investing cash flow will be significantly higher in 2015, compared to the average of 2011-2014. Projecting increases in both sales and profit year-on-year in 2015, we are confident that our healthy balance sheet will be maintained. We continue to be dedicated to rewarding 30% of consolidated net income to our owners (shareholders) and investing in strengthening our craftsmanship in Japan, aiming for high growth.



## Leaders of business segments from various countries

Twice a year, the global meeting, attended by management and executives of the HORIBA Group companies, is held to facilitate better communication and promote decision making.

Photos taken in Japan in December 2014

### Automotive Test Systems



### Medical-Diagnostic Instruments & Systems

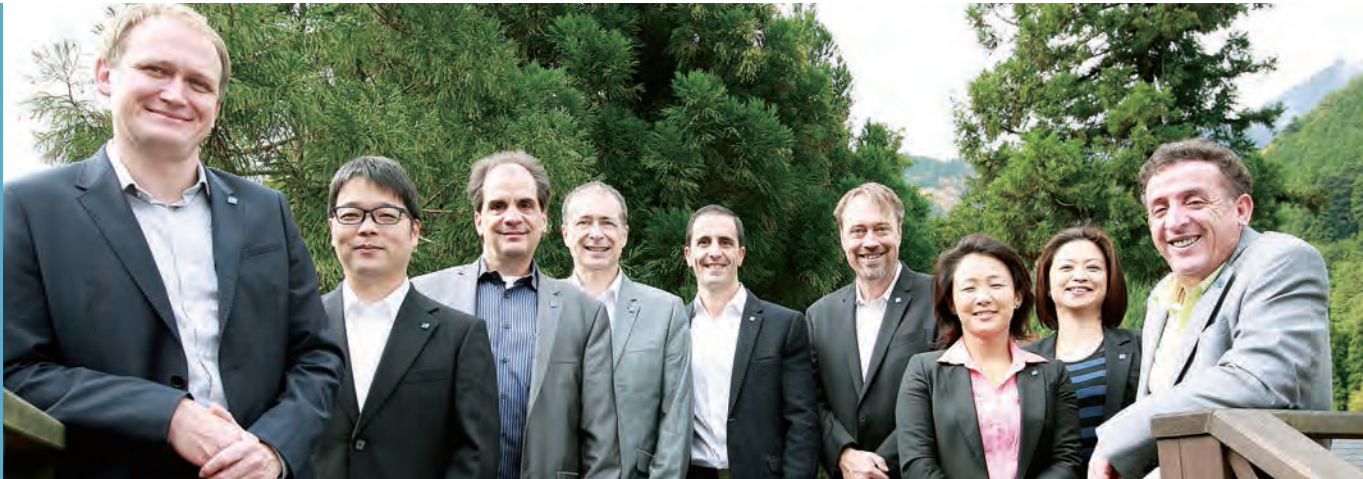




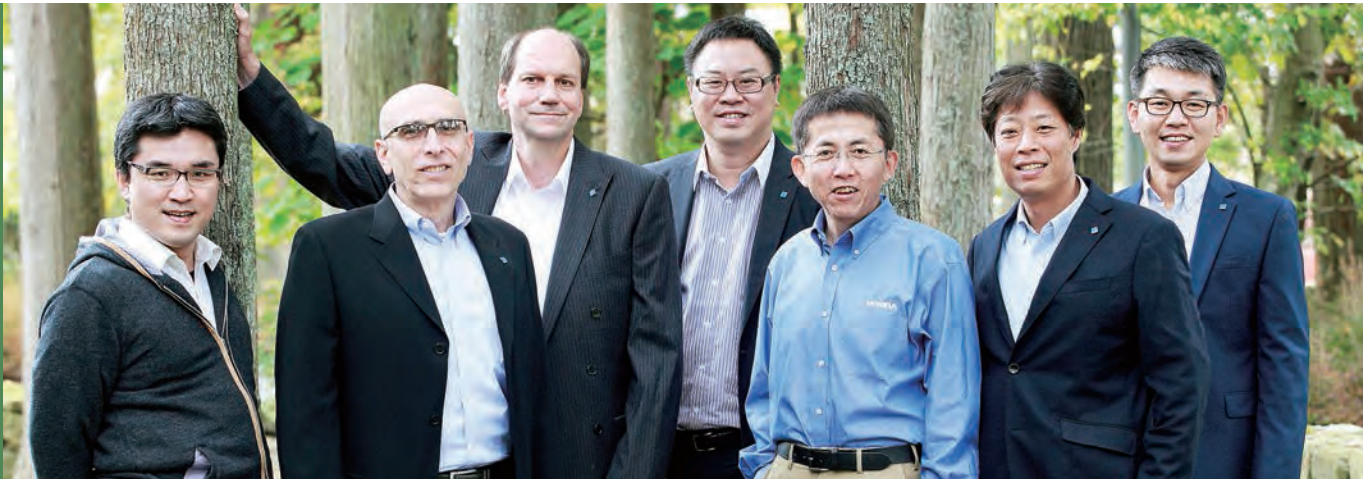
# Semiconductor Instruments & Systems



# Scientific Instruments & Systems

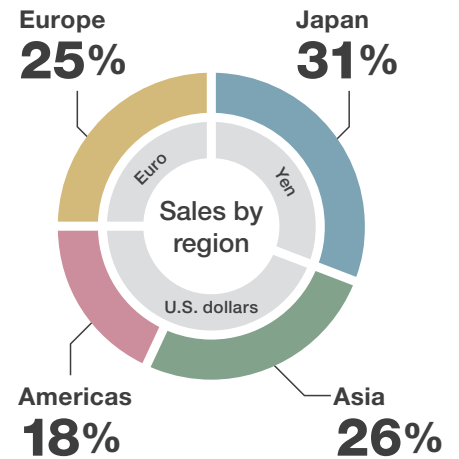


# Process & Environmental Instruments & Systems



## Business overview by region: Present status and future development

<b>Japan</b>	<ul style="list-style-type: none"> <li>Steady growth and high market shares, mainly for products that are related to R&amp;D applications and environmental regulations.</li> <li>Relocate and strengthen a development and production base for the Automotive Test Systems and Process &amp; Environmental Instruments &amp; Systems segment to HORIBA BIWKO E-HARBOR (Shiga prefecture) in the autumn of 2015.</li> </ul>
<b>Asia</b>	<ul style="list-style-type: none"> <li>Increasing needs for analysis and measurement in China, South Korea, and Southeast Asian countries.</li> <li>Aim at aggressively deploying know-how accumulated in Automotive Test Systems, Medical-Diagnostic and Process &amp; Environmental Instruments &amp; Systems segment businesses in developed markets for expansion.</li> </ul>
<b>Americas</b>	<ul style="list-style-type: none"> <li>The reagent plant in Brazil expanded capacity in the Medical-Diagnostic Instruments &amp; Systems segment.</li> <li>Invest in sales network for the Medical-Diagnostic Instruments &amp; Systems segment.</li> <li>Acquired business in Scientific Instruments &amp; Systems segment in North America.</li> <li>Aim at expanding market share in this major market that represents 40% of global demand for analytical and measurement instruments.</li> </ul>
<b>Europe</b>	<ul style="list-style-type: none"> <li>Demand related to government budget is weak, due to the sluggish economies in Europe.</li> <li>A development facility is scheduled to open in Montpellier, France with the aim of launching next-generation medical products.</li> </ul>



## Automotive Test Systems

HORIBA's automotive EMS (Emission Measurement Systems) are adopted as the primary standard by national certification bodies in many countries and have an 80%\* global market share. HORIBA provides the EMS and other measurement systems for automotive development, enhancing the R&D efforts and quality control of automotive manufacturers and automotive component manufacturers around the world.

\* HORIBA's estimate



<b>Risk factor</b>	The global automotive industry's shifting R&D investments
<b>Major customers</b>	Automotive manufacturers, automotive component manufacturers, multipurpose motor manufacturers, government regulatory agencies, oil companies, automotive maintenance and repair centers
<b>Product applications</b>	Development of new gasoline, diesel and hybrid powertrains, vehicle certification and quality control, in-use vehicle inspections

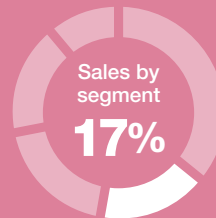
### Principal products

Emission measurement systems, Automotive emission analyzers, Onboard emission measurement systems, Driveline test systems, Engine test systems, Break test systems, Drive recorders



## Medical-Diagnostic Instruments & Systems

HORIBA medical products are primarily blood testing instruments and reagents for the in-vitro diagnostics market, with over ¥5 trillion in global annual sales. Blood testing instruments are used near the site where patients are located such as a surgery ward, a hospital ward, or a clinic for outpatients.



<b>Risk factor</b>	Changes in medical insurance systems in different countries
<b>Major customers</b>	Medical testing centers, small to medium-sized hospitals, medical practitioners
<b>Product applications</b>	Health and diagnostic testing, disease diagnosis

### Principal products

Equipment for blood sample analysis (hematology analyzers, Equipment for measuring immunological responses, Clinical chemistry analyzers, Blood glucose measurement systems)



# Semiconductor Instruments & Systems

HORIBA contributes to the semiconductor industry by supplying mass flow controllers, which are devices that control gas and liquid flows in the semiconductor, solar cell, and LED (light-emitted diode) manufacturing process, and other monitoring systems.



## Principal products

Mass flow controllers,  
Chemical concentration monitors,  
Reticle/mask particle detection systems,  
Residual gas analyzers



Risk factor	Significant fluctuation in demand caused by the "silicon cycle" in the semiconductor industry and investments related to solar cells, LEDs, and other energy sources
Major customers	Semiconductor production equipment manufacturers, semiconductor device makers, semiconductor cleaning equipment manufacturers
Product applications	Flow control of gases and liquids, monitoring of cleaning fluid concentrations in semiconductor manufacturing processes, semiconductor and LCD quality control inspections

# Scientific Instruments & Systems

HORIBA provides over 500 types of instruments for use at the leading edge of scientific technology and commands leading market shares in niche markets. The Scientific Instruments & Systems segment develops basic analytical and measurement technologies, which play key roles in providing new technologies to other HORIBA's business segments.



## Principal products

pH meters,  
Particle-size distribution analyzers,  
X-ray fluorescence analyzers,  
Raman spectrometers,  
Spectrometers,  
Gratings



Risk factor	Investment trend of national government agencies and other institutions Demand fluctuation following changes in environmental regulations
Major customers	Manufacturers, research institutions, universities, government agencies, electric power companies
Product applications	R&D, product quality testing, criminal forensics

# Process & Environmental Instruments & Systems

HORIBA provides environmental measurement solution technologies associated with environmental regulations in the world. Together with providing process measurement technologies which fulfill analytical needs in manufacturing development, we ensure better public safety, security, and health.



## Principal products

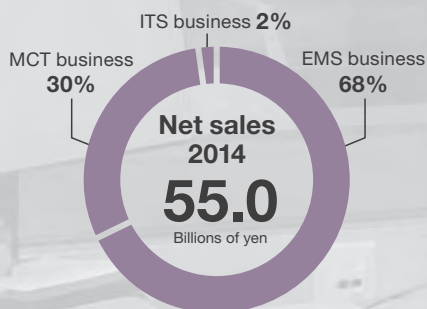
Stack gas analyzers,  
Water quality analysis and examination systems,  
Air pollution analyzers,  
Environmental radiation monitors



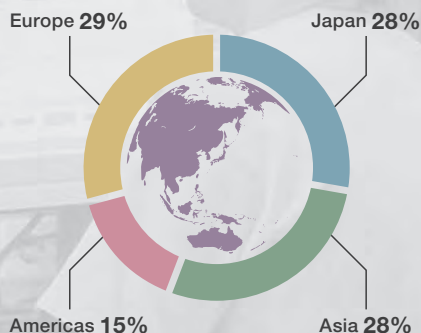
Risk factor	Demand fluctuation following changes in environmental regulations
Major customers	Manufacturers, government agencies, electric power companies
Product applications	Measurement of gaseous emissions, wastewater and water supplies, environmental pollution monitoring, environmental radiation measurement equipment

# Automotive Test Systems

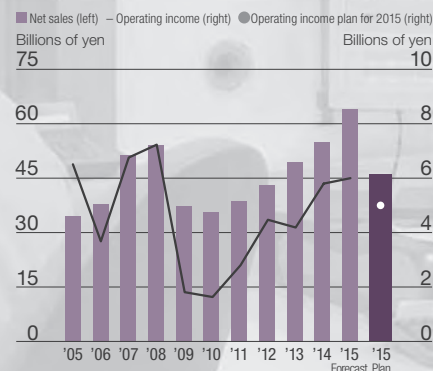
Sales breakdown



Sales breakdown by region



Net sales and operating income



## Providing a powerful support to the automotive development

HORIBA's automotive EMS (Emission Measurement Systems) are adopted by national certification bodies throughout the world, commanding an installed base market share of 80%. HORIBA provides complete test and measurement solutions for automotive development, such as test systems for chassis, engines, power trains, and brakes to major global automotive manufacturers. Customers find HORIBA test systems to be indispensable tools developing new technologies required to meet rising global fuel economy and emission standards. HORIBA test systems find applications in the development of conventional gasoline and diesel engines, hybrid electric power trains, alternative fuel engines, and electric vehicles. We expect the increasing demand for automotive test systems to drive growth in our business.

## 2014 results and 2015 forecasts Investing to achieve higher production efficiency and expand the MCT business

EMS sales increased in 2014, thanks to an increase in automotive manufacturers' R&D investment globally and the weakening of the Japanese yen. Both sales and operating income increased year-on-year, due to improvement in profitability of the MCT (Mechatronics) business, in addition to the high-margin EMS business.

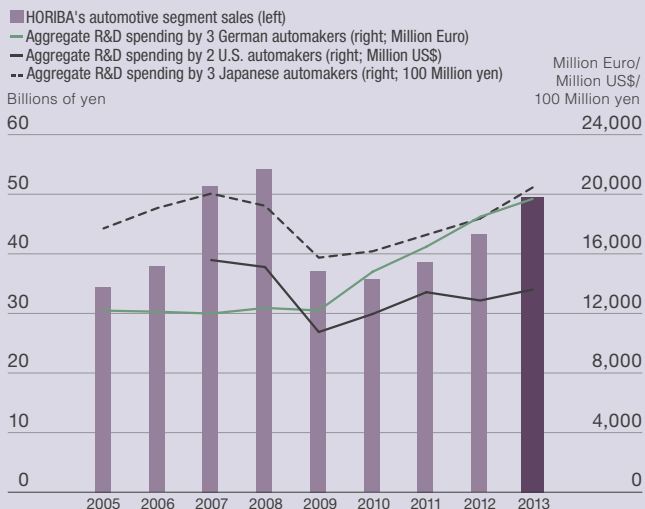
In 2015, we are expecting automotive manufacturers to continue to increase their investments. In addition, automotive component manufacturers tend to increasing their investments in technology development, leading to an expansion of the market for HORIBA products. Against this background, we project a significant increase in MCT sales, and plan to

## 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)
EMS business	Emissions measurement			40 ~50
MCT business	Engine performance tests			100 ~120
	Vehicles, wind tunnel balances, brake tests			15 ~20
	Drivelines tests			30 ~40
ITS business	Safety and ITS			10 ~15

## HORIBA's Automotive Test Systems segment sales and major automakers' R&D spending



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

## Major products and market shares

NOTE: Market shares quoted are estimates by HORIBA.

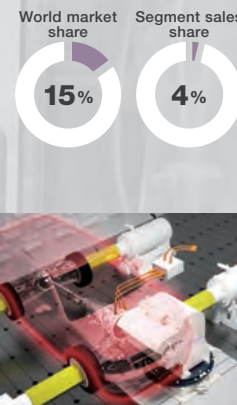
### Emission measurement systems

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.



further improve profitability by sales volume increase and cost reduction. At the same time, we are expecting to incur a one-time relocation expense related to HORIBA BIWAKO E-HARBOR, our new integrated development and production facility, in which construction is scheduled to be completed in the autumn of 2015. As a result, we are projecting a modest increase in operating income on a significant sales gain.

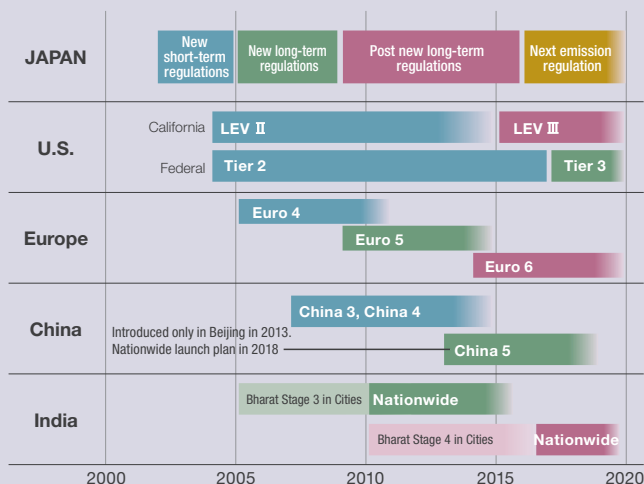
### The advantage of comprehensive, integrated solutions

The global MCT market, which includes test systems for chassis, engines, power trains, and brakes, is worth over ¥150 billion in annual sales and is anticipated to continue growing on the strength of rising demand for automotive

development. HORIBA, with its broadening MCT product portfolio is able to provide automotive manufacturers with more comprehensive measurement systems via integration of EMS and MCT products, within its open and custom test automation systems. Following our unique open and custom test systems approach, a strong commitment to new product development and leveraging our core analytical know-how, HORIBA expects to meet increasing customer demand for comprehensive, integrated solutions and continuously grow sales and enhance profitability.

## Trend of automobile-related regulations

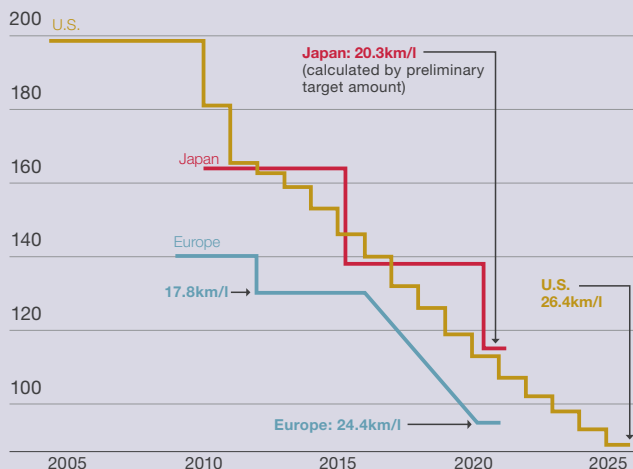
### 1. Progression of emission standards by region/country



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 (CO<sub>2</sub> emission) standards of Japan, U.S., and Europe

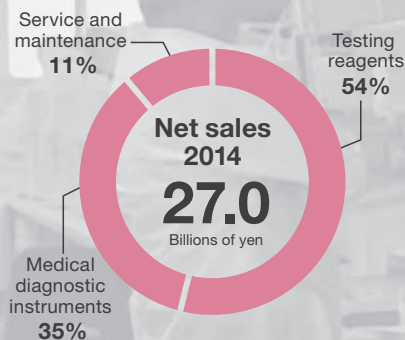
Carbon dioxide (CO<sub>2</sub>) weighted average (g/km)



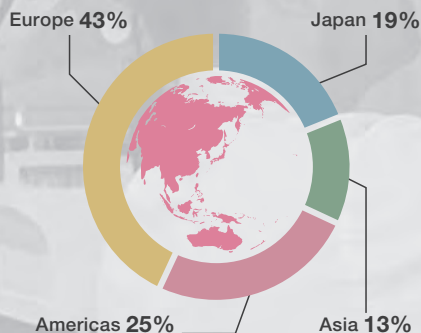
Sources: HORIBA's survey based on materials of the Ministry of Economy, Trade and Industry, Japan Automotive Manufacturers Association Inc., and others

# Medical-Diagnostic Instruments & Systems

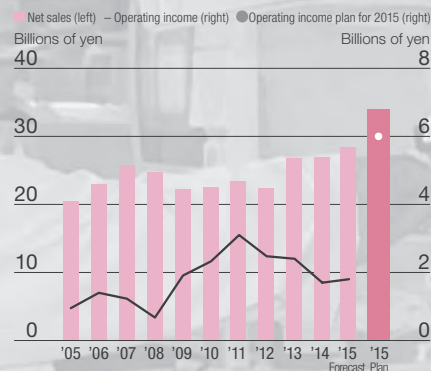
Sales breakdown



Sales breakdown by region



Net sales and operating income



## Proactive product development for the in-vitro diagnostics market

In the global market of in-vitro diagnostics; HORIBA provides instruments and reagents for blood sample testing throughout the world. The segment's business model is based on recurring revenues generated from sales of reagents which are consumables. We thus aim to ensure stable earnings by expanding our installed base of medical-diagnostic instruments. In particular, HORIBA is aggressive in developing business that leads to sales of testing reagents, and does this by launching innovative small and medium-sized blood cell counters in the diagnostic market for POCT\*, such as small to medium hospitals, specialty clinics, test centers and surgery centers.

\*POCT Point of Care Testing

## 2014 results and 2015 forecasts

### Increasing sales in Japan from new products; accelerating global product launches

In 2014, Medical-Diagnostic Instruments & Systems segment sales increased year-on-year, partly due to the positive impact of the depreciation of the Japanese yen. However, sales in Europe were sluggish and instrument sales in Japan were lackluster as purchases were delayed by the consumption tax hike in April 2014. In addition, investment in development of new medium and large-sized products in Europe, and continued enhancement of the sales network in North America caused a decrease in operating income.

In 2015, we are focusing on expanding sales of hematology and CRP analyzer, which was launched in

## Business development by test category

Test category	Clinical chemistry	Hematology	Immunology	Coagulation
Market size	¥2 trillion	¥0.35 trillion	¥2 trillion	¥0.2 trillion
Hospitals	Large hospitals Testing centers	Hematology analyzer systems	Field in which HORIBA exhibits strength	
	Small and medium-sized hospitals	Clinical chemistry analyzers	CRP analysis	Coagulation reagents
	Private practitioners	Blood glucose measurement systems		
	Hospital units and surgery rooms (POCT)			

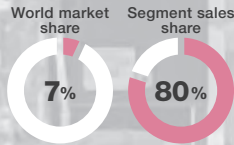
Market size: Based on the HORIBA Report of 2013, market size was defined as the amount of demand generated from central and core labs testing departments. Starting in 2015, from this year's Report (HORIBA Report 2014), the market is re-categorized to include demand from places other than central and core labs testing facilities.

## Major products and market shares

NOTE: Market shares quoted are estimates by HORIBA.

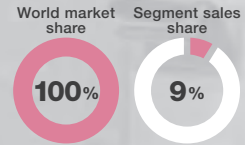
### Hematology analyzers

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

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.



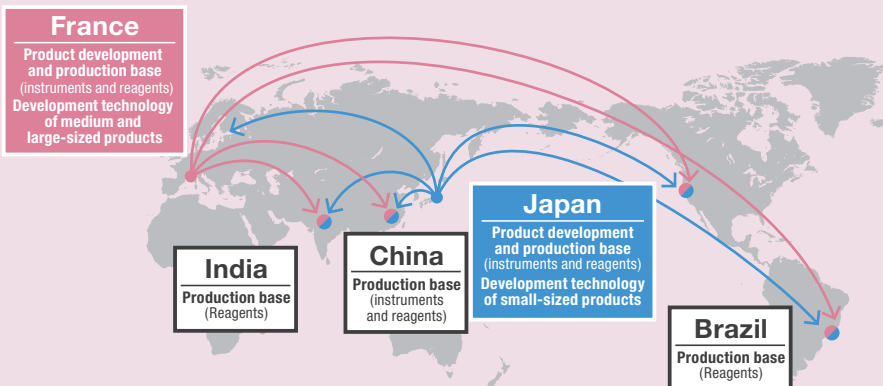
March 2015 as a strategic product in Japan. Meanwhile, we will continue investment for enhancing the sales network in North America, and R&D investment for launching new products early in Europe.

### Investment for product development; accelerate next-generation products development and launches

With technological synergy between our bases in Japan and France, we launched a new medium-sized hematology and CRP analyzer, targeting the Chinese market, in February 2014. Regarding test reagents, our strategy is to initiate local production of reagents in mass-consumption areas and establish a global supply system of reagents. In the last four years, from 2011

to 2014, we began operation or expanded capacity of reagent plants in Japan (Aso, Kumamoto Prefecture), China, India, and Brazil. At present, HORIBA ABX S.A.S. (France), a center of excellence for R&D of medium and large-sized products, is building a new R&D center, which is scheduled to begin operation in the summer of 2015. We will promote joint development projects with teams in Japan and France and accelerate developing products for the global market.

## Global product development and supply system



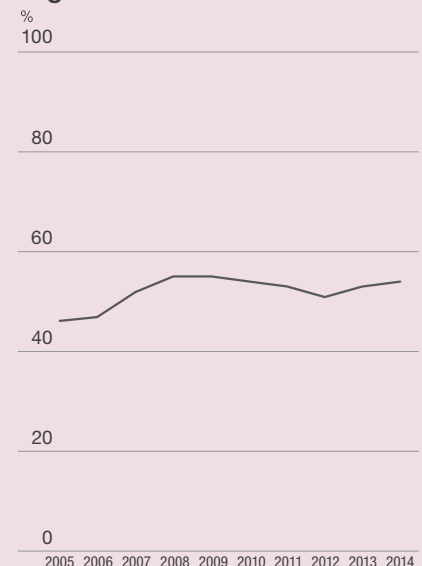
#### Instruments

- Small-sized products: Expand sale of our hematology and CRP analyzer globally
- 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

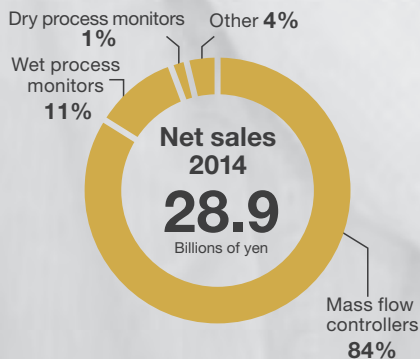
- The local supply systems have resulted in cost reductions for distribution and inventory management, thereby improving profitability.

## Ratio of reagent sales to segment sales

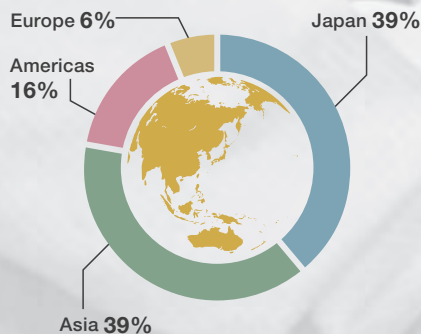


# Semiconductor Instruments & Systems

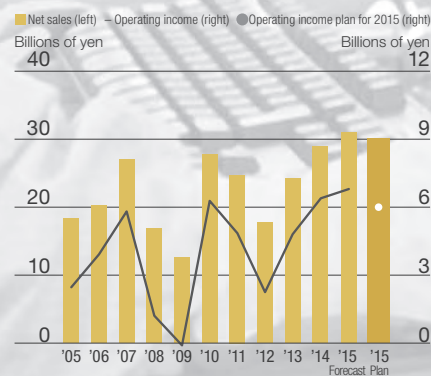
Sales breakdown



Sales breakdown by region



Net sales and operating income



## Contributing for miniaturization and yield enhancement in semiconductor manufacturing processes

HORIBA's mass flow controllers, which are devices that control gas and liquid flows in the semiconductor, solar cell, and LED (light-emitted diode) manufacturing process, have a leading global market share. Products from HORIBA include many other types of monitoring equipment for semiconductor manufacturers. HORIBA aims to contribute to the semiconductor industry by providing customers with high-level solutions that support technical advances in processing, miniaturization, and yield enhancement.

## 2014 results and 2015 forecasts

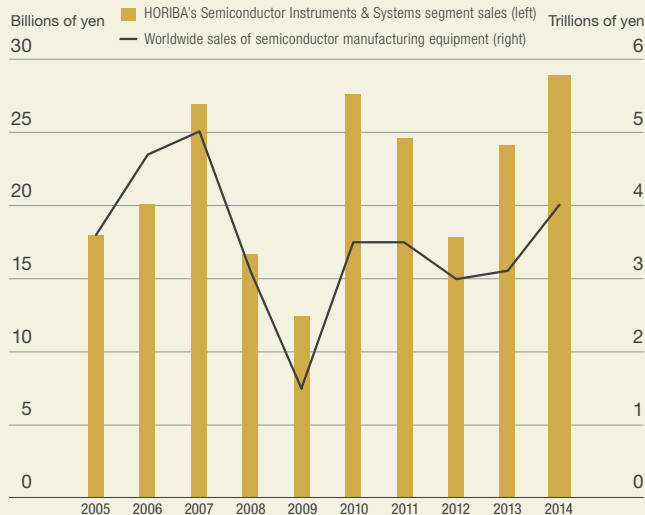
### Paying particular attention to the demand outlook for the second half of 2015 despite the semiconductor industry's solid capital expenditures

In 2014, due to continued growth in demand for semiconductors from 2013 as well as several new successful product launches, sales of mass flow controllers increased to 52% of global market share.

Sales of chemical concentration monitors, which are used in semiconductor wafer cleaning processes, also increased mainly in Asia due to an increase in demand from semiconductor manufacturers. As a result, sales and profit increased significantly year-on-year.

In 2015, we expect high levels of demand to persist for

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



## Enhancing development capability of the Semiconductor Instruments & Systems segment

HORIBA STEC\* Kyoto Fukuchiyama Technology Center opened in 2013 as a research-only facility. Its main focus is to develop mass flow controllers and next-generation advanced material control equipment. It also has the aim of discovering ways to apply new technologies to HORIBA's other products. We also expanded our R&D footprint in North America to respond more quickly to the needs of advanced semiconductor research at key device makers and semiconductor equipment manufacturer to enable engagement and support during both upturns and downturns of the industry.



\*HORIBA STEC, Co., Ltd. is mainly engaged in development, manufacturing, and sales of mass flow controllers. It is leading the Semiconductor Instruments & Systems segment in the HORIBA. The photo shows the Kyoto Fukuchiyama Technology Center

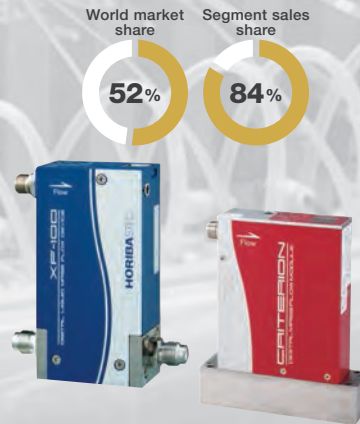


## Major products and market shares

NOTE: Market shares quoted are estimates by HORIBA.

### Mass flow controllers

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



### Chemical concentration monitors

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



the first six months, but moving toward the second half of 2015, we need to pay attention to the investment outlook of semiconductor manufacturers, particularly in South Korea and Taiwan. Additionally we are focusing on the demand outlook for production equipment manufacturers for solar cells and LEDs.

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

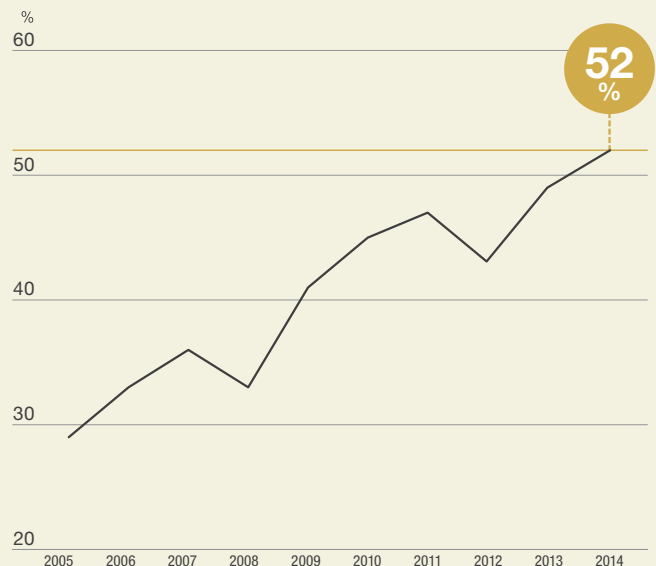
One of the HORIBA's strength is its capability to support customers in Asia. Our strategy is to expand our market share in Asia by earning more credibility not only from semiconductor manufacturers, but also from manufacturers of solar cells, LEDs, and semiconductor devices and by

providing enhanced quality products that satisfy anticipated customer demand.

At the Aso plant (Kumamoto Prefecture, Japan), our major plant for manufacturing mass flow controllers, we broadened production capacity to satisfy needs of the Medical-Diagnostic Instruments & Systems segment. This allows us to effectively utilize resources by shifting personnel between the two business segments even when we face a drop in production for semiconductor system equipment. Flexible plant management according to fluctuations in production demand is one of HORIBA's strengths.

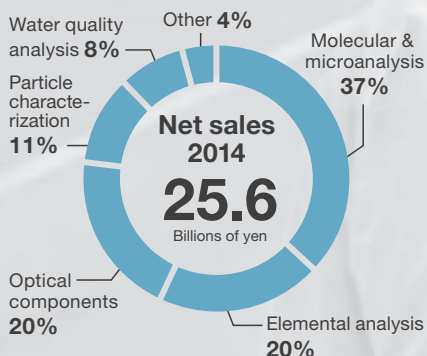
### HORIBA's global market share for mass flow controllers

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

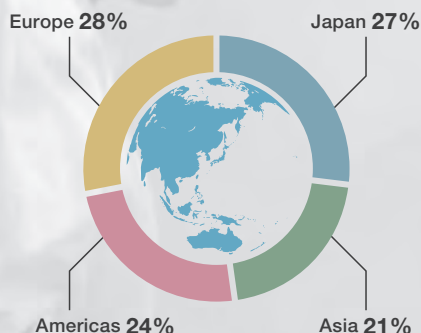


# Scientific Instruments & Systems

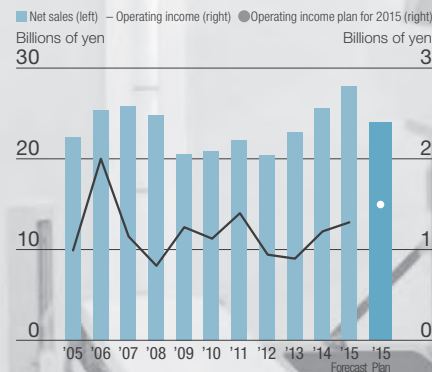
Sales breakdown



Sales breakdown by region



Net sales and operating income



## Achieve a good balance between creation of analytical measurement technologies and business growth

HORIBA provides over 500 types of instruments for use at the leading edge of scientific technology. HORIBA solutions for data acquisition and analysis in niche markets support advanced research that ventures into unknown territory in the quest for products and processes of the future. HORIBA's analyzers are widely used in basic research, foreign-object examination and defect analysis for materials science, food, drugs, electronic components, forensic science, and archaeological surveys. Additionally, the Scientific Instruments & Systems segment develops basic analytical methods and core measurement technologies, which play key roles in providing new technologies to the four other business segments of HORIBA.

## 2014 results and 2015 forecasts

### Expecting sales increase in fluorescence spectroscopy business and demand growth in private sector

In 2014, Scientific Instruments & Systems segment sales increased in yen terms from the previous year, partly due to the impact of the depreciation of the Japanese yen. The acquisition of Photon Technology International (PTI) in the U.S. expanded HORIBA's business by increasing sales of fluorescence spectroscopy. In addition, the depreciation of the yen helped boost sales of metal analysis instruments for the automotive industry in Asia. As a result, we recorded increases in sales and operating income year-on-year. In 2015, we anticipate sales growth following an increase in R&D investment by private companies in Japan. We

## HORIBA's target markets and proprietary technologies

HORIBA's Scientific Instruments & Systems segment products using the leading edge technologies are utilized by many diverse R&D centers, including corporate research divisions and academic research institutions. In February 2014, we acquired a fluorescence spectroscopy business with particular strengths

in microscopy, drug discovery and biotechnological research. In those fields, as well as the energy, automotive, and others, we provide analysis and measurement solutions with the ultimate goal of becoming a true partner with whom our customers seek to consult and collaborate.

Target markets	Application	pH meter	Particle characterization instrument	X ray analyzer	Metal analyzer	Grating	Raman spectrometer	Fluorescence spectroscopy	Ellipsometer	GDS
Organic material analysis	<ul style="list-style-type: none"> <li>Organic EL lighting devices</li> <li>Electrolyte for fuel cells</li> </ul>	●	●		●	●	●	●	●	●
Inorganic material analysis	<ul style="list-style-type: none"> <li>Carbon materials</li> <li>Metallic material (rare metals)</li> </ul>	●	●	●	●	●	●	●		●
Lithium ion battery	<ul style="list-style-type: none"> <li>Positive and negative electrode materials, electrolytic solution for separators</li> </ul>	●	●	●	●	●	●	●	●	●
Drug discovery and biotechnology	<ul style="list-style-type: none"> <li>Basic research to quality assessment of new drugs</li> <li>Pharmaceutical composition mapping</li> </ul>	●	●	●		●	●	●		

Areas strengthened by the acquisition of the PTI

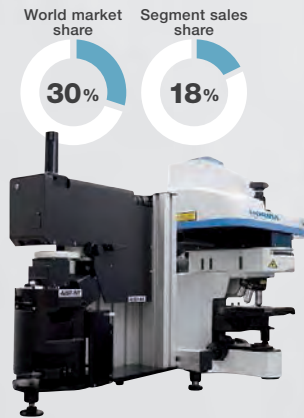


## Major products and market shares

NOTE: Market shares quoted are estimates by HORIBA.

### Raman spectrometers

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

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.



also aim to further boost HORIBA's market share (21%) in fluorescence spectroscopy business, which was expanded by the acquisition of PTI, and promote sales of these instruments for medical research, drug discovery, biotechnology, and other sectors.

### Support for basic research in next-generation energy sources

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,

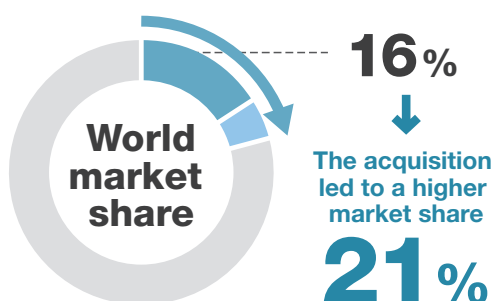
which command a high global market share. We expect to increase our global sales and market share, as the markets respond to tighter regulations and more government spending, especially in the emerging markets. In the particle characterization market, the need to accurately measure finer particle-size 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 HORIBA particle characterization instrument, with world top-class measurement precision, we aim at expanding market share in the high-growth Asian market.

### Accelerate market development for the fluorescence spectroscopy business

In February 2014, HORIBA acquired PTI's fluorescence spectroscopy business. This has led to an increase HORIBA's global market share in this field from 16% to 21%\*. PTI operates in four countries and is strongly connected to the academic fields, by having a research facility in the Faculty of Medicine and Dentistry

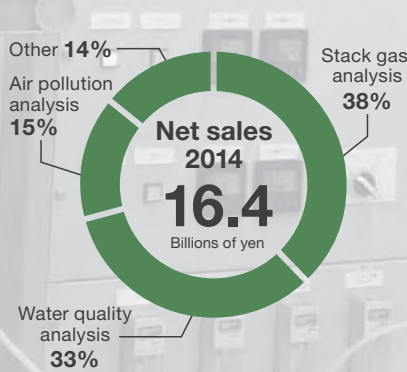
of the University of Western Ontario in Canada. HORIBA intends to create synergies by combining fluorescence spectroscopy with other HORIBA technologies and accelerate business expansion using these combined technologies and techniques.

\*Source: SDi report [2013]

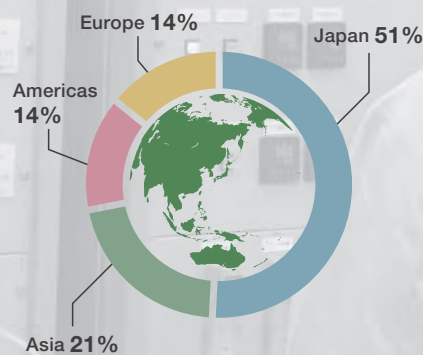


# Process & Environmental Instruments & Systems

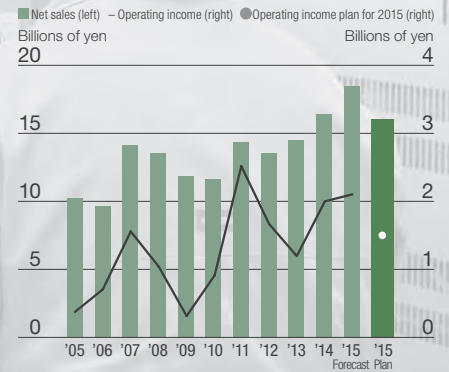
## Sales breakdown



## Sales breakdown by region



## Net sales and operating income



## HORIBA supports global environmental measures and new energy industries

We supply 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.

## 2014 results and 2015 forecasts

### Solid demand for stack gas analyzers in Asia Aiming to expand sales in Japan's water-related market

In 2014, sales of stack gas analyzers for thermal power plants and factories increased in Japan and China, while sales of portable gas analyzers increased in Europe. In addition, water quality measurement instruments launched in 2014, sold well in Japan while sales in China, South Korea, and other Asian countries were also solid. This activity led to an increase in sales and operating income year-on-year.

In 2015, we expect sales of stack gas analyzers to continue to be firm in various regions. In addition, we will continue to pay attention to demand growth for air pollution analyzers in Asia. As to our process measurement equipment business in North



### 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.

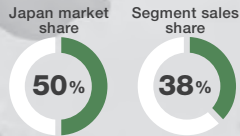
Our products have been highly evaluated in the water quality analysis field by companies in the electric power, gas, petrochemical, steel, paper, food, and pharmaceutical industries.

## Major products and market shares

NOTE: Market shares quoted are estimates by HORIBA.

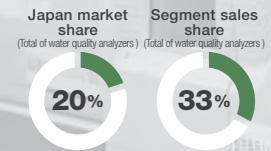
### Stack gas analyzers

These analyzers provide highly sensitive and precise measurements of NO<sub>x</sub>, SO<sub>2</sub>, CO, CO<sub>2</sub>, and O<sub>2</sub> 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.



America, we are carefully following the outlook of the shale gas industry and the capital expenditure trend of petrochemical companies. In Japan, we plan to expand sales of water quality measurement instruments for the public and private sectors.

### Aiming to become global No. 1 in the 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 waste water monitoring for water supply and sewerage systems, and the water quality measurement and monitoring field in the environmental area such as lakes and rivers, 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. Such instrumentation includes stack gas analyzers, water quality measurement instruments, and air pollution monitoring and analysis instrument. In addition, based on the process measurement equipment business we acquired in 2013, we will expand our process measurement business in various industries.

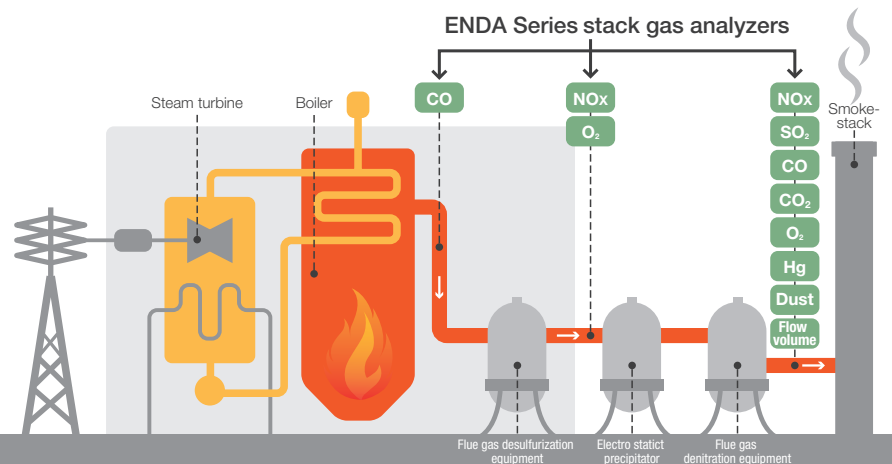
## Adoption example of stack gas analyzers at a thermal power plant

### Growing demand stack gas analyzers

In developed countries which have tightened regulations on emission gas, we have seen the introduction of denitration and desulfurization processes, which have lowered emission gas concentration levels. HORIBA provides instrumentation which can analyze both gases at extremely low concentrations as well as the measurement equipment needed for monitoring these processes.

In emerging countries, environmental pollution has led to introduction of regulations similar to those of developed countries. Based on the technologies accumulated in improving Japan's environmental problems, HORIBA will continue expanding in the global market.

### Gas analysis at a thermal power plant (image)





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***

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

## Technologies

Technological development is one of the most important drivers for value creation and the lifeline of a manufacturer such as HORIBA. To make an analogy, technical capability is a form of basic physical fitness, which cannot be maintained without continual training and exercise. Using this analogy, HORIBA needs to keep training in order to maintain the power to make a dash forward in a recovery phase of the economy.

## Organizational structures

HORIBA operates five business segments 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. With that aim, we are spreading our “Joy and Fun” corporate philosophy into our global group-wide operation 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. “Invisible Values” are essential in generating future earnings and enabling enterprise continuity, while achieving numerical targets for net sales, profits, and other indicators.

We believe that our persistent, continuous efforts on increasing the other four invisible assets, namely “human resources,” “technologies,” “organizational structure,” and “customers,” have greatly helped us to establish our brands, representing trust in HORIBA placed by our customers.



**Human resources**

HORIBA has **5,965** employees worldwide including **2,482** Japanese. The various activities are shown below.

**Launching “HORIBA Stained Glass Project”**

The HORIBA Stained Glass Project was launched in January 2014, to provide a focal point for continuing efforts toward becoming a more vibrant, stronger organization where our people respect each other’s abilities and individuality.



**Project mission**

We establish a strong HORIBA by allowing various personalities and talents to shine for creating new values on an ongoing basis.

**Performance by female employees was the first year’s theme**

In 2014, performance by female employees was the main theme and various workshops featured on topics such as how they go about their jobs or how they feel about the work. In total, 1,480 employees participated the project, helping them to be

aware of the importance of promoting diversity. As of the end of 2014 women made up 11% of overall HORIBA managerial level persons. At HORIBA, Ltd., the ratio was 4%. The percentage of women among all group employees is 25%. We believe that we have ample capacity for offering women opportunities to develop their abilities and advance in the organization. On the other hand, HORIBA’s overseas employee ratio was as high as 58% as of the end of 2014. This is not a result of shifting production offshore in order to use low-cost labor but rather is a consequence of our growing need for highly skilled workers and specialists who hold advanced degrees. This is quite unique among Japanese companies. Keeping our corporate motto “Joy and Fun” in mind, we aim to build a powerful organization where all employees respect each other’s strength and weakness and make the best out of diversity.

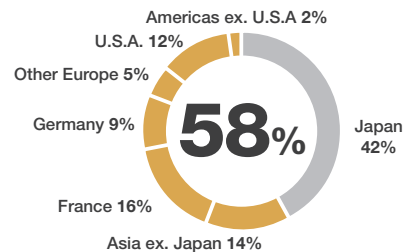
**Number of Annual Workshop Participants**

**1,480** persons

**Ratio of female managers**

**11%**

**Overseas employee ratio**

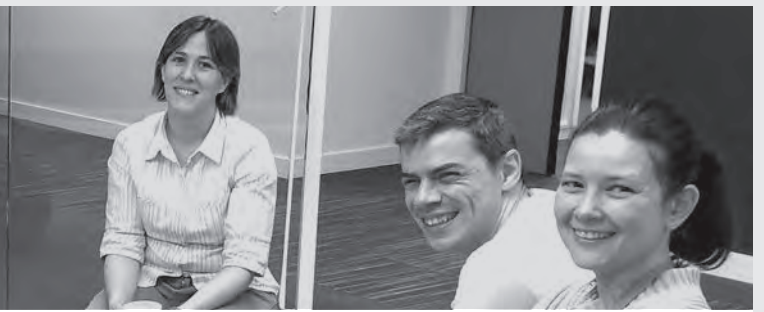


As of December 31, 2014

As of December 31, 2014







Invisible Values



Assets not visible in the financial statements

Number of yearly users of Fun House

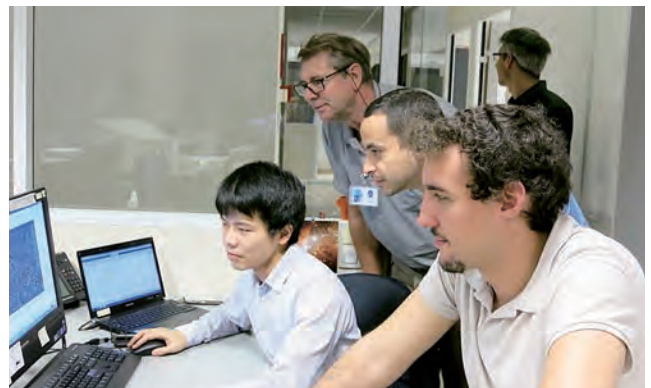
5,778 persons

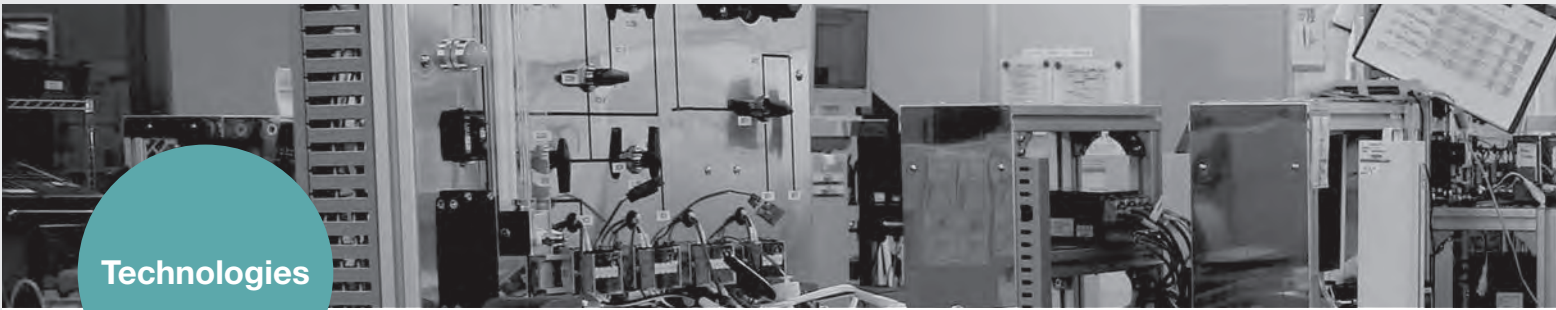
In keeping with the belief that the training center could create more values than a manufacturing plant, we opened a training center that we named Fun House in 1991. Since then, many employees attended the HORIBA COLLEGE training courses, in which know-how and skills are transferred from employees as lecturers to other employees. There are courses for new recruits, and global conferences attended by the management of Group companies in various countries, and others. 5,778 employees used the Fun House in 2014. The attendees have more diverse and stimulating exchanges with each other as a result of being away from everyday assignments and spending time together with their colleagues at Fun House.

Number of Japanese nationals who have received overseas training

220 persons

As early as 1984 we adopted the policy of sending some of our people to our overseas Group companies for one-year period to acquire international working experience and an international outlook. Every employee can apply this with on each individual's own initiative. In 2015, 16 persons will be transferred to post abroad, bringing the total of such participants to 220 persons. 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.



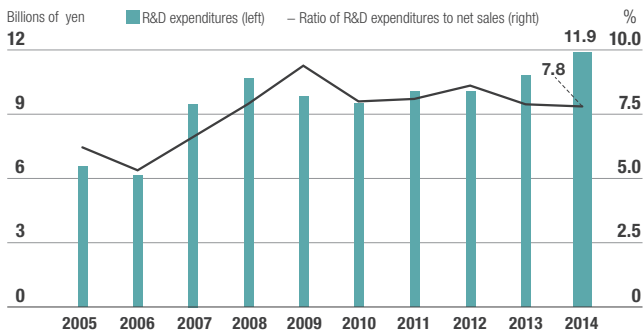


# Technologies

## Accelerating investments in basic analytical and measurement technologies and application development

The development of analytical technology and engineering technology is vital to HORIBA as an analytical and measurement equipment manufacturer. We have maintained R&D investment at the level of 7-8% of sales, even during economic downturns when our competitors reduced their investments. This strategy has helped to boost our market share during subsequent upturn phases. In 2009, our sales declined sharply, but we maintained the same level of R&D investment. We firmly believe this investment policy will contribute to our future growth and profitability improvement. HORIBA aims to improve the efficiency of our R&D investments and realize a higher operating income ratio.

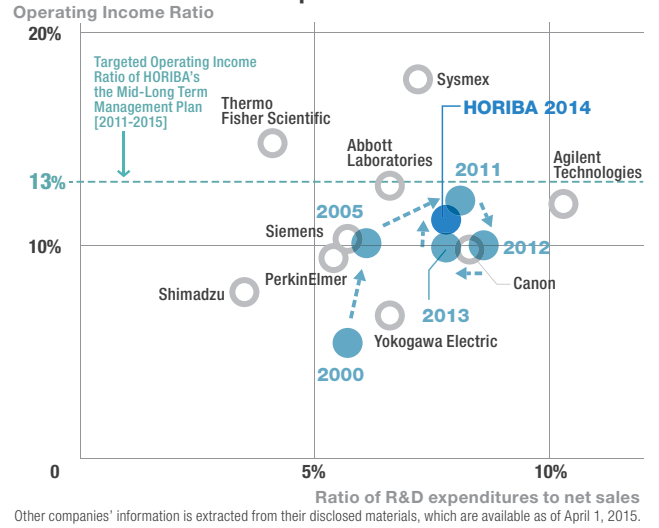
### R&D expenditures and ratio of R&D expenditures to net sales



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

HORIBA recorded 11.2% in operating income ratio and 7.8% in the ratio of R&D expenditures to net sales in 2014. In recent years, those ratios have been stable and the ratio of R&D expenditures, in particular, has been a higher level compared to other companies.

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



## From core technology to product development

HORIBA strives to astutely allocate its R&D resources to specific analytical technologies, apply them to product development in five different business segments, and achieve product releases efficiently.

### HORIBA's major analysis and control technologies

(selected on the basis of sales-size importance)

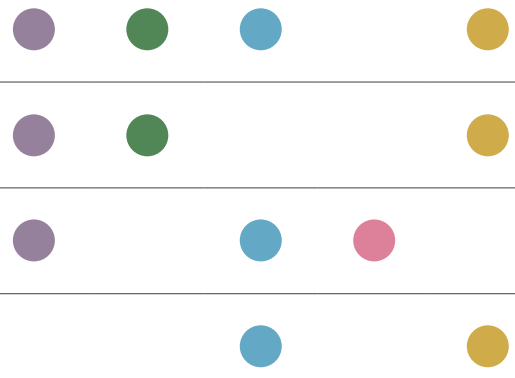
**Infrared measurement**  
Technology for real-time analysis of elements in gases

**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

Automotive    Process & Environmental    Scientific    Medical    Semi-conductor





Invisible Values

Assets not visible  
in the financial statements

## Initiatives to create competitive technologies and accelerate product development

Technological development is the most important growth driver for and the lifeline of HORIBA. HORIBA is making global group-wide efforts to focus on those “technologies” and clearly identify the steps to bring out products to market.

### HORIBA Group IP (Intellectual Property) World Cup

Our in-house IP World Cup competition was held for the first time in 2011, with the aim of encouraging creation of HORIBA technology which can initiate the next growth phase of HORIBA. HORIBA’s numerous unique technology and intellectual property have propelled growth of businesses. From 2011 to 2014, 68 applications have been submitted from 11 bases worldwide. In the Fourth World Cup of 2014, out of 16 applications, 5 superior applicants were invited to the award ceremony and the in-house seminar held at the headquarters in Kyoto. The purpose of the seminar is to facilitate exchange of technological information and ideas among the different business segments. We anticipate to generate synergy effects across different segments as a result.

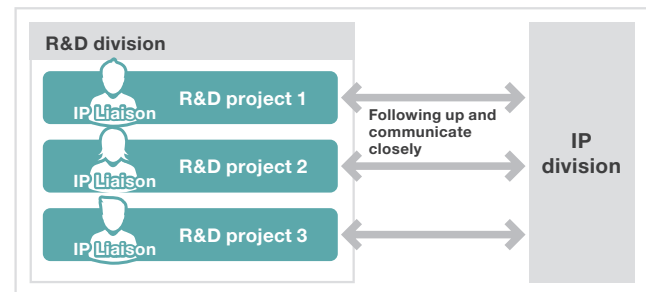


In-house presentation  
by a IP World Cup  
award winner



### IP Liaison

HORIBA has introduced a system to nominate “IP Liaisons” mainly from among engineers to enhance awareness on intellectual property. The IP Liaisons serve as a bridge for the IP division, development and design division, and other divisions. An IP Liaison is assigned for each major development project to promote creation, protection, and use of proprietary technologies.



Promote creation, protection, and use of proprietary competitive technologies

## Mid-Long Term Management Plan's Investments in R&D facilities

HORIBA has been investing in R&D facilities for the five business segments for the Mid-Long Term Management Plan period of 2011 to 2015. Enhanced R&D capability for each segment will allow us to accelerate R&D in a balanced manner in the future.

### Automotive Test Systems

#### HORIBA BIWAKO E-HARBOR (Japan)

Scheduled to be completed in the autumn of 2015; approximately ¥10 billion investment  
Objective: Improve the time-to-market of new gas measurement products and efficiency of production by an organic integration of development, design and production

### Process & Environmental Instruments & Systems

### Semiconductor Instruments & Systems

#### HORIBA STEC Kyoto Fukuchiyama Technology Center (Japan)

Opened in 2013; approximately ¥1 billion investment  
Objective: Develop mass flow controllers and next-generation advanced material control equipment

### Scientific Instruments & Systems

#### HORIBA Europe Research Center (France)

Opened in 2012; approximately ¥2 billion investment  
Objective: At a location next to the École Polytechnique, the renowned French engineering institution, to use industry, academic, and government interaction and research to quickly ascertain future customer needs and accelerate development of new products

### Medical-Diagnostic Instruments & Systems

#### New Medical R&D Center (France)

Scheduled to be completed in the summer of 2015; approximately ¥1 billion investment  
Objective: Enhance medical R&D including development for medium and large-sized hematology analyzers, with new prospective markets in mind. This is intended to be an important base for growth and profitability improvement of our medical business.

### Corporate-wide

#### HORIBA Advanced Technology Center (Japan)

Opened in 2015 April; approximately ¥3 billion investment  
Objective: Integrate technical development teams of semiconductor sensors used in all segments of HORIBA products to accommodate market needs and shorten the development-to-production time



**Organizational structures**

**One Company Matrix Management**

**We announced the concept of “HORIBA Group is One Company.” in 2004 and have promoted this concept ever since. Under the corporate motto of “Joy and Fun”, we have established basic infrastructure for sustainable growth, by overcoming barriers such as often inherent in national boundaries and corporate organizations. We are united under our corporate brand and all the group companies in the world have worked as one entity, aiming to improve corporate value. HORIBA intends to enhance our organizational strength and become a more competitive global group.**

**Matrix structure, and promotion of global business strategies**

HORIBA is managed under the matrix management across five business segments and three operating regions. This is a global organizational framework for executive decisions on strategies and plans by business segment, by removing barriers such as separation of countries, regions, or group companies. This framework has also enabled globally-integrated business operation and ability to swiftly react to diverse opportunities, depending on the market outlook for each segment. We will continue to exploit the benefits of the multiplier effect from successful examples and strengths in one segment or one region to others and improve HORIBA's corporate values.

**Global ERP for One Company: GEO**

Since 2007 HORIBA has been sequentially introducing the enterprise resource planning (ERP) system, called the GEO System, to each group company, with the aim of enabling quick assessment of business strategies for the entire group as one entity. The introduction of GEO in all major locations of the group will be completed in 2015. This will reduce or eliminate information barriers caused by national boundaries or corporate organization and further facilitate sharing of business resources and information.

**Shared services for efficient regional management**

HORIBA has been introducing “shared services” which centralize certain common services such as finance, HR and IT in several divisions and organizations, in the Asia, Europe, and Americas regions. This has enabled identification and selection of skillful expertise to be concentrated in specific services in the organization, as well as achieving more efficient operations, group-wide productivity improvement and cost reduction.

**Restructuring in the U.S.**

As one of measures toward realization of One Company management, we are promoting restructuring, consolidation, and building of bases in each country. In 2014, the U.S. operation was restructured. Various separate offices in the U.S. were consolidated into one base, with enhanced controlling function as the U.S. headquarters. An improved showroom for Medical-Diagnostics Instruments and Systems segment was opened at this new base, which not only represent pursuit of efficiency but also a stronger supporting function for businesses.





Invisible Values

Assets not visible in the financial statements

Conveying HORIBA corporate culture and philosophy globally

# All employees

HORIBA published the “HORIBA Brand Book” in 2007 to preserve and cultivate HORIBA’s corporate culture while expanding global business. The Book is like a bible that tells the origin of the HORIBA Brand, lessons which employees reaffirm, share, and convey to others. This is distributed to all group and newly-hired employees.

The Book contains the story behind the corporate motto “Joy and Fun” and messages contributed by employees. It is published in six languages: Japanese, English, French, German, Chinese, and Korean.



Blackjack Project

**830** ideas for change

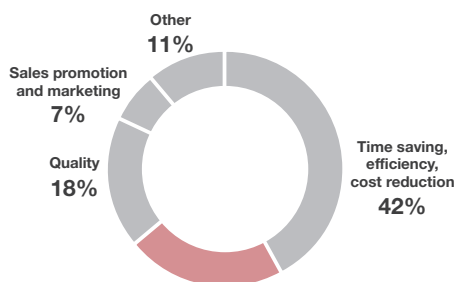


Blackjack Award World Cup 2014 winners

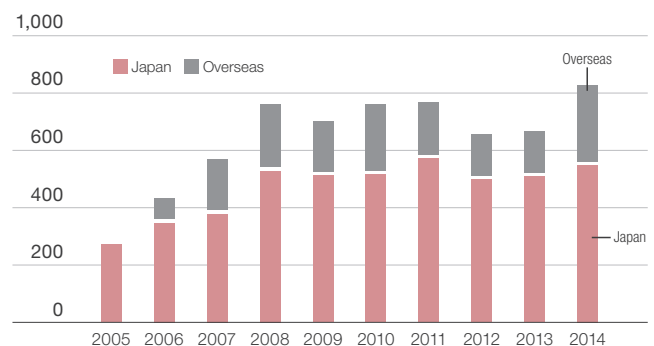
The Blackjack Project, which began in 1997 with the objective of changing the awareness and activities of employees, has resulted in submission of 830 suggestions and proposals for change in 2014. In addition to improvement in operational efficiency and cost reduction, personnel development and enhancement of organizational strength are among popular proposals, demonstrating one aspect of HORIBA’s corporate culture which emphasizes organizational reform by employees.

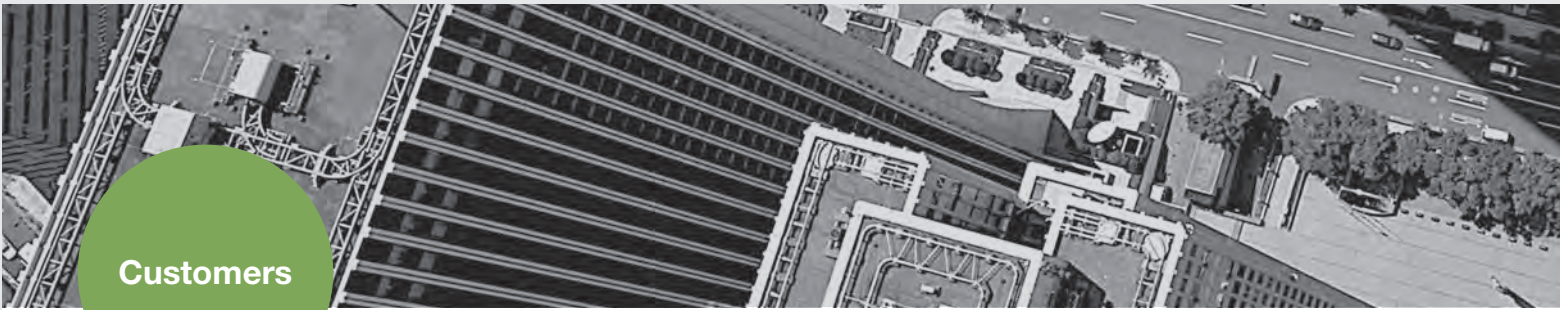
We hold an internal World Cup competition among candidate proposals from each country where we operate and have employees. This competition also provides an opportunity to demonstrate to management and employees how we make our belief a reality. We see the Blackjack Project as having the important function of sharing corporate culture, experience and knowledge.

Proposals submitted in 2014 e.g. HORIBA, Ltd.



Number of proposals

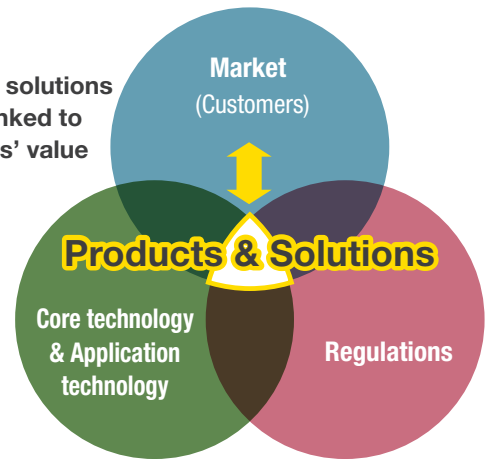




## Customers' opinions are precious in product development

In addition to adapting to regulations, we find it important to develop products based on the real needs of our customers in analysis and measurement, by visiting them and exploring their needs. We will continue to provide products and analysis and measurement solutions, that are directly linked to customers' value creation, and thereby both expand our business domain and earn their trust.

Providing solutions directly linked to customers' value creation



### Global customer service organization

HORIBA has set up an after-sales service network in the Americas, Europe, and Asia and has earned the trust of our customers. As a part of our internal efforts, we regularly hold international service meetings, which are attended by those in charge of service from various countries, and hold training sessions on services for new products, with the aim of improving services. Experienced service engineers in Japan are dispatched overseas to support overseas service members and overseas employees come to Japan for training. In 2013, we opened a new training center in Kyoto.

We also conduct product training sessions for overseas customers who request to visit Japan, verify that we will provide products meeting the specifications and performance standards they require, and participate in a training program. We instruct them on use of the product, and propose the most suitable method of measurement to satisfy specific needs, as well as the method of maintenance. During five years from 2010 to 2014, 376 customers from 145 companies in Asia and Oceania attended product training sessions in Japan. Going forward, we will continue to propose the most appropriate services for each region and give reliable, trustworthy support to customers, so that we can have more satisfied customers and higher market shares.

Customers in Asia and Oceania participated in HORIBA's training programs held in Japan

**145** companies / **376** persons



China



Thailand



South Korea



India



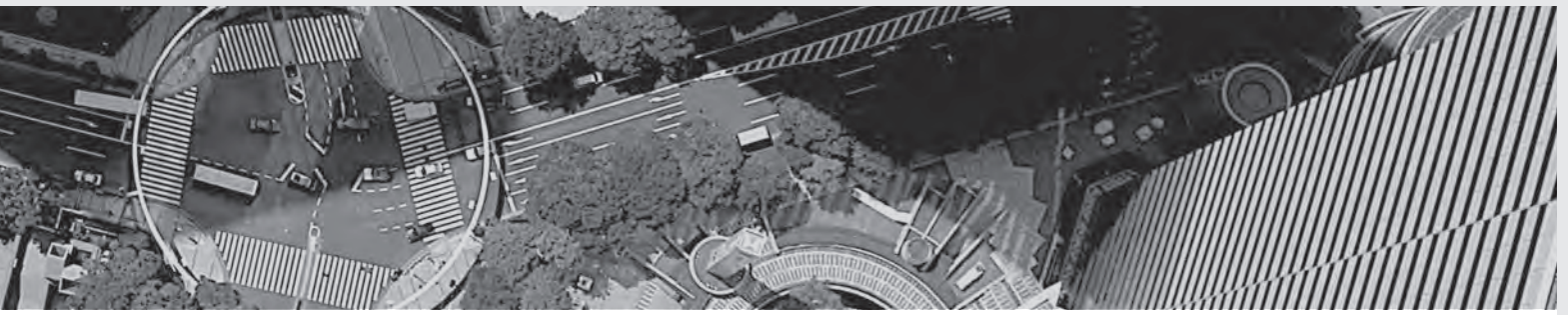
Indonesia



Malaysia



Australia



Invisible Values

Assets not visible in the financial statements

## The first Japanese company in the analysis and measurement industry to acquire IMS\*

With the aim of providing our customers with high-quality, reliable products, HORIBA, Ltd. has adopted the Integrated Management System (IMS), which is a combination of the Quality Management System ISO9001, Environmental Management System ISO14001, and Occupational Health & Safety Management System OHSAS18001, and became the first Japanese company in the analysis and measurement industry to acquire “JQA INTEGRATED MANAGEMENT SYSTEM Certificate of Implementation” (JQA-IG0001-08) in 2004. These management systems have been put into place by HORIBA, Ltd. and its domestic subsidiaries since 2011.

In 2014, HORIBA, Ltd. and a domestic subsidiary also acquired certification for Business Continuity Management System ISO22301 in the medical and semiconductor areas and established a system for a stable supply of products even in the wake of an earthquake, accident, or various diverse risk events. We are committed to continual enhancement of IMS for customer satisfaction, in order to further improve our corporate value.

\* IMS (Integrated Management System) is an integrated management system of more than one ISO and OHSAS.

## Development of long-life, energy conservation “eco-friendly products”

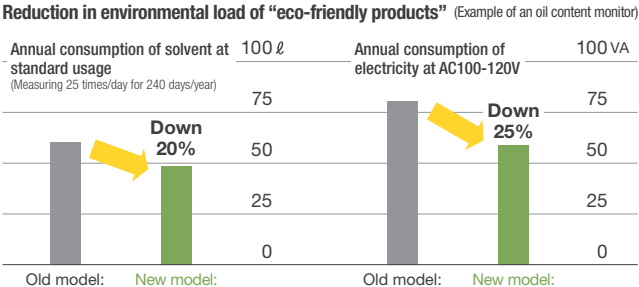
In order to provide customers with products that reflect consideration of their life cycle, such as long usable life and minimization of energy consumption, we have positioned certain products as being “eco-friendly products” if they have satisfied certain standards we have adopted, and this descriptor is used when developing and marketing those products.

With social and economic matters such as the rise in energy costs in the background, we use quantitative measurement to determine how products represent a reduction in energy requirements or a reduction in materials used. Our “eco-friendly products” target a 25% reduction compared to our conventional models.

**An “eco-friendly product”**  
The OCMA-500 oil content monitor



The oil content monitor measures oil content such as in factory waste water, residual oil after washing mechanical parts, and in soil. It is mainly used by petrochemical makers and component processing makers but is expected to be used in the food and other industries in the future.



## Increasing market shares together by collaboration with suppliers during economic upturns

Over the long term we have developed strong ties with our regular production partner companies, 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 develop their next generation of managers. The regular suppliers with which we had been doing business for seven years

or longer since 2008 represent 71% of all our suppliers. They have been able to prosper in good times and survive tough times, together with us. One reason we have been able to increase our market shares in the past even when there has been a strong surge in demand is that our relationships with these suppliers has enabled us to respond very quickly to customer demand.

Production partner companies which have worked with HORIBA for 7 years or longer  
**71% or 681 companies out of 964 companies**

# Corporate Governance Philosophy

Even when Japanese corporations were paying little attention to corporate governance, years ago, HORIBA pledged to conduct its corporate affairs by the forward-thinking policies.

## Appointment of outside director and corporate auditors

To avoid managing with an introverted approach, HORIBA has always appointed at least one director and one corporate 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 corporate 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 retain their independence between their current duties and past careers.

## Implementing shareholder return linked to earnings growth

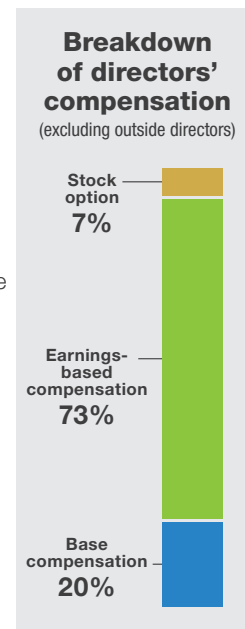
HORIBA was the first listed Japanese company to start paying shareholder dividends based on a predetermined payout ratio in 1974 when HORIBA was listed in the Second Section of the Tokyo Stock Exchange. Since fiscal 2013, HORIBA has changed the base amount of profit returns to shareholders (the combined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

## Directors' compensation

Compensation for directors consists of base compensation (regular fixed-amount salary), earnings-based salary (bonus) linked to the earnings results of each fiscal year, and stock options (retirement allowance) linked to medium to long-term earnings performance. Compensation for outside directors, however, is only base compensation (regular fixed-amount salary), excluding compensation linked to earnings performance, given the nature of their assignment. The limits for compensation for directors and for outside directors are approved as a separate matter at the annual general shareholders meeting. The directors (except the outside directors) compensation of 2014 was ¥678 million in total.



## Adoption of a corporate officer system

Since 2005, HORIBA had 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 17 corporate officers including Dr. Jai Hakhu, who joined HORIBA in 2010 and now serves as a head of HORIBA's U.S. operation and HORIBA ABX S.A.S. in France, and Haruko Nozaki who is Principal of HORIBA COLLEGE and in charge of CSR.

### As of April 1, 2015

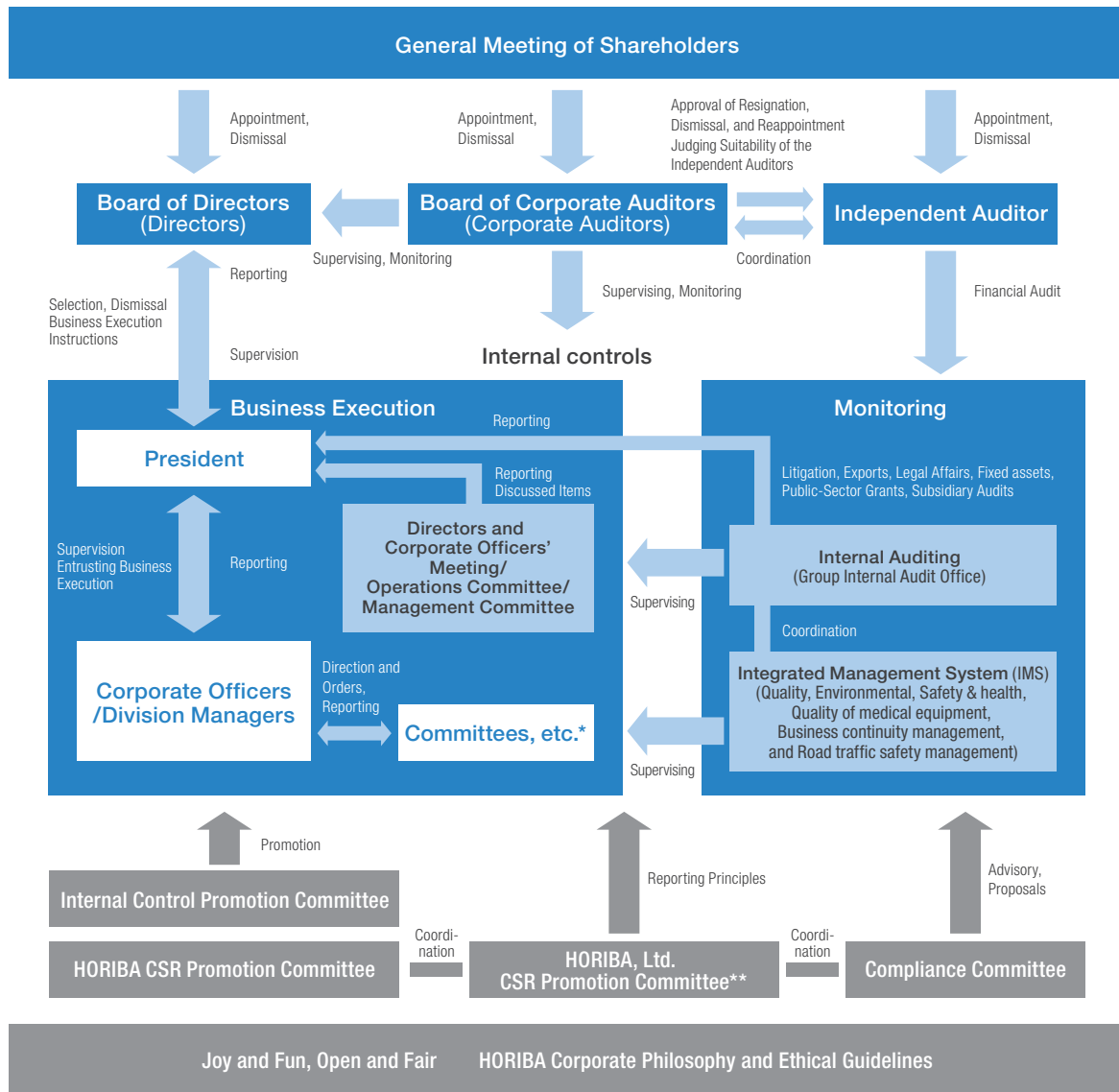


**Directors: 6** (including one outside member)

**Corporate officers: 17**  
(including one non-Japanese and one female)



## 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 Group Promotion Committee for Management of 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 Corporate Auditors

HORIBA's Auditor System, as of April 2015, relies on the Board of Corporate Auditors comprising three corporate auditors, including two outside auditors in order to ensure objective auditing. Outside corporate auditors have vast experience and knowledge in corporate legal affairs and management, and contribute to auditing particularly in the compliance aspect of execution by directors. In 2014, the Board of Corporate Auditors held 14 meetings.

### Group internal audit system

HORIBA's group internal audit office is under the direct control of the president and remains independent of other divisions. It conducts audits to determine whether group companies in Japan and abroad are conducting themselves in a fair and legal manner. In addition, the office gives advice to the auditing parties on how to improve operations or risk management. The three auditing entities of internal audit, auditors' audit, and accounting audit exchange information and cooperate with one another. In 2014, the group internal audit office conducted audits at 30 Japanese locations, 13 overseas locations, and four locations of major business partners.

## Board of directors and corporate auditors (as of April 1, 2015)

Chairman, President and CEO	<b>Atsushi Horiba</b>
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	<b>Dr. Koza Ishida</b>
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 General Manager of Corporate & Segment Strategy Division	<b>Juichi Saito</b>
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	<b>Fumitoshi Sato</b>
1976 Joined the Bank of Japan and held positions such as Aomori Branch Manager and Fukuoka Branch Manager	
2004 Joined HORIBA, Ltd. and was appointed as Senior Corporate Officer	
2005 Appointed as Managing Director up to the present	

Director General Manager of Research & Development Division	<b>Dr. Masayuki Adachi</b>
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 HORIBA's Director up to the present Appointed as President of HORIBA Jobin Yvon S.A.S. (France) up to the present	

Director (Outside), Independent Director	<b>Masahiro Sugita</b>
See page 42.	

Corporate Auditor	<b>Toshihiko Uno</b>
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 Corporate Auditor up to the present	

Corporate Auditor (Outside), Independent Auditor	<b>Kanji Ishizumi</b>
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 Corporate Auditor up to the present	

Corporate Auditor (Outside), Independent Auditor	<b>Keisuke Ishida</b>
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 Corporate Auditor up to the present	

## Corporate officers (as of April 1, 2015)

### Executive Corporate Officer

Dr. Jai Hakhu	Chairman, President & CEO of HORIBA International Corporation (U.S.) President of HORIBA Europe Holding S.A.S. (France)	Chairman of HORIBA Instruments Inc. (U.S.) President of HORIBA ABX S.A.S. (France)
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### Senior Corporate Officer

Sunao Kikkawa	General Manager of Finance & Control Division
Takashi Nagano	General Manager of Sales Division and President of HORIBA Korea Ltd. (South Korea)
Hideyuki Koishi	Vice President of HORIBA STEC Co., Ltd. (Japan)

### Corporate Officer

Yuichi Muroga	President of HORIBA Techno Service Co., Ltd. (Japan)
Hiroshi Kawamura	President of HORIBA Europe GmbH (Germany)
Atsushi Nakamine	Division Manager of IT & BPR Center

### Junior Corporate Officer

Seiji Usui	Deputy General Manager of Research & Development Division (New Product)	Kenichi Obori	Liaison for Academia and Government of Research & Development Division
Narihiro Oku	Deputy General Manager of Research & Development Division (Medical)	Hideyuki Nishibun	Deputy General Manager of Sales Division (International Sales)
Tadao Nakamura	President of HORIBA (China) Trading Co., Ltd. President of HORIBA Instruments (Shanghai) Co., Ltd.	Haruko Nozaki	Principal of HORIBA COLLEGE, CSR
Tsukasa Satake	Division Manager of Quality Management Center	Yoshimasa Tanaka	Deputy General Manager of Research & Development Division (Technology)
Yasuo Yamashita	Deputy General Manager of General Administration Division	Hiroo Chihara	General Manager of Production Division

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



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### Board discussions from a global perspective

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At HORIBA board meetings, the agenda items are presented with a broad overview on strategies and changes which are in the background, and, typically, lively and constructive small-group discussions are conducted in a casual atmosphere. HORIBA believes it is coping well in a flexible way in today's rapid global economic environment. Discussions are conducted from a global perspective and directors and corporate officers contribute by making best use of their background and experience. During the meetings, I tend to ask candid questions from a broader general perspective, rather than from my area of expertise, which is in macroeconomics and international finance. My goal is to affirm management's attitude and commitments.

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### Shareholder return linked to consolidated earnings

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Since fiscal 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. I find that this change will enable HORIBA to increase its profit returns to shareholders than in the past. In my view, HORIBA's flexible and forward-looking shareholder return policy, such as share buybacks, is favorable and is positively recognized in the stock market.

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### Governance that matches HORIBA's management style

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HORIBA emphasizes consistent management style rather than short-term profit-oriented style. Its style emphasizes importance in maintaining a high level of ROE or raising it continually. Regarding the issue of governance of the board of directors, a new trend is emerging in Japan. For example, the GPIF (Japanese Government Pension Investment Fund) changed the investment policy which includes their stewardship responsibilities. I believe that HORIBA shall not be caught up in formalities but will practice governance that matches to its management style. This will be one of the key issues for HORIBA in the coming years.

## 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

# Financial Data

## Eleven-Year Summary

	2005.3	2006.3	2006.12	2007.12	2008.12	
<b>For the Year:</b>						
Net sales	¥92,492	¥105,665	¥116,099	¥144,283	¥134,248	
Operating costs and expenses	83,119	94,390	104,392	127,753	123,290	
Operating income	9,373	11,275	11,707	16,530	10,958	
Net income	3,524	6,473	6,510	8,691	6,039	
Capital expenditures	3,956	5,664	5,059	9,336	6,645	
Depreciation and amortization	2,944	3,173	3,246	4,161	4,955	
Research and development expenses	5,636	6,553	6,136	9,474	10,662	
<b>At Year-End:</b>						
Total assets	¥99,913	¥119,976	¥129,236	¥154,367	¥133,279	
Cash and cash equivalents	16,108	14,884	15,673	20,565	22,660	
Trade notes and accounts receivable	Affiliated companies	-	-	-	63	
	Other	30,595	37,408	42,485	45,873	37,330
Inventories	22,012	27,273	30,947	33,734	29,802	
Property, plant and equipment, net	18,481	20,223	21,700	24,071	23,115	
Trade notes and accounts payable	Affiliated companies	26	45	44	53	40
	Other	11,264	13,017	14,917	16,792	11,063
Liabilities with interest	16,042	13,866	16,224	25,177	20,984	
Shareholders' equity	52,263	65,446	72,371	80,377	76,829	
Share price at end of fiscal period (¥)	1,950	3,690	4,400	4,100	1,237	
Number of employees (consolidated)	3,984	4,461	4,697	4,976	5,146	
<b>Per Share Information:</b>						
Net income - basic	¥98.33	¥154.27	¥154.23	¥205.01	¥142.76	
Net income - diluted	83.81	146.97	153.70	204.39	142.71	
Net assets	1,415.75	1,548.08	1,710.75	1,892.64	1,816.96	
Cash dividends	16.00	28.00	26.00	39.00	44.00	
<b>Financial Ratios:</b>						
Operating income to net sales (%)	10.1	10.7	10.1	11.5	8.2	
Return on assets (%)	3.7	5.9	5.2	6.1	4.2	
Return on equity (%)	7.4	11.0	9.4	11.4	7.7	
Shareholders' equity ratio (%)	52.3	54.6	56.0	52.1	57.6	
Consolidated dividend payout ratio (%)	16.5	18.1	16.9	19.0	30.8	
Nonconsolidated dividend payout ratio (%)	41.8	33.8	30.0	30.1	30.0	

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

1. The U.S. dollar amounts are provided solely for convenience at the rate of ¥120.55 to US\$1.00, the rate prevailing on December 31, 2014.
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.

2009.12	2010.12	2011.12	2012.12	2013.12	2014.12	2014.12
Millions of yen						Thousands of U.S. dollars
¥104,538	¥118,556	¥123,456	¥117,609	¥138,136	<b>¥153,065</b>	<b>\$1,269,722</b>
99,394	106,256	108,549	105,857	124,402	<b>135,851</b>	<b>1,126,926</b>
5,144	12,299	14,906	11,751	13,733	<b>17,214</b>	<b>142,795</b>
3,161	7,927	8,664	7,396	8,999	<b>10,589</b>	<b>87,839</b>
4,534	4,033	4,670	7,882	7,680	<b>11,001</b>	<b>91,256</b>
4,573	4,523	4,146	3,743	4,279	<b>4,905</b>	<b>40,688</b>
9,831	9,480	10,060	10,092	10,774	<b>11,986</b>	<b>99,427</b>
Millions of yen						Thousands of U.S. dollars
¥129,580	¥137,290	¥144,649	¥153,836	¥189,269	<b>¥207,335</b>	<b>\$1,719,908</b>
27,590	34,459	35,767	38,858	49,246	<b>51,109</b>	<b>423,965</b>
6	1	126	4	25	<b>149</b>	<b>1,236</b>
34,505	36,425	39,249	37,516	47,386	<b>52,097</b>	<b>432,160</b>
23,363	24,843	26,288	28,101	33,085	<b>34,838</b>	<b>288,992</b>
23,602	22,516	22,924	28,179	33,326	<b>39,441</b>	<b>327,175</b>
52	60	0	-	-	<b>20</b>	<b>165</b>
10,515	13,423	13,196	11,829	16,409	<b>15,385</b>	<b>127,623</b>
18,348	17,128	18,358	18,083	24,577	<b>28,412</b>	<b>235,686</b>
79,906	84,019	90,232	99,248	114,209	<b>123,924</b>	<b>1,027,988</b>
2,250	2,303	2,320	2,489	3,590	<b>4,015</b>	U.S. dollars <b>33.30</b>
5,133	5,202	5,448	5,530	5,787	<b>5,965</b>	
Yen						U.S. dollars
¥74.77	¥187.46	¥204.88	¥174.87	¥212.76	<b>¥250.28</b>	<b>\$2.07</b>
74.68	187.11	204.41	174.37	212.01	<b>249.28</b>	<b>2.06</b>
1,889.58	1,986.77	2,133.44	2,346.45	2,699.88	<b>2,928.82</b>	<b>24.29</b>
13.00	17.00	40.00	50.00	60.00	<b>67.00</b>	<b>0.55</b>
4.9	10.4	12.1	10.0	9.9	<b>11.2</b>	
2.4	5.9	6.1	5.0	5.2	<b>5.3</b>	
4.0	9.7	9.9	7.8	8.4	<b>8.9</b>	
61.7	61.2	62.4	64.5	60.3	<b>59.8</b>	
17.4	9.1	19.5	28.6	28.2	<b>26.8</b>	
30.0	30.3	30.5	37.5	48.9	<b>38.5</b>	

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

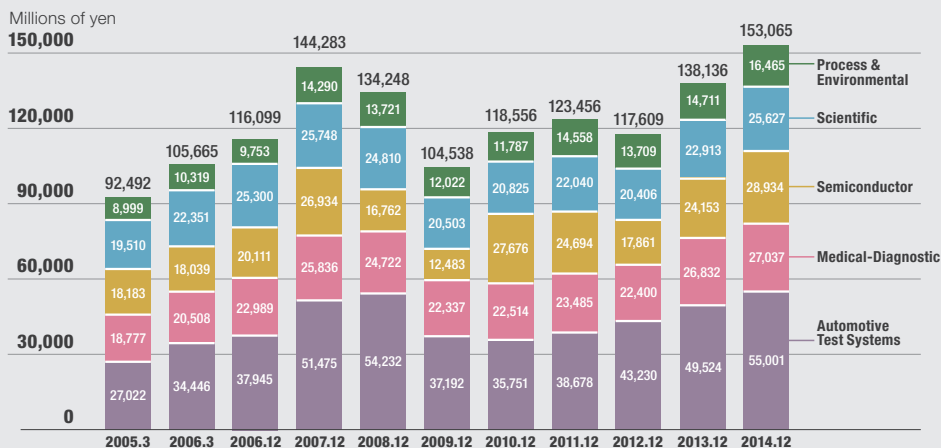
Consolidated dividend payout ratio (%) = 100 x dividends paid / net income (consolidated)

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.

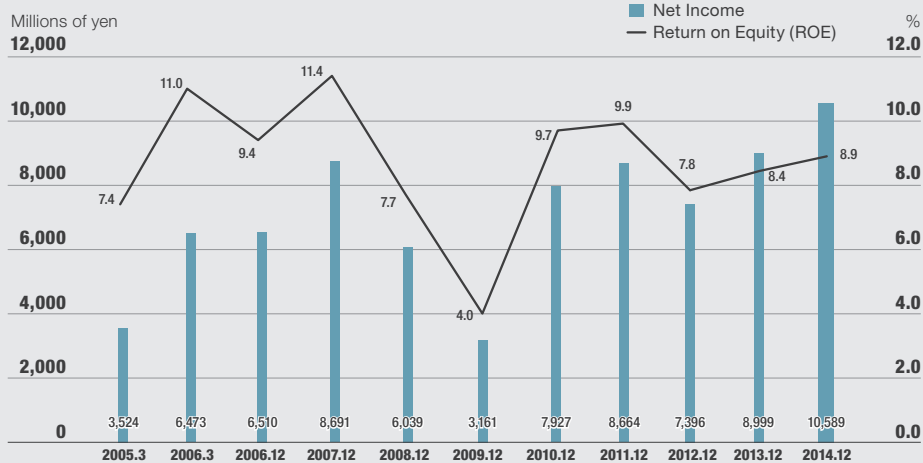
### Eleven-Year Summary

Net Sales by Segment



In fiscal 2014, ended December 31, 2014, HORIBA's net sales increased from the previous year in all segments, as investments by semiconductor manufacturers and automotive manufacturers grew and the weaker yen boosted the value of overseas sales when converted into yen. The net sales reached a record high, beating the highest sales recorded in fiscal 2007.

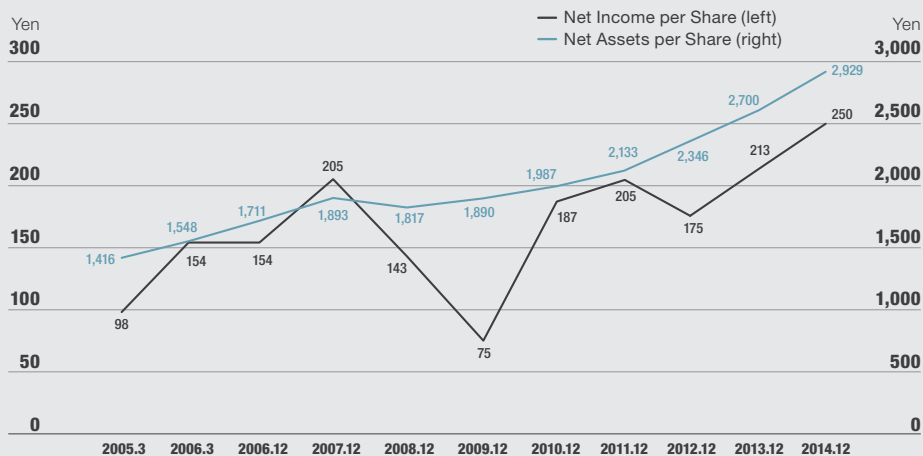
Net Income and Return on Equity (ROE)



HORIBA posted record high net income due to an increase in operating income and other reasons. This resulted in ROE rising by 0.5 percentage points from a year ago to 8.9%.

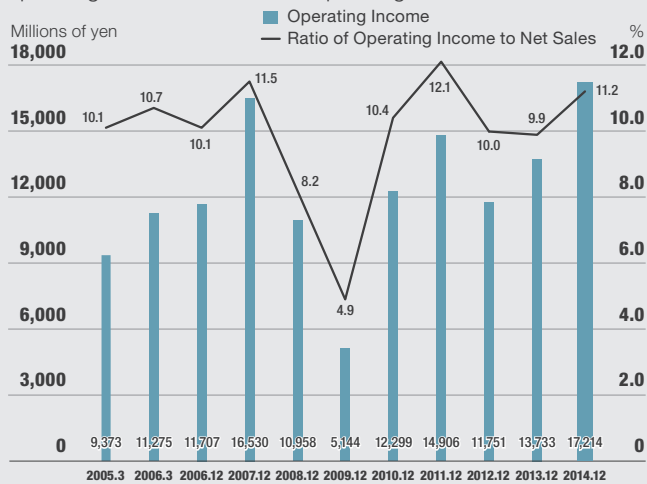
In February 2015, HORIBA conducted a share buyback worth ¥1.0 billion. HORIBA intends to continually return to owners (shareholders), targeting total returns to shareholders at 30% of consolidated net income.

Net Income per Share and Net Assets per Share

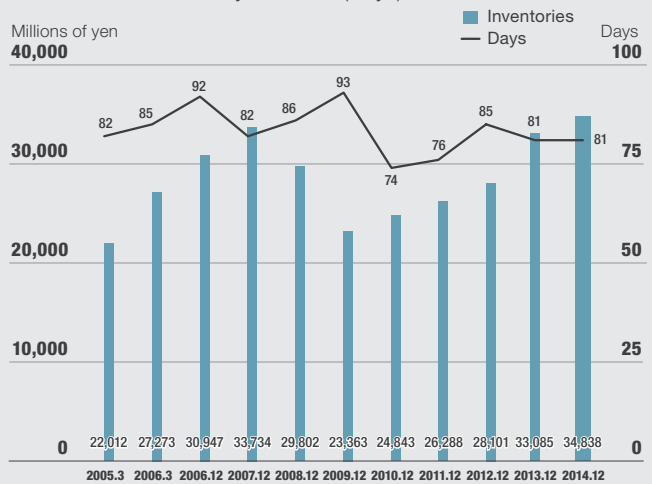


Fiscal 2014 net assets per share reached a record high of ¥2,929, while net income per share also was at a record high of ¥250, up ¥37 from the previous year.

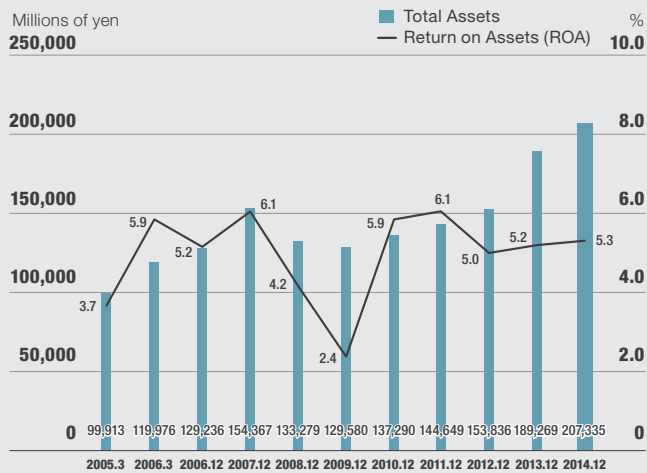
### Operating Income and Ratio of Operating Income to Net Sales



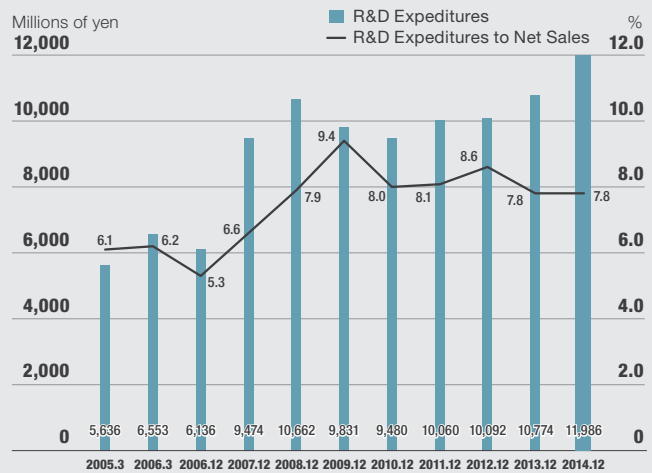
### Inventories and Inventory Turnover (Days)



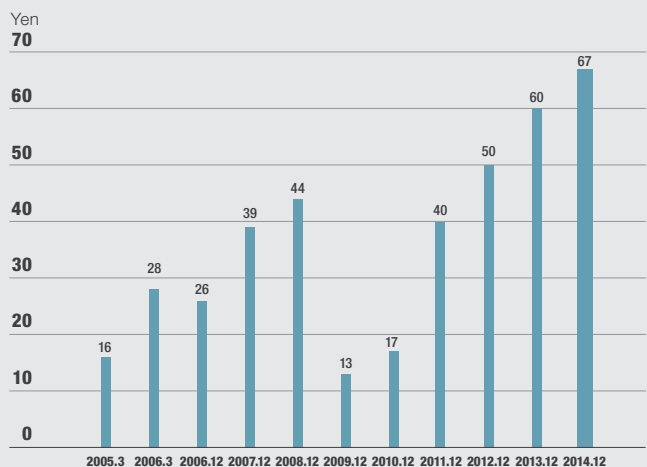
### Total Assets and Return on Assets (ROA)



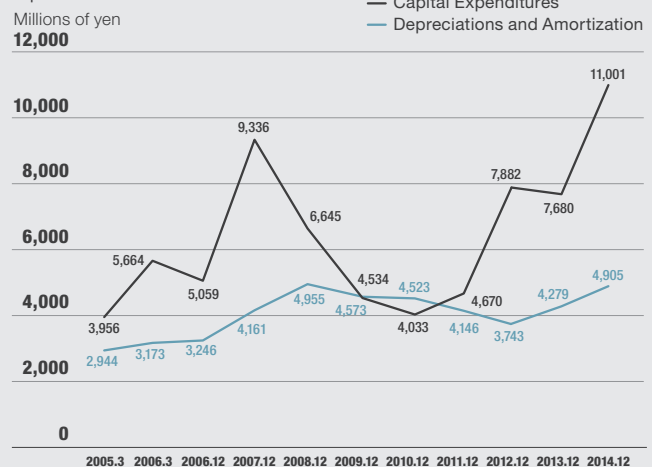
### R&D Expenditures and R&D Expenditures to Net Sales



### Cash Dividends per Share



### Capital Expenditures and Depreciations and Amortization



## HORIBA, Ltd. and Consolidated Subsidiaries | Consolidated Financial Review

During the fiscal year ended December 31, 2014, global economic conditions recovered moderately on an overall basis. In the U.S., economic conditions steadily recovered, supported by an increase in personal consumption. The European economy continued to experience a mild pickup, but the recovery came to a standstill in the second half due to the impact of the worsening Russian economy and fiscal austerity in various countries. In emerging nations, the pace of economic growth in China became moderate, but a pickup gradually emerged in India after the general election. In contrast, stagnant conditions associated mainly with domestic demand intensified in Brazil and Russia. In Japan, after consumer spending accelerated temporarily due to rush demand prior to the consumption tax increase in the first quarter of the fiscal 2014, weakness became apparent mainly because of a reaction to this from April onward. However, the weakness of consumer spending gradually eased and economic conditions underwent a moderate recovery. The annual average exchange rates for 2014 were 105.79 yen against the U.S. dollar and 140.35 yen against the euro, marking respective depreciation of 7.6% against the U.S. dollar and 7.5% against the euro, compared to the fiscal 2013.

In the analytical and measurement equipment industry, semiconductor-related demand expanded, as aggressive capital investment at semiconductor makers continued from the second half of the fiscal 2013. In the automotive industry as well, capital investment and R&D investment by domestic and overseas automakers were strong as in the fiscal 2013. Moreover, in the environmental equipment industry, demand for stack gas analysis for thermal power plants and factories in China and other countries increased.

In this operating environment, HORIBA, Ltd. (“the Company”) and its consolidated subsidiaries (together “the HORIBA Group” or “HORIBA” as a consolidated group) promoted reinforced measures that each division carried out in the fiscal 2014.

The Automotive Test Systems segment expanded sales of new emission measurement systems that were launched in 2013 and also promoted expansion of the

MCT(Mechatronics) business acquired from Carl Schenck AG in Germany in 2005. The segment thereby captured measurement demand in both the emissions measurement and MCT businesses.

In addition, the Process & Environmental Instruments & Systems segment pursued business expansion in the oil refining market, including shale gas and oil, as HORIBA had acquired the U.S. company Cameron’s process analytical product line in 2013.

In the Medical-Diagnostic Instruments & Systems segment, HORIBA launched new products aimed at the Chinese market that were developed by concentrating technological capabilities in both Japan and France to meet growing demand for blood testing in China.

In the Semiconductor Instruments & Systems segment, the HORIBA Advanced Technology Center, which has been under construction since 2013, is scheduled to commence full-scale operation soon. This will accelerate the speed of product development and enhance productivity in semiconductor-related businesses.

Finally, in the Scientific Instruments & Systems segment, HORIBA acquired the spectrofluorimetric analysis business of Photon Technology International (U.S.), and by combining these with the spectrofluorimetric technologies possessed by the HORIBA Group, the segment aims to increase sales in the pharmaceutical, food and life science markets, where analysis demand is growing.

Furthermore, to reinforce the supervisory function for U.S. operations, HORIBA moved and concentrated the U.S. head office in the State of California. In Japan, HORIBA also started construction of HORIBA BIWAKO E-HARBOR in Shiga Prefecture, which is scheduled for completion in the fall of 2015, in order to bolster development and production capabilities in the gas measurement area in the Automotive Test Systems segment and the Process & Environmental Instruments & Systems segment. In addition, HORIBA is introducing the HORIBA Group’s enterprise resource planning system (GEO system), which is aimed at speeding up management decision-making and standardizing operational



processes. During the fiscal 2014, HORIBA newly introduced the system in France, South Korea and India while also carrying out system renewals in Germany and China.

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, 2014, consolidated net sales increased by ¥14,929 million, or 10.8%, year-on-year to ¥153,065 million. The average foreign exchange rate applied in book closings was ¥105.79 to the U.S. dollar, compared with ¥97.73 for the previous year, and ¥140.35 to the euro, compared with ¥129.78 for the previous year. Using the exchange rates for the previous year, consolidated sales for fiscal 2014 would have been ¥145,411 million. Thus, ¥7,654 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 ¥7,258 million to ¥87,884 million. The cost of sales ratio improved by 1.0 percentage points from a year ago to 57.4%, due mainly to the depreciation of the yen, and an increase in sales of mass flow controllers, which owes to an increased production at semiconductor production equipment manufacturers. Excluding ¥3,484 million from fluctuations in foreign exchange rates, however, the actual increase in cost was ¥3,773 million rather than the nominal increase of ¥7,258 million.

Selling, general and administrative (SG&A) expenses increased by ¥4,189 million from the previous year to ¥47,966 million. The ratio to net sales improved by 0.3 percentage points to 31.4%, due mainly to the depreciation of the yen, an increase in sales of mass flow controllers, which owes to an increased production at semiconductor production equipment manufacturers, and sales increase supported by an increase in capital spending and R&D spending by automakers in Asia, Europe and the U.S.. Excluding ¥2,211

million from fluctuations in foreign exchange rates, however, the actual increase in SG&A expenses was ¥1,977 million rather than the nominal increase of ¥4,189 million.

As a result, consolidated operating income increased by ¥3,480 million, or 25.3%, year-on-year to ¥17,214 million. The operating income ratio was 11.2%, up 1.3 percentage points from 9.9% for the previous year.

### **Business Segments**

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

#### **(Automotive Test Systems)**

In addition to an increase in capital spending and R&D spending by automakers in Asia, Europe and the U.S., sales in Europe and the U.S. increased after conversion to yen because of the weaker yen. Consequently, segment sales increased by 11.1% year-on-year to ¥55,001 million, and operating income increased by 35.9% to ¥5,827 million.

#### **(Process & Environmental Instruments & Systems)**

Sales of stack gas analyzers for power plants and factories increased in Japan and China, and sales of water quality analyzers were firm in Asia including China and South Korea. In Europe, sales of portable gas analyzers increased. As a result, segment sales increased by 11.9% year-on-year to ¥16,465 million, and operating income increased by 58.9% to ¥2,007 million.

#### **(Medical-Diagnostic Instruments & Systems)**

Sales in Europe and the U.S. increased after conversion to yen because of the weaker yen, but sales of blood cell testing instruments were weak in various countries. Moreover, profitability declined mainly due to R&D expenditure for new product development in Europe and expenses to reinforce sales channels in North America. As a result, segment sales increased by 0.8% year-on-year to ¥27,037 million, and operating income decreased by 29.3% to ¥1,717 million.

## HORIBA, Ltd. and Consolidated Subsidiaries | Consolidated Financial Review

### (Semiconductor Instruments & Systems)

Owing to increased production at semiconductor production equipment manufacturers, sales of mass flow controllers, a core product, were robust, and they increased substantially in the fourth quarter especially. As a result, segment sales increased by 19.8% year-on-year to ¥28,934 million and operating income rose by 34.1% to ¥6,455 million.

### (Scientific Instruments & Systems)

In addition to higher sales stemming from the acquisition of the operations of Photon Technology International (U.S.) in the first quarter, sales were firm in the second half as demand increased due to higher R&D expenditure at government laboratories and universities in Europe. Moreover, sales in Europe and the U.S. increased after conversion to yen because of the weaker yen, resulting in segment sales of ¥25,627 million, up 11.8% year-on-year, and operating income of ¥1,206 million, up 28.6%.

### Net Income

Other income (expenses) resulted in increasing its expenses by ¥747 million from fiscal 2013 to a loss of ¥949 million. This result was mainly because HORIBA posted a loss associated with the decision of the policy to dissolve the employees' local pension fund in which the Company and a domestic consolidated subsidiary are members, and equity in losses of affiliates, despite posting of a gain associated with the sale of investment securities. Nevertheless, because of the increase in operating income, income before income taxes and minority interests increased by ¥2,733 million, or 20.2%, to ¥16,265 million, and net income increased by ¥1,589 million, or 17.7%, to ¥10,589 million.

### Financial Position

As of December 31, 2014, total consolidated assets were ¥207,335 million, up ¥18,065 million from December 31, 2013. The main factors contributing to the increase of total assets were an increase in trade notes and accounts receivable of ¥4,834 million and an increase in buildings and structures of

¥3,632 million.

Total consolidated liabilities increased by ¥8,296 million from the previous year to ¥83,020 million. The increase in total liabilities was due mainly to an increase of ¥4,354 million in short-term loans, and ¥2,345 million in accounts payable-other.

Total consolidated net assets amounted to ¥124,314 million, up ¥9,768 million from a year ago, due mainly to an increase of ¥7,740 million in retained earnings and ¥2,161 million in foreign currency translation adjustments.

### Cash Flows

#### (Cash Flow from Operating Activities)

Net cash provided by operating activities amounted to ¥11,455 million, compared to ¥15,076 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 ¥9,875 million, compared to ¥8,111 million used in the previous year, due mainly to payments for purchases of property, plant and equipment.

#### (Cash Flow from Financing Activities)

Net cash used in financing activities amounted to ¥273 million, compared to ¥2,324 million provided in the previous year. This was mainly attributable to payments for dividends, despite an increase of short-term borrowings.

As a result, there was a net increase of ¥1,863 million in cash and cash equivalents to ¥51,109 million as of December 31, 2014.

### 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. The basic policy regarding profit returns to shareholders is to maintain a total shareholder return ratio of around 30% of consolidated net

income, 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) 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.

## HORIBA, Ltd. and Consolidated Subsidiaries | Consolidated Financial Review

### 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) Impairment Loss on Securities and Fixed Assets by Shifts in the Market Price

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 significant declines in the market price of land, buildings or other assets occurred or segment losses were generated for two consecutive fiscal years 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 Japanese government policy to carry out a special dissolution at the representative assembly. Accordingly, HORIBA posted an estimated loss in association with the dissolution as "Provision for loss on dissolution of the employees' pension fund". 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, 2013 and December 31, 2014

Thousands of  
U.S. dollars  
(Note 1)

ASSETS	Millions of yen		Thousands of U.S. dollars (Note 1)
	12/2013	12/2014	
<b>Current assets:</b>			
Cash and cash equivalents.....	¥49,246	¥51,109	\$423,965
Trade notes and accounts receivable (Note 4,7)			
Affiliated companies.....	25	149	1,236
Other.....	47,386	52,097	432,160
Allowance for doubtful receivables.....	(914)	(1,023)	(8,486)
Marketable securities (Note 4,5).....	1,800	2,102	17,436
Inventories (Note 6).....	33,085	34,838	288,992
Deferred tax assets (Note 15).....	3,186	3,635	30,153
Other current assets.....	6,419	6,772	56,175
Total current assets.....	140,235	149,680	1,241,642
<b>Property, plant and equipment (Note 18):</b>			
Land (Note 8).....	9,504	9,908	82,189
Buildings and structures.....	27,688	31,321	259,817
Machinery, equipment and vehicles (Note 8).....	16,175	16,619	137,859
Construction in progress.....	1,763	3,817	31,663
Other property, plant and equipment.....	14,952	15,702	130,253
Total.....	70,085	77,369	641,800
Accumulated depreciation.....	(36,758)	(37,927)	(314,616)
Net property, plant and equipment.....	33,326	39,441	327,175
<b>Investments and other noncurrent assets:</b>			
Investment securities (Note 4,5).....	5,984	7,069	58,639
Investments in nonconsolidated subsidiaries and affiliates.....	105	53	439
Deferred tax assets (Note 15).....	1,750	1,993	16,532
Net defined benefit asset (Note 9).....	-	2	16
Allowance for doubtful accounts.....	(45)	(44)	(364)
Other investments and other assets.....	2,801	2,785	23,102
Total.....	10,597	11,859	98,374
<b>Intangibles:</b>			
Goodwill (Note 18).....	314	418	3,467
Software.....	3,054	4,134	34,292
Other intangibles.....	1,741	1,801	14,939
Total.....	5,110	6,353	52,700
<b>Total assets.....</b>	<b>¥189,269</b>	<b>¥207,335</b>	<b>\$1,719,908</b>
<b>LIABILITIES AND NET ASSETS</b>			
<b>Current liabilities:</b>			
Short-term loans (Note 4,8).....	¥5,534	¥9,888	\$82,024
Current portion of long-term debt (Note 4,8).....	1,229	1,104	9,158
Trade notes and accounts payable (Note 4)			
Affiliated companies.....	-	20	165
Other.....	16,409	15,385	127,623
Accounts payable - other (Note 4).....	12,112	14,457	119,925
Accrued income taxes (Note 4).....	3,523	5,220	43,301
Deferred tax liabilities (Note 15).....	87	88	729
Accrued bonuses to employees.....	905	908	7,532
Accrued bonuses to directors and corporate auditors.....	56	62	514
Reserve for product warranty.....	1,492	1,525	12,650
Other current liabilities.....	10,786	10,340	85,773
Total current liabilities.....	52,138	59,003	489,448
<b>Long-term liabilities:</b>			
Long-term debt (Note 4,8).....	17,814	17,419	144,496
Deferred tax liabilities (Note 15).....	659	174	1,443
Employees' retirement benefits (Note 9).....	2,406	-	-
Net defined benefit liability (Note 9).....	-	2,264	18,780
Provision for loss on dissolution of the employees' pension fund (Note 9).....	-	1,870	15,512
Other noncurrent liabilities.....	1,704	2,287	18,971
Total long-term liabilities.....	22,585	24,017	199,228
Total liabilities.....	74,723	83,020	688,676
<b>Contingent liabilities (Note 13)</b>			
<b>Net assets (Note 10):</b>			
<b>Shareholders' equity:</b>			
Common stock.....	12,011	12,011	99,635
Authorized - 100,000,000 shares			
Issued and outstanding - 42,301,569 shares (excluding treasury stock) at 12/2013			
Issued and outstanding - 42,312,201 shares (excluding treasury stock) at 12/2014			
Capital surplus.....	18,717	18,717	155,263
Retained earnings.....	78,477	86,218	715,205
Treasury stock - 231,183 shares at 12/2013 and 220,551 shares at 12/2014.....	(765)	(730)	(6,055)
Total shareholders' equity.....	108,441	116,216	964,048
<b>Accumulated other comprehensive income:</b>			
Unrealized gains (losses) on available-for-sale securities.....	2,296	2,041	16,930
Deferred gains or losses on hedges (Note 14).....	3	18	149
Foreign currency translation adjustments.....	3,468	5,630	46,702
Remeasurements of defined benefit plans (Note 9).....	-	16	132
Total accumulated other comprehensive income.....	5,768	7,707	63,931
<b>Subscription rights to shares (Note 11).....</b>	<b>335</b>	<b>389</b>	<b>3,226</b>
<b>Minority interests in consolidated subsidiaries.....</b>	<b>0</b>	<b>0</b>	<b>0</b>
Total net assets.....	114,545	124,314	1,031,223
<b>Total liabilities and net assets.....</b>	<b>¥189,269</b>	<b>¥207,335</b>	<b>\$1,719,908</b>

See the notes to the consolidated financial statements.

## Consolidated Statements of Income

HORIBA, Ltd. and Consolidated Subsidiaries  
For the years ended December 31, 2013 and December 31, 2014

Thousands of  
U.S. dollars  
(Note 1)

	Millions of yen		
	12/2013	12/2014	
<b>Net sales (Note 18)</b> .....	¥138,136	¥153,065	\$1,269,722
<b>Operating costs and expenses (Note 18):</b>			
Cost of sales.....	80,625	87,884	729,025
Selling, general and administrative expenses.....	43,777	47,966	397,892
Total operating costs and expenses.....	<u>124,402</u>	<u>135,851</u>	<u>1,126,926</u>
<b>Operating income (Note 18)</b> .....	13,733	17,214	142,795
<b>Other income (expenses):</b>			
Interest and dividend income.....	294	337	2,795
Interest expense.....	(560)	(545)	(4,520)
Foreign exchange gains (losses), net.....	(274)	(111)	(920)
Gain on sales of property, plant and equipment.....	431	9	74
Loss on sales of property, plant and equipment.....	(7)	(0)	(0)
Loss on disposal of property, plant and equipment.....	(65)	(110)	(912)
Impairment loss (Note 16,18).....	(190)	(42)	(348)
Gain on sales of investment securities (Note 5).....	17	1,804	14,964
Loss on valuation of investment securities (Note 5).....	(15)	-	-
Gain on sales of subsidiaries and affiliates' stocks.....	67	-	-
Loss on sales of shares of subsidiaries and associates.....	-	(0)	(0)
Equity in losses of affiliates.....	(103)	(860)	(5,474)
Subsidy income.....	70	147	1,219
Reversal of provision for compensation losses.....	173	103	854
Gain on bargain purchase (Note 18).....	64	-	-
Provision for loss on dissolution of the employees' pension fund (Note 9).....	-	(1,954)	(16,209)
Other, net.....	(103)	71	588
Total other expenses, net.....	<u>(201)</u>	<u>(949)</u>	<u>(7,872)</u>
<b>Income before income taxes and minority interests</b> .....	13,532	16,265	134,923
<b>Income taxes (Note 15):</b>			
Current.....	4,280	6,662	55,263
Deferred.....	299	(985)	(8,170)
Total income taxes.....	<u>4,580</u>	<u>5,676</u>	<u>47,084</u>
<b>Income before minority interests</b> .....	8,951	10,588	87,830
<b>Minority interests in earnings (losses) of consolidated subsidiaries</b> .....	(47)	(0)	(0)
<b>Net income</b> .....	<u>¥8,999</u>	<u>¥10,589</u>	<u>\$87,839</u>

	Yen		
	12/2013	12/2014	
<b>Per share information:</b>			
Net income – basic.....	¥212.76	¥250.28	\$2.07
Net income – diluted.....	212.01	249.28	2.06
Cash dividends.....	60.00	67.00	0.55

## Consolidated Statements of Comprehensive Income

HORIBA, Ltd. and Consolidated Subsidiaries  
For the years ended December 31, 2013 and December 31, 2014

Thousands of  
U.S. dollars  
(Note 1)

	Millions of yen		
	12/2013	12/2014	
<b>Income before minority interests</b>	¥8,951	¥10,588	\$87,830
<b>Other comprehensive income (Note 17)</b>			
Unrealized gains (losses) on available-for-sale securities.....	1,308	(254)	(2,107)
Deferred gains or losses on hedges.....	3	15	124
Foreign currency translation adjustments.....	6,896	2,132	17,685
Share of other comprehensive income of affiliates accounted for using equity method.....	(8)	29	240
Total other comprehensive income.....	<u>8,199</u>	<u>1,923</u>	<u>15,951</u>
<b>Comprehensive income</b>	¥17,151	¥12,511	\$103,782
Total comprehensive income attributable to			
Owners of the parent.....	¥17,193	¥12,512	\$103,790
Minority interests.....	(42)	(0)	(0)

See the notes to the consolidated financial statements.

## Consolidated Statements of Changes in Net Assets

HORIBA, Ltd. and Consolidated Subsidiaries  
For the years ended December 31, 2013 and December 31, 2014

Thousands of  
U.S. dollars  
(Note 1)

	Millions of yen		12/2014
	12/2013	12/2014	
<b>Shareholders' equity</b>			
<b>Common stock</b>			
Balance at beginning of current fiscal year.....	¥12,011	¥12,011	\$99,635
Balance at end of current fiscal year.....	¥12,011	¥12,011	\$99,635
<b>Capital surplus</b>			
Balance at beginning of current fiscal year.....	¥18,717	¥18,717	\$155,263
Balance at end of current fiscal year.....	¥18,717	¥18,717	\$155,263
<b>Retained earnings</b>			
Balance at beginning of current fiscal year.....	¥71,725	¥78,477	\$650,991
Changes in items during the period:			
Cash dividends.....	(2,241)	(2,834)	(23,508)
Net income.....	8,999	10,589	87,839
Disposal of treasury stock.....	(5)	(13)	(107)
Total.....	6,752	7,740	64,205
Balance at end of current fiscal year.....	¥78,477	¥86,218	\$715,205
<b>Treasury stock</b>			
Balance at beginning of current fiscal year.....	(¥780)	(¥765)	(\$6,345)
Changes in items during the period:			
Purchase of treasury stock.....	-	(0)	(0)
Disposal of treasury stock.....	14	35	290
Total.....	14	35	290
Balance at end of current fiscal year.....	(¥765)	(¥730)	(\$6,055)
<b>Shareholders' equity, total</b>			
Balance at beginning of current fiscal year.....	¥101,674	¥108,441	\$899,552
Changes in items during the period:			
Cash dividends.....	(2,241)	(2,834)	(23,508)
Net income.....	8,999	10,589	87,839
Purchase of treasury stock.....	-	(0)	(0)
Disposal of treasury stock.....	9	21	174
Total.....	6,766	7,775	64,496
Balance at end of current fiscal year.....	¥108,441	¥116,216	\$964,048
<b>Accumulated other comprehensive income</b>			
<b>Unrealized gains (losses) on available-for-sale securities</b>			
Balance at beginning of current fiscal year.....	¥987	¥2,296	\$19,046
Changes in items during the period:			
Net changes in items other than shareholders' equity.....	1,308	(254)	(2,107)
Total.....	1,308	(254)	(2,107)
Balance at end of current fiscal year.....	¥2,296	¥2,041	\$16,939
<b>Deferred gains or losses on hedges</b>			
Balance at beginning of current fiscal year.....	-	¥3	\$24
Changes in items during the period:			
Net changes in items other than shareholders' equity.....	3	15	124
Total.....	3	15	124
Balance at end of current fiscal year.....	¥3	¥18	\$149
<b>Foreign currency translation adjustments</b>			
Balance at beginning of current fiscal year.....	(¥3,413)	¥3,468	\$28,768
Changes in items during the period:			
Net changes in items other than shareholders' equity.....	6,882	2,161	17,926
Total.....	6,882	2,161	17,926
Balance at end of current fiscal year.....	¥3,468	¥5,630	\$46,702
<b>Remeasurements of defined benefit plans</b>			
Balance at beginning of current fiscal year.....	-	-	-
Changes in items during the period:			
Net changes in items other than shareholders' equity.....	-	16	132
Total.....	-	16	132
Balance at end of current fiscal year.....	-	¥16	\$132
<b>Accumulated other comprehensive income, total</b>			
Balance at beginning of current fiscal year.....	(¥2,426)	¥5,768	\$47,847
Changes in items during the period:			
Net changes in items other than shareholders' equity.....	8,194	1,939	16,084
Total.....	8,194	1,939	16,084
Balance at end of current fiscal year.....	¥5,768	¥7,707	\$63,931
<b>Subscription rights to shares</b>			
Balance at beginning of current fiscal year.....	¥245	¥335	\$2,778
Changes in items during the period:			
Net changes in items other than shareholders' equity.....	90	53	439
Total.....	90	53	439
Balance at end of current fiscal year.....	¥335	¥389	\$3,226
<b>Minority interests in consolidated subsidiaries</b>			
Balance at beginning of current fiscal year.....	¥42	¥0	\$0
Changes in items during the period:			
Net changes in items other than shareholders' equity.....	(42)	(0)	(0)
Total.....	(42)	(0)	(0)
Balance at end of current fiscal year.....	¥0	¥0	\$0
<b>Net assets, total</b>			
Balance at beginning of current fiscal year.....	¥99,536	¥114,545	\$950,186
Changes in items during the period:			
Cash dividends.....	(2,241)	(2,834)	(23,508)
Net income.....	8,999	10,589	87,839
Purchase of treasury stock.....	-	(0)	(0)
Disposal of treasury stock.....	9	21	174
Net changes in items other than shareholders' equity.....	8,242	1,992	16,524
Total.....	¥15,009	¥9,768	\$81,028
Balance at end of current fiscal year.....	¥114,545	¥124,314	\$1,031,223

See the notes to the consolidated financial statements.



## Consolidated Statements of Cash Flows

HORIBA, Ltd. and Consolidated Subsidiaries  
For the years ended December 31, 2013 and December 31, 2014

Thousands of  
U.S. dollars  
(Note 1)

	Millions of yen		12/2014
	12/2013	12/2014	
<b>Cash flows from operating activities:</b>			
Income before income taxes and minority interests.....	¥13,532	¥16,265	\$134,923
Adjustments to reconcile income before income taxes and minority interests to net cash provided by operating activities:			
Depreciation and amortization.....	4,279	4,905	40,688
Impairment loss.....	190	42	348
Increase (decrease) in allowance for doubtful receivables.....	(160)	68	564
Increase (decrease) in employees' retirement benefits.....	104	-	-
Increase (decrease) in net defined benefit liability.....	-	(214)	(1,775)
Increase (decrease) in directors' and corporate auditors' retirement benefits .....	(195)	-	-
Increase (decrease) in provision for loss on dissolution of the employees' pension fund.....	-	1,870	15,512
Interest and dividend income.....	(294)	(337)	(2,795)
Interest expense.....	560	545	4,520
Foreign exchange losses (gains).....	(17)	(237)	(1,965)
Loss (gain) on sales of property, plant and equipment.....	(424)	(9)	(74)
Loss on disposal of property, plant and equipment.....	65	110	912
Loss (gain) on valuation of investment securities.....	15	-	-
Loss (gain) on sales of investment securities.....	(17)	(1,804)	(14,964)
Decrease (increase) in trade notes and accounts receivable.....	(4,222)	(2,718)	(22,546)
Decrease (increase) in inventories.....	(630)	12	99
Increase (decrease) in trade notes and accounts payable.....	1,989	(1,943)	(16,117)
Other, net.....	2,910	514	4,263
Subtotal.....	17,684	17,069	141,592
Interest and dividends received.....	289	346	2,870
Interest paid.....	(591)	(536)	(4,462)
Income taxes (paid) refund.....	(2,307)	(5,422)	(44,977)
Net cash provided by (used in) operating activities.....	15,076	11,455	95,022
<b>Cash flows from investing activities:</b>			
Increase in time deposits.....	(2,363)	(2,843)	(23,583)
Decrease in time deposits.....	1,505	2,988	24,786
Decrease in time deposits restricted for use.....	32	32	265
Payments for purchase of marketable securities.....	(2,404)	(3,008)	(24,952)
Proceeds from sales or redemption of marketable securities.....	2,103	2,706	22,447
Payments for purchase of property, plant and equipment.....	(6,040)	(7,806)	(64,753)
Proceeds from sales of property, plant and equipment.....	870	85	705
Payments for purchase of intangibles.....	(1,535)	(1,846)	(15,313)
Payments for purchase of investment securities.....	(23)	(1,859)	(15,420)
Proceeds from sales or redemption of investment securities.....	32	2,184	18,116
Proceeds from sales of stocks of subsidiaries and affiliates.....	77	1	8
Payments for transfer of business.....	(322)	(658)	(5,458)
Other, net.....	(45)	149	1,236
Net cash provided by (used in) investing activities.....	(8,111)	(9,875)	(81,916)
<b>Cash flows from financing activities:</b>			
Proceeds from issuance of corporate bonds.....	14,919	-	-
Payments for redemption of corporate bonds.....	(10,106)	-	-
Net increase (decrease) in short-term borrowings.....	185	3,294	27,324
Increase in long-term debt.....	1,285	269	2,231
Repayments of long-term debt.....	(1,534)	(803)	(6,661)
Repayments on finance lease obligations.....	(183)	(200)	(1,659)
Net decrease (increase) of treasury stock.....	0	(0)	(0)
Cash dividends paid.....	(2,242)	(2,833)	(23,500)
Net cash provided by (used in) financing activities.....	2,324	(273)	(2,264)
<b>Effect of exchange rate changes on cash and cash equivalents.....</b>	<b>1,098</b>	<b>556</b>	<b>4,612</b>
<b>Net increase (decrease) in cash and cash equivalents.....</b>	<b>10,388</b>	<b>1,863</b>	<b>15,454</b>
<b>Cash and cash equivalents at beginning of year.....</b>	<b>38,858</b>	<b>49,246</b>	<b>408,510</b>
<b>Cash and cash equivalents at end of year.....</b>	<b>¥49,246</b>	<b>¥51,109</b>	<b>\$423,965</b>

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.

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, 2014, which was ¥120.55 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 (37 in fiscal 2013) of its subsidiaries ("HORIBA" as a consolidated group).

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 2013 and fiscal 2014.

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 other was accounted for on a cost basis, as the effect on income and retained earnings was immaterial.

The Company has one affiliated company (two in fiscal 2013). Investments in the affiliates (generally 20%-50% ownership) 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 2014 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 2014 to those directors and corporate auditors serving at the end of the fiscal year.

**(l) Reserve for product warranty**

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

**(m) Provision for loss on dissolution of the employees' pension fund**

As it was resolved to adopt Japanese government policy to carry out special dissolution of the employees' local pension fund (general

type) in which the Company and a domestic consolidated subsidiary are members, HORIBA posted an estimated loss that will arise in relation to the dissolution.

**(n) Accounting methods associated with retirement benefits**

i ) Period-based method for estimated amount of retirement benefits

In calculating projected benefit obligations, the method to attribute the estimated amount of retirement benefits to the period up to the end of the current fiscal year is based on the straight-line method.

ii ) Recording of expenses for actuarial differences and prior service costs

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.

Actuarial differences are recognized in expenses from the respectively occurring subsequent fiscal year, 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, at the time of occurrence of each fiscal year.

**(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 2014 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

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

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 2013 and fiscal 2014 were ¥10,774 million and ¥11,986 million (\$99,427 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 2013 and fiscal 2014 was 42,299 thousand and 42,309 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 2013 and fiscal 2014 was 42,448 thousand and 42,479 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

(a) "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)

#### i) 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 differences and past service costs that are yet to be recognized and the method of calculation for projected benefit obligations and service cost and to expand disclosure.

#### ii) Date of application

The revision to the method of calculation for projected benefit obligations and service costs will be applied from the start of the fiscal year ending December 31, 2015. As transitional accounting treatment is prescribed in the applicable accounting standards, retroactive application in relation to consolidated financial statements for past periods will not be carried out.

#### iii) Effect of applying these accounting standards

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

(b) "Accounting Standard for Business Combinations" (ASBJ Statement No. 21, issued on Sep. 13, 2013), "Accounting Standard

for Consolidated Financial Statements” (ASBJ Statement No. 22, issued on Sep. 13, 2013), “Accounting Standard for Business Divestitures” (ASBJ Statement No. 7, issued on Sep. 13, 2013), “Accounting Standard for Earnings Per Share” (ASBJ Statement No. 2, issued on Sep. 13, 2013), “Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures” (ASBJ Guidance No. 10, issued on Sep. 13, 2013) and “Guidance on Accounting Standard for Earnings Per Share” (ASBJ Guidance No. 4, issued on Sep. 13, 2013)

i ) Overview

These accounting standards have been revised mainly in terms of (1) handling a change in equity of a parent company in relation to a subsidiary when control continues in the case of the additional acquisition of shares of a subsidiary, (2) handling of acquisition-related expenses, (3) the representation of net income and a change from a minority interest to a non-controlling interest, and (4) handling of provisional accounting procedures.

ii ) Date of application

It is planned to apply these standards from the start of the fiscal year ending December 31, 2016. It is planned to apply the handling of the establishment of provisional accounting procedures starting with business combinations that are implemented from the start of the fiscal year ending December 31, 2016.

iii ) 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

Trade notes 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 trade notes 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, 2013 and December 31, 2014 are set forth in the table below. Financial instruments whose fair value was extremely difficult to estimate are not included (See Note 2). Cash and cash equivalents of ¥8,470 million and ¥9,278 million (\$76,963 thousand) for the fiscal years ended December 31, 2013 and December 31, 2014 are included in (3) Marketable securities and investment securities.

	Millions of yen			Millions of yen		
	12/2013			12/2014		
	Book value	Fair value	Difference	Book value	Fair value	Difference
<b>Assets:</b>						
(1) Cash and time deposits.....	¥42,228	¥42,228	-	¥43,255	¥43,255	-
(2) Trade notes and accounts receivable.....	47,412	47,412	-	52,246	52,246	-
(3) Marketable securities and investment securities						
Available-for-sale securities.....	16,127	16,127	-	18,320	18,320	-
Total.....	¥105,767	¥105,767	-	¥113,822	¥113,822	-
<b>Liabilities:</b>						
(1) Trade notes and accounts payable.....	¥16,409	¥16,409	-	¥15,406	¥15,406	-
(2) Short-term loans and current portion of long-term loans.....	6,606	6,606	-	10,832	10,832	-
(3) Accounts payable - other.....	12,112	12,112	-	14,457	14,457	-
(4) Accrued income taxes.....	3,523	3,523	-	5,220	5,220	-
(5) Bonds.....	15,000	14,891	(108)	15,000	15,264	264
(6) Long-term loans.....	2,576	2,477	(99)	2,209	2,177	(32)
Total.....	¥56,229	¥56,021	(¥207)	¥63,127	¥63,359	¥232
<b>Derivative transactions</b>						
(1) Hedge accounting not applied.....	(¥188)	(¥188)	-	(¥113)	(¥113)	-
(2) Hedge accounting applied.....	5	5	-	29	29	-
Total.....	(¥182)	(¥182)	-	(¥84)	(¥84)	-

	Thousands of U.S. dollars		
	12/2014		
	Book value	Fair value	Difference
<b>Assets:</b>			
(1) Cash and time deposits.....	\$358,813	\$358,813	-
(2) Trade notes and accounts receivable.....	433,396	433,396	-
(3) Marketable securities and investment securities			
Available-for-sale securities.....	151,970	151,970	-
Total.....	\$944,189	\$944,189	-
<b>Liabilities:</b>			
(1) Trade notes and accounts payable.....	\$127,797	\$127,797	-
(2) Short-term loans and current portion of long-term loans.....	89,854	89,854	-
(3) Accounts payable – other.....	119,925	119,925	-
(4) Accrued income taxes.....	43,301	43,301	-
(5) Bonds.....	124,429	126,619	2,189
(6) Long-term loans.....	18,324	18,058	(265)
Total.....	\$523,658	\$525,582	\$1,924
<b>Derivative transactions</b>			
(1) Hedge accounting not applied.....	(\$937)	(\$937)	-
(2) Hedge accounting applied.....	240	240	-
Total.....	(\$696)	(\$696)	-

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 and current portion of long-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
	12/2013	12/2014	U.S. dollars
			12/2014
Non-listed equity securities.....	¥129	¥129	\$1,070
Investments in nonconsolidated subsidiaries and affiliates.....	105	53	439

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			
	12/2013			
	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	-
<b>Total.....</b>	<b>¥91,941</b>	<b>¥238</b>	<b>¥14</b>	<b>-</b>

	Millions of yen			
	12/2014			
	Within one year	Over one year but within five years	Over five years but within ten years	Over ten years
Cash and time deposits.....	¥43,255	-	-	-
Trade notes and accounts receivable.....	52,246	-	-	-
Marketable securities and investment securities				
Available-for-sale securities with maturities				
(1) Governmental/municipal bonds.....	-	10	-	-
(2) Corporate bonds.....	501	201	-	-
(3) Other bonds.....	1,299	-	-	-
(4) Other.....	800	26	14	-
<b>Total.....</b>	<b>¥98,104</b>	<b>¥237</b>	<b>¥14</b>	<b>-</b>

	Thousands of U.S. dollars			
	12/2014			
	Within one year	Over one year but within five years	Over five years but within ten years	Over ten years
Cash and time deposits.....	\$358,813	-	-	-
Trade notes and accounts receivable.....	433,396	-	-	-
Marketable securities and investment securities				
Available-for-sale securities with maturities				
(1) Governmental/municipal bonds.....	-	82	-	-
(2) Corporate bonds.....	4,155	1,667	-	-
(3) Other bonds.....	10,775	-	-	-
(4) Other.....	6,636	215	116	-
<b>Total.....</b>	<b>\$813,803</b>	<b>\$1,965</b>	<b>\$116</b>	<b>-</b>

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, 2013 and December 31, 2014.

	Millions of yen			Millions of yen		
	12/2013			12/2014		
	Book value	Acquisition cost	Difference	Book value	Acquisition cost	Difference
Securities with book values exceeding acquisition costs:						
Equity securities.....	¥5,636	¥2,178	¥3,457	¥6,683	¥3,627	¥3,056
Governmental/municipal bonds.....	10	10	0	10	10	0
Corporate bonds.....	100	100	0	201	200	1
Other bonds.....	-	-	-	-	-	-
Other.....	500	500	0	500	500	0
Subtotal.....	6,247	2,788	3,459	7,395	4,337	3,058
Securities with book values not exceeding acquisition costs:						
Equity securities.....	-	-	-	36	38	(1)
Governmental/municipal bonds.....	-	-	-	-	-	-
Corporate bonds.....	301	301	(0)	501	502	(0)
Other bonds.....	1,299	1,300	(0)	1,299	1,300	(0)
Other.....	8,278	8,278	(0)	9,086	9,086	(0)
Subtotal.....	9,879	9,880	(0)	10,924	10,927	(2)
Total.....	¥16,127	¥12,668	¥3,458	¥18,320	¥15,265	¥3,055

	Thousands of U.S. dollars		
	12/2014		
	Book value	Acquisition cost	Difference
Securities with book values exceeding acquisition costs:			
Equity securities.....	\$55,437	\$30,087	\$25,350
Governmental/municipal bonds.....	82	82	0
Corporate bonds.....	1,667	1,659	8
Other bonds.....	-	-	-
Other.....	4,147	4,147	0
Subtotal.....	61,343	35,976	25,367
Securities with book values not exceeding acquisition costs:			
Equity securities.....	298	315	(8)
Governmental/municipal bonds.....	-	-	-
Corporate bonds.....	4,155	4,164	(0)
Other bonds.....	10,775	10,783	(0)
Other.....	75,371	75,371	(0)
Subtotal.....	90,618	90,642	(16)
Total.....	\$151,970	\$126,627	\$25,342

Note. Non-listed equity securities, etc. of ¥129 million and ¥129 million (\$1,070 thousand) for the fiscal years ended December 31, 2013 and December 31, 2014, 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, 2013 and December 31, 2014.

	Millions of yen		Thousands of U.S. dollars
	12/2013	12/2014	12/2014
Total sales of available-for-sale securities.....	¥30	¥2,178	\$18,067
Related gains.....	17	1,804	14,964

### Impairment loss on marketable securities

The Company recognized an impairment loss of ¥15 million in fiscal 2013 on available-for-sale 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, 2013 and December 31, 2014 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	12/2013	12/2014	12/2014
Merchandise and finished goods.....	¥11,111	¥13,811	\$114,566
Work-in-process.....	12,755	11,022	91,430
Raw materials and supplies.....	9,218	10,003	82,978
Total.....	¥33,085	¥34,838	\$288,992

### 7. Trade notes receivable maturing on December 31, 2013 and December 31, 2014, which were bank holidays

December 31, 2013 and December 31, 2014, the end of the period, were bank holidays. Trade notes receivable maturing on those dates were settled on the following business day. Therefore, notes in the amount of ¥290 million were included in the ending balance at December 31, 2013 and notes in the amount of ¥355 million (\$2,944 thousand) were included in the ending balance at December 31, 2014.

### 8. Short-term loans and long-term debt

Short-term loans are generally represented by bank notes with annual interest rates ranging from 0.48% to 15.93% and 0.58% to 13.45% at December 31, 2013 and December 31, 2014, respectively.

Long-term debt at December 31, 2013 and December 31, 2014 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	12/2013	12/2014	12/2014
0.609% unsecured bonds due in 2020.....	¥15,000	¥15,000	\$124,429
Loans from banks due serially from 2015 to 2022 at rates from 1.29% to 17.65% per annum.....	3,648	3,154	26,163
Lease obligations at 6.74% maturing serially through 2019.....	394	369	3,060
Total.....	19,043	18,524	153,662
Current portion.....	(1,229)	(1,104)	(9,158)
Long-term debt, less current portion.....	¥17,814	¥17,419	\$144,496

The aggregate annual maturities of long-term debt outstanding at December 31, 2014 were as follows:

Year ending December 31	Millions of yen	Thousands of U.S. dollars
2015.....	¥1,104	\$9,158
2016.....	696	5,773
2017.....	459	3,807
2018.....	359	2,978
2019.....	238	1,974
Thereafter.....	15,665	129,946
Total.....	¥18,524	\$153,662

As of December 31, 2014, the Company and its 8 subsidiaries had entered into agreements for bank overdrafts or loan commitments with 9 banks as follows:

	Millions of yen	Thousands of U.S. dollars
The maximum aggregate principal.....	¥15,042	\$124,778
Amount utilized.....	407	3,376
Balance available.....	¥14,635	\$121,401

As of December 31, 2014, assets were pledged as collateral for current portion of long-term debt of ¥158 million (\$1,310 thousand) and long term debt of ¥400 million (\$3,318 thousand) as follows:

	Millions of yen	Thousands of U.S. dollars
Land.....	¥154	\$1,277
Machinery, equipment and vehicles.....	550	4,562
Total.....	¥704	\$5,839

## 9. Employees' severance and pension benefits

The year ended December 31, 2013

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, 2013 (available information as of March 31, 2013), to which contributions were recorded as net periodic retirement benefit costs, was as follows:

(a) Funded status of pension plans

	<u>Millions of yen</u> <u>12/2013</u>
Fair value of plan assets.....	¥49,891
Pension benefits obligation recorded by pension fund.....	71,774
Net balance.....	<u>(¥21,883)</u>

(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%.

Note 1. Net balance resulted from the prior service cost of ¥20,390 million, and the shortage of reserve for plan assets of ¥1,493 million for the year ended December 31, 2013.

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 Japanese government policy to carry out a special dissolution at the representative assembly that took place on February 20, 2014.

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

	<u>Millions of yen</u> <u>12/2013</u>
Projected benefit obligation.....	(¥7,782)
Pension assets.....	5,406
Unfunded projected benefit obligation.....	(2,375)
Unrecognized actuarial differences.....	(41)
Unrecognized prior service costs.....	9
Employees' retirement benefits.....	<u>(¥2,406)</u>

Employees' retirement benefits expense for the year ended December 31, 2013 comprised the following:

	<u>Millions of yen</u> <u>12/2013</u>
Service cost.....	¥908
Interest expense on projected benefit obligation.....	159
Expected return on plan assets.....	(118)
Amortization of actuarial differences.....	82
Amortization of prior service costs.....	114
Other.....	539
Retirement benefits expense.....	<u>¥1,684</u>

Note 1. Premiums on the contributory funded retirement plan in the amount of ¥478 million expensed for the year ended December 31, 2013 was also included in service cost.

Note 2. "Other" is plan participants' contribution to the defined contribution pension plan.

Assumptions used were as follows:

	<u>12/2013</u>
Discount rate (mainly).....	1.20-1.50%
Expected rate of return on plan assets (mainly).....	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.

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

The year ended December 31, 2014

(1) Outline of adopted retirement pension fund

The Company and domestic consolidated subsidiaries have adopted a funded defined benefit pension plan (cash balance plan) and a defined contribution pension plan. Certain overseas consolidated subsidiaries have adopted funded and unfunded defined benefit plan and a defined contribution plan.

The Company and a domestic consolidated subsidiary have been members of the Kyoto Machinery and Metal Employees' Pension Fund (general type). As it is not possible to reasonably calculate the amount of pension assets corresponding to the company's own contributions, accounting procedures are the same as for defined contribution plans.

(2) Defined benefits plan

(a) The changes in projected benefit obligation for the year ended December 31, 2014 were as follows:

	Millions of yen	Thousands of U.S. dollars
	12/2014	12/2014
Balance at beginning of year.....	¥7,782	\$64,554
Service cost.....	603	5,002
Interest expense on projected benefit obligation.....	143	1,186
Actuarial differences.....	284	2,355
Benefits paid.....	(541)	(4,487)
Other.....	178	1,476
Balance at end of year.....	<u>¥8,449</u>	<u>\$70,087</u>

(b) The changes in pension assets for the year ended December 31, 2014 were as follows:

	Millions of yen	Thousands of U.S. dollars
	12/2014	12/2014
Balance at beginning of year.....	¥5,406	\$44,844
Expected return on pension assets.....	150	1,244
Actuarial differences.....	270	2,239
Contributions from the employer.....	630	5,226
Benefits paid.....	(371)	(3,077)
Other.....	101	837
Balance at end of year.....	<u>¥6,187</u>	<u>\$51,323</u>

(c) Reconciliation between the net defined benefit liability and the net defined benefit asset posted in the consolidated balance sheets, and the balances of projected benefit obligation and pension assets

	Millions of yen	Thousands of U.S. dollars
	12/2014	12/2014
Funded projected benefit obligation.....	¥7,135	\$59,187
Pension assets.....	(6,187)	(51,323)
	947	7,855
Unfunded projected benefit obligation.....	1,313	10,891
Net liability for retirement benefits in the consolidated balance sheets.....	<u>2,261</u>	<u>18,755</u>
Net defined benefit liability.....	2,264	18,780
Net defined benefit asset.....	(2)	(16)
Net liability for retirement benefits in the consolidated balance sheets.....	<u>¥2,261</u>	<u>\$18,755</u>

(d) The components of retirement benefits expense for the year ended December 31, 2014 were as follows:

	Millions of yen	Thousands of U.S. dollars
	12/2014	12/2014
Service cost.....	¥603	\$5,002
Interest expense on projected benefit obligation.....	143	1,186
Expected return on pension assets.....	(150)	(1,244)
Amortization of actuarial differences.....	109	904
Amortization of prior service costs.....	9	74
Retirement benefits expense.....	<u>¥715</u>	<u>\$5,931</u>

(e) The components of remeasurements of defined benefit plans (before tax effect) as of December 31, 2014 were as follows:

	Millions of yen	Thousands of U.S. dollars
	12/2014	12/2014
Unrecognized actuarial differences.....	<u>¥56</u>	<u>\$464</u>
Total.....	<u>¥56</u>	<u>\$464</u>

(f) Pension assets

i ) The pension assets, by major category, as a percentage of total pension assets as of December 31, 2014 were as follows:

	12/2014
Debt investments.....	<u>45.7%</u>
Equity investments.....	<u>27.3</u>
Mutual funds (Note).....	<u>13.6</u>
Other.....	<u>13.4</u>
Total.....	<u>100.0%</u>

Note. Mutual funds primarily invest in debt investments.

ii ) Method of determining the expected rate of return on pension assets

The expected rate of return on pension assets is determined considering the current and anticipated future portfolio of pension assets and, the long-term rates of return which are expected currently and in the future from the various components of the pension assets.

(g) Assumptions used for the year ended December 31, 2014 were as follows:

	12/2014
Discount rate (mainly).....	<u>1.0-1.4%</u>
Expected rate of return on pension assets (mainly).....	<u>2.5%</u>

(3) Defined contribution plan

Benefits expense for the defined contribution plan for the year ended December 31, 2014 was ¥629 million (\$5,217 thousand).

(4) Multi-employer pension plan

Benefits expense for the multi-employer pension plan, for which accounting procedures are the same as for defined contribution plans, for the year ended December 31, 2014 was ¥432 million (\$3,583 thousand).

(a) Funded status of pension plans (available information as of March 31, 2014)

	Millions of yen	Thousands of U.S. dollars
	12/2014	12/2014
Fair value of plan assets.....	<u>¥51,677</u>	<u>\$428,676</u>
Pension benefits obligation recorded by pension fund.....	<u>72,954</u>	<u>605,176</u>
Net balance.....	<u>(¥21,276)</u>	<u>(\$176,491)</u>

(b) The ratio of pension premiums expensed from March 1, 2014 to March 31, 2014 by the Company and its subsidiaries to the total premium amount was 16.21%.

Note 1. Net balance resulted from the prior service cost of ¥19,778 million (\$164,064 thousand), and the shortage of reserve for plan assets of ¥1,497 million (\$12,418 thousand) for the year ended December 31, 2014.

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 (4)(b) should not be construed as the percentage of HORIBA's actual obligation.

Note 4. As it was resolved to adopt Japanese government policy to carry out special dissolution of the Fund at the representative assembly that took place on February 20, 2014, HORIBA posted an estimated loss that will arise in relation to the dissolution. Consequently, we posted provision for loss on dissolution of the employees' pension fund of ¥1,954 million (\$16,209 thousand) under other income (expenses) in the consolidated statements of income, and provision for loss on dissolution of the employees' pension fund of ¥1,870 million (\$15,512 thousand) under long-term liabilities in the consolidated balance sheets.

(Application of Accounting Standard for Retirement Benefits)

HORIBA has applied "Accounting Standard for Retirement Benefits" (ASBJ Statement No. 26, May 17, 2012, "the Standard") and "Guidance on Accounting Standard for Retirement Benefits" (ASBJ Guidance No. 25, May 17, 2012, "the Guidance") from fiscal 2014, with the exception of provisions in clause 35 of the Standard and clause 67 of the Guidance. Under the Standard, the difference between projected benefit obligation and pension assets is recognized as net defined benefit liability. Unrecognized actuarial differences and unrecognized prior service costs are recognized as net defined benefit liability.

The application of the Standard and the Guidance, is subject to the transitional accounting treatment in clause 37 of the Standard. In fiscal 2014, remeasurements of defined benefit plans is included in accumulated other comprehensive income to reflect the impact of this change.

As a result of this change, we posted net defined benefit asset of ¥2 million (\$16 thousand) and net defined benefit liability of ¥2,264 million (\$18,780 thousand), and accumulated other comprehensive income increased by ¥16 million (\$132 thousand) in fiscal 2014. This application had immaterial impact on net assets per share.

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

### 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 12, 2015, the Board of Directors approved cash dividends in the amount of ¥1,777 million (\$14,740 thousand). The appropriation had not been accrued in the consolidated financial statements as of December 31, 2014. 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 U.S.dollars
	12/2013	12/2014	12/2014
Selling, general and administrative expenses.....	¥99	¥75	\$622

(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	No. 6 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	5 directors and 12 corporate officers of the Company, 3 directors and 6 corporate officers of the subsidiaries
Number of shares by type of stock (Note 1)	Common stock 33,200 shares	Common stock 27,500 shares
Date of grant	May 8, 2013	April 24, 2014
Vesting conditions	(Note 2)	(Note 2)
Service period	(Note 3)	(Note 3)
Exercise period	May 9, 2013 to May 8, 2043	April 24, 2014 to April 23, 2044

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, 2013	-	-	-	-
Granted	-	-	-	-
Forfeited	-	-	-	-
Vested	-	-	-	-
Balance at December 31, 2014	-	-	-	-
Options after vesting (number of shares)				
Balance at December 31, 2013	46,100	23,600	29,700	27,100
Vested	-	-	-	-
Exercised	3,400	1,600	2,400	2,200
Forfeited	-	-	-	-
Balance at December 31, 2014	42,700	22,000	27,300	24,900

	No. 5 Stock-based Compensation Type Stock Option	No. 6 Stock-based Compensation Type Stock Option
Options before vesting (number of shares)		
Balance at December 31, 2013	-	-
Granted	-	27,500
Forfeited	-	-
Vested	-	27,500
Balance at December 31, 2014	-	-
Options after vesting (number of shares)		
Balance at December 31, 2013	32,500	-
Vested	-	27,500
Exercised	1,100	-
Forfeited	-	-
Balance at December 31, 2014	31,400	27,500

## (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)	3,819	3,819	3,819	3,819
Fair value at grant date (yen)	1,091	2,628	2,208	2,245

	No. 5 Stock-based Compensation Type Stock Option	No. 6 Stock-based Compensation Type Stock Option
Option price (yen)	1	1
Weighted average stock price (yen)	3,819	-
Fair value at grant date (yen)	2,988	2,739

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

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

The grant date fair value of No. 6 Stock-based Compensation Type Stock Option in the year ended December 31, 2014 was estimated using the Black-Scholes option pricing model as follows:

	No. 6 Stock-based Compensation Type Stock Option
Stock price volatility (Note 1)	36.9%
Expected remaining period (Note 2)	15 Years
Expected dividend (Note 3)	¥60/share
Risk free interest rate (Note 4)	1.10%

Note 1. Stock price volatility was calculated based on actual weekly stock prices over 15 years (from the week of April 19, 1999 to the week of April 14, 2014).

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, 2013.

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, 2013 and December 31, 2014 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, 2013 and December 31, 2014, 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
	12/2013	12/2014	12/2014
Machinery, equipment and vehicles.....	¥109	¥96	\$796
Other property, plant and equipment.....	45	45	373
Less accumulated depreciation and amortization.....	(128)	(134)	(1,111)
Total.....	¥27	¥8	\$66

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 ¥0 million and ¥0 million (\$0 thousand) and depreciation and amortization of ¥23 million and ¥18 million (\$149 thousand) would have been recorded for the years ended December 31, 2013 and December 31, 2014, respectively. Lease payments under non-capitalized finance leases were ¥25 million and ¥20 million (\$165 thousand) for the years ended December 31, 2013 and December 31, 2014, respectively. Obligations under finance leases at December 31, 2013 and December 31, 2014 were as follows:

	Millions of yen		Thousands of U.S. dollars
	12/2013	12/2014	12/2014
Payments remaining:			
Payments due within 1 year.....	¥20	¥7	\$58
Payments due after 1 year.....	8	1	8
Total.....	¥29	¥8	\$66

Payments remaining under operating leases at December 31, 2013 and December 31, 2014 were as follows:

	Millions of yen		Thousands of U.S. dollars
	12/2013	12/2014	12/2014
Payments remaining:			
Payments due within 1 year.....	¥805	¥915	\$7,590
Payments due after 1 year.....	1,603	2,180	18,083
Total.....	¥2,409	¥3,096	\$25,682

## 13. Contingent liabilities

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

The Company and certain consolidated subsidiaries were contingently liable as guarantors of loans to a nonconsolidated subsidiary using equity method in the amount of ¥270 million (\$2,239 thousand) at December 31, 2014.



#### 14. Derivative transactions

Derivative transactions for which hedge accounting was not applied at December 31, 2013 and December 31, 2014 were as follows:

Currency related:

	Millions of yen				Millions of yen			
	12/2013				12/2014			
	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)
<b>Forwards</b>								
<b>Selling</b>								
US dollar	¥3,575	-	(¥84)	(¥84)	<b>¥3,235</b>	-	(¥90)	(¥90)
Euro	1,861	-	(141)	(141)	<b>2,021</b>	-	(75)	(75)
Pound	225	-	(9)	(9)	<b>149</b>	-	(1)	(1)
Yen	-	-	-	-	<b>25</b>	-	0	0
Chinese yuan	-	-	-	-	<b>45</b>	-	(0)	(0)
Baht	-	-	-	-	<b>63</b>	-	(1)	(1)
Hong Kong dollar	8	-	(0)	(0)	-	-	-	-
<b>Buying</b>								
US dollar	52	-	2	2	<b>140</b>	-	1	1
Euro	597	-	41	41	<b>583</b>	-	(12)	(12)
Pound	25	-	0	0	<b>98</b>	-	0	0
Yen	160	-	(6)	(6)	<b>102</b>	-	2	2
Chinese yuan	-	-	-	-	<b>16</b>	-	0	0
<b>Currency swap</b>								
Receiving in US dollar and paying in Real	147	121	9	9	<b>481</b>	<b>88</b>	<b>64</b>	<b>64</b>
<b>Total</b>	<b>¥6,656</b>	<b>¥121</b>	<b>(¥188)</b>	<b>(¥188)</b>	<b>¥6,964</b>	<b>¥88</b>	<b>(¥113)</b>	<b>(¥113)</b>

Note. Market value is determined by banking institutions.

	Thousands of U.S. dollars			
	12/2014			
	Contract amount	Amount of principal due over 1 year	Market value	Gain (loss)
<b>Forwards</b>				
<b>Selling</b>				
US dollar	<b>\$26,835</b>	-	(\$746)	(\$746)
Euro	<b>16,764</b>	-	(622)	(622)
Pound	<b>1,236</b>	-	(8)	(8)
Yen	<b>207</b>	-	0	0
Chinese yuan	<b>373</b>	-	(0)	(0)
Baht	<b>522</b>	-	(8)	(8)
Hong Kong dollar	-	-	-	-
<b>Buying</b>				
US dollar	<b>1,161</b>	-	8	8
Euro	<b>4,836</b>	-	(99)	(99)
Pound	<b>812</b>	-	0	0
Yen	<b>846</b>	-	16	16
Chinese yuan	<b>132</b>	-	0	0
<b>Currency swap</b>				
Receiving in US dollar and paying in Real	<b>3,990</b>	<b>729</b>	<b>530</b>	<b>530</b>
<b>Total</b>	<b>\$57,768</b>	<b>\$729</b>	<b>(\$937)</b>	<b>(\$937)</b>

Derivative transactions for which hedge accounting was applied at December 31, 2013 and December 31, 2014 were as follows:

Currency related:

	Millions of yen				Millions of yen			
	12/2013				12/2014			
	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
<b>Forwards</b>								
<b>Selling</b>								
Euro	Accounts receivable	¥8	-	(¥0)	Accounts receivable	¥5	-	(¥0)
<b>Buying</b>								
Euro	Accounts payable	54	-	6	Accounts payable	514	-	29
<b>Total</b>		<b>¥63</b>	-	<b>¥5</b>		<b>¥520</b>	-	<b>¥29</b>

Note. Market value is determined by banking institutions.

	Thousands of U.S. dollars			
	12/2014			
	Hedged items	Contract amount	Amount of principal due over 1 year	Market value
<b>Forwards</b>				
<b>Selling</b>				
Euro	Accounts receivable	<b>\$41</b>	-	<b>(\$0)</b>
<b>Buying</b>				
Euro	Accounts payable	<b>4,263</b>	-	<b>240</b>
<b>Total</b>		<b>\$4,313</b>	-	<b>\$240</b>

## 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 37.9% for the years ended December 31, 2013 and December 31, 2014.

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, 2013 and December 31, 2014.

	12/2013	12/2014
Statutory tax rate.....	37.9%	<b>37.9%</b>
Expenses not qualifying for permanent deduction, e.g. entertainment expenses.....	1.0	<b>1.8</b>
Nontaxable dividend income.....	(0.7)	<b>(0.5)</b>
Per capita inhabitants tax.....	0.3	<b>0.3</b>
Increase/decrease in valuation allowance for deferred tax assets.....	0.7	<b>0.9</b>
Differences in tax rate between foreign subsidiaries and the Company.....	(2.6)	<b>(3.3)</b>
Tax credits.....	(4.2)	<b>(4.5)</b>
Reduction in deferred tax assets by the changes of tax rate.....	-	<b>0.8</b>
Other.....	1.4	<b>1.6</b>
Effective tax rate.....	33.8%	<b>34.9%</b>

Significant components of HORIBA's deferred tax assets and liabilities at December 31, 2013 and December 31, 2014 were as follows:

	Millions of yen		Thousands of U.S. dollars
	12/2013	12/2014	12/2014
<b>Deferred tax assets</b>			
Accrued enterprise tax.....	¥243	<b>¥313</b>	<b>\$2,596</b>
Loss on write-down of inventory.....	981	<b>864</b>	<b>7,167</b>
Allowance for doubtful receivables.....	79	<b>70</b>	<b>580</b>
Accrued bonuses.....	220	<b>229</b>	<b>1,899</b>
Loss carryforwards.....	2,146	<b>1,333</b>	<b>11,057</b>
Unrealized gains.....	1,379	<b>1,555</b>	<b>12,899</b>
Employees' retirement benefits.....	641	-	-
Net defined benefit liability.....	-	<b>461</b>	<b>3,824</b>
Depreciation.....	558	<b>547</b>	<b>4,537</b>
Loss on valuation of investment securities.....	108	<b>109</b>	<b>904</b>
Loss on impairment of fixed assets.....	117	<b>117</b>	<b>970</b>
Provision for loss on dissolution of the employees' pension fund.....	-	<b>665</b>	<b>5,516</b>
Other.....	2,406	<b>3,163</b>	<b>26,238</b>
Total deferred tax assets.....	8,885	<b>9,430</b>	<b>78,224</b>
Valuation allowance.....	(1,807)	<b>(1,281)</b>	<b>(10,626)</b>
Net deferred tax assets.....	7,078	<b>8,149</b>	<b>67,598</b>
<b>Deferred tax liabilities</b>			
Unrealized losses.....	(399)	<b>(402)</b>	<b>(3,334)</b>
Net unrealized holding gains on securities.....	(1,161)	<b>(1,013)</b>	<b>(8,403)</b>
Other.....	(1,326)	<b>(1,367)</b>	<b>(11,339)</b>
Total deferred tax liabilities.....	(2,888)	<b>(2,784)</b>	<b>(23,094)</b>
Net deferred tax assets.....	¥4,189	<b>¥5,365</b>	<b>\$44,504</b>

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

	Millions of yen		Thousands of U.S. dollars
	12/2013	12/2014	12/2014
Current assets.....	¥3,186	<b>¥3,635</b>	<b>\$30,153</b>
Investments and other noncurrent assets.....	1,750	<b>1,993</b>	<b>16,532</b>
Current liabilities.....	(87)	<b>(88)</b>	<b>(729)</b>
Long-term liabilities.....	(659)	<b>(174)</b>	<b>(1,443)</b>
Net deferred tax assets.....	¥4,189	<b>¥5,365</b>	<b>\$44,504</b>

(Revision of amount of deferred tax assets and deferred tax liabilities due to change in rate of corporate and other income taxes)  
The "Act for Partial Amendment of the Income Tax Act" (2014, Act No. 10) was promulgated on March 31, 2014 in Japan, and special corporate tax for reconstruction was no longer imposed from the fiscal year beginning on and after April 1, 2014. Consequently, the statutory effective tax rate used to calculate deferred tax assets and deferred tax liabilities will change from the current 37.9% to 35.5% for a temporary difference which is expected to be reversed in the fiscal year beginning on January 1, 2015.

Owing to this change in the tax rate, the amount of deferred tax assets (the amount after deducting the amount of deferred tax liabilities) has decreased by ¥134 million (\$1,111 thousand) and the amount of income taxes (deferred) has increased by the same amount.

## 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, 2013.

Location	Use	Type	Millions of yen
Beijing, China	–	Goodwill	<b>¥143</b>
		Buildings and structures	
Longjumeau, France	Idle	Land	<b>32</b>
Montpellier, France	Idle	Machinery and equipment	<b>10</b>
Kyoto, Japan	Idle	Land	<b>4</b>

(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 (¥190 million) 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 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, 2014.

Location	Use	Type	Millions of yen	Thousands of U.S. dollars
Montpellier, France	Idle	Machinery and equipment	<b>¥25</b>	<b>\$207</b>
Gothenburg, Sweden	Planned to be sold	Machinery and equipment	<b>16</b>	<b>132</b>

(Background)

In the case of idle assets, there was no concrete plan to use the assets for business. In the case of assets that are planned to be sold, they have been estimated that losses will arise due to the sales. Thus, the book value of these assets was lowered to the recoverable value, and the resulting impairment loss (¥42 million (\$348 thousand)) 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, etc. are grouped on a property-by-property basis.

(Method used for calculating a recoverable amount)

The recoverable amount was measured according to estimated net realizable value. As it is difficult to sell or divert machinery and equipment of idle assets elsewhere, the recoverable amount was estimated at zero. Assets that are planned to be sold were estimated at the contract amount.

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

### 17. Consolidated statement of comprehensive income

Components of other comprehensive income for the years ended December 31, 2013 and December 31 2014, consisted of the following

	Millions of yen		Thousands of U.S. dollars
	12/2013	12/2014	12/2014
Unrealized gains (losses) on available-for-sale securities:			
Increase (decrease) during the year.....	¥2,024	¥1,402	\$11,630
Reclassification adjustment.....	(17)	(1,804)	(14,964)
Subtotal, before tax.....	2,006	(402)	(3,334)
Tax (expense) or benefit.....	(698)	148	1,227
Subtotal, net tax.....	1,308	(254)	(2,107)
Deferred gains or losses on hedges			
Increase (decrease) during the year.....	5	5	41
Reclassification adjustment.....	-	17	141
Subtotal, before tax.....	5	23	190
Tax (expense) or benefit.....	(2)	(8)	(66)
Subtotal, net tax.....	3	15	124
Foreign currency translation adjustments			
Increase (decrease) during the year.....	6,896	2,132	17,685
Share of other comprehensive income of associates accounted for using the equity method			
Increase (decrease) during the year.....	(8)	29	240
Total other comprehensive income.....	¥8,199	¥1,923	\$15,951

### 18. Segment information

#### General information regarding reportable segments

##### (1) Calculation method for reportable segments

HORIBA's reportable segments are components of the Company about which separate financial information is available and that 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

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

pH Meters, Particle-Size Distribution Analyzers, X-Ray Fluorescence Analyzers, Raman, Spectrophotometers, Gratings

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

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

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

Millions of yen							
12/2013							
	Automotive	Process & Environmental	Medical-Diagnostic	Semiconductor	Scientific	Adjustment	Consolidated
<b>Sales</b>							
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
<b>Other items:</b>							
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

Millions of yen							
12/2014							
	Automotive	Process & Environmental	Medical-Diagnostic	Semiconductor	Scientific	Adjustment	Consolidated
<b>Sales</b>							
Sales to outside customers.....	¥55,001	¥16,465	¥27,037	¥28,934	¥25,627	-	¥153,065
Intersegment sales and transfers.....	-	-	-	-	-	-	-
Total.....	55,001	16,465	27,037	28,934	25,627	-	153,065
Segment income (loss).....	¥5,827	¥2,007	¥1,717	¥6,455	¥1,206	-	¥17,214
Segment assets.....	¥49,035	¥14,921	¥23,953	¥29,926	¥24,405	¥65,092	¥207,335
<b>Other items:</b>							
Depreciation.....	1,518	503	1,181	868	743	-	4,815
Amortization of goodwill.....	-	-	-	-	89	-	89
Increase in tangible and intangible fixed assets.....	3,827	1,191	2,168	2,776	1,038	-	11,001

Thousands of U.S. dollars							
12/2014							
	Automotive	Process & Environmental	Medical-Diagnostic	Semiconductor	Scientific	Adjustment	Consolidated
<b>Sales</b>							
Sales to outside customers.....	\$456,250	\$136,582	\$224,280	\$240,016	\$212,583	-	\$1,269,722
Intersegment sales and transfers.....	-	-	-	-	-	-	-
Total.....	456,250	136,582	224,280	240,016	212,583	-	1,269,722
Segment income (loss).....	\$48,336	\$16,648	\$14,243	\$53,546	\$10,004	-	\$142,795
Segment assets.....	\$406,760	\$123,774	\$198,697	\$248,245	\$202,447	\$539,958	\$1,719,908
<b>Other items:</b>							
Depreciation.....	12,592	4,172	9,796	7,200	6,163	-	39,941
Amortization of goodwill.....	-	-	-	-	738	-	738
Increase in tangible and intangible fixed assets.....	31,746	9,879	17,984	23,027	8,610	-	91,256

Note 1. Details of adjustment amounts are as follows:

(1) Unallocated amounts to be included in the adjustment amount of segment profits were not generated.

(2) The adjustment amounts of ¥61,776 million and ¥65,092 million (\$539,958 thousand) of segment assets for the years ended December 31, 2013 and December 31, 2014 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 increase 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
	12/2013	12/2014	12/2014
Japan.....	¥48,496	¥47,428	\$393,430
United States.....	19,237	21,743	180,364
China.....	13,739	16,836	139,659
Europe.....	33,577	38,710	321,111
Asia.....	17,245	22,249	184,562
Others.....	5,839	6,097	50,576
Total.....	¥138,136	¥153,065	\$1,269,722

Note 1. Net sales are categorized by country or geographic area based on the location of the customer.

Note 2. The "Asia" amount is that of the Asian region other than China.

##### (2) Property, plant and equipment

	Millions of yen		Thousands of U.S. dollars
	12/2013	12/2014	12/2014
Japan.....	¥16,096	¥20,157	\$167,208
France.....	6,387	6,997	58,042
United States.....	2,807	3,970	32,932
Others.....	8,035	8,316	68,983
Total.....	¥33,326	¥39,441	\$327,175

#### 2. Information regarding major customers

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

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

	Millions of yen		Thousands of U.S. dollars
	12/2013	12/2014	12/2014
Automotive Test Systems.....	-	¥16	\$132
Medical-Diagnostic Instruments & Systems.....	10	25	207
Semiconductor Instruments & Systems.....	143	-	-
Scientific Instruments & Systems.....	32	-	-
Others.....	4	-	-
Total.....	¥190	¥42	\$348

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
	12/2013	12/2014	12/2014
Scientific Instruments & Systems.....	¥314	¥418	\$3,467
Total.....	¥314	¥418	\$3,467

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, 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.

The year ended December 31, 2014

Not applicable

## 19. Related party transactions

(1) Related party transactions with the Company

Directors and major shareholders (individuals only) of the Company

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
Account	Balance at December 31, 2013	-	-

The year ended December 31, 2014

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		2.7% (direct)	
Relationship		Consulting contract	
Transaction	Transaction amount	Consulting fee (Note 2)	¥24 million (\$199 thousand)
Account	Balance at December 31, 2014	-	-

Note 1. The above transaction amounts do not include 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, so valued on the basis of his background of long experience starting with the founding of the Company, and activities of society-academia collaboration for innovation and participation in economic organizations, as the representative of the Company. 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, 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
Account	Balance at December 31, 2013	-	-

The year ended December 31, 2014

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		2.7% (direct)	
Relationship		Consulting contract	
Transaction	Transaction amount	Consulting fee (Note 2)	¥30 million (\$248 thousand)
Account	Balance at December 31, 2014	-	-

Note 1. The above transaction amounts do not include 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 consolidated subsidiaries of the Company, so valued on the basis of his background of long experience starting with the founding of the Company. The payment was determined on a negotiated basis.

## 20. Subsequent events

(Acquisition of treasury stock)

The board of directors' meeting of the Company held on February 12, 2015 passed a resolution to acquire treasury stock pursuant to the Company's articles of incorporation in accordance with paragraph 1, article 459 of the Companies Act of Japan.

1. Reason for acquisition of treasury stock

In order to enhance the return of profits to shareholders, the Company has decided to acquire treasury stock.

2. Details of acquisition

- (1) Type of shares to be acquired: Common stock of the Company
- (2) Total number of shares to be acquired: Up to 300,000 shares (0.71% of total shares outstanding (excluding treasury stock))
- (3) Total amount of acquisition: Up to 1,000 million yen
- (4) Method of acquisition: Open market purchase by a trust bank
- (5) Period of acquisition: From February 24, 2015 to April 23, 2015

The acquisition of treasury stock was carried out until March 27, 2015 as follows and completed.

- (1) Type of shares acquired: Common stock of the Company
- (2) Total number of shares acquired: 218,400 shares
- (3) Total amount of acquisition: 999 million yen

## 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, 2014, 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, 2014, 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 20 to the consolidated financial statements, which describes that the board of directors' meeting of HORIBA, Ltd. held on February 12, 2015 passed a resolution to acquire treasury stock.

### **Convenience Translation**

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended December 31, 2014 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

*KPMG AZSA LLC*

March 30, 2015

Kyoto, Japan



## Corporate Information

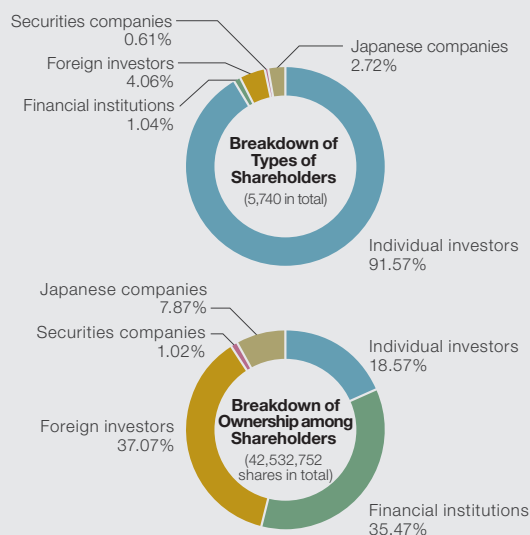
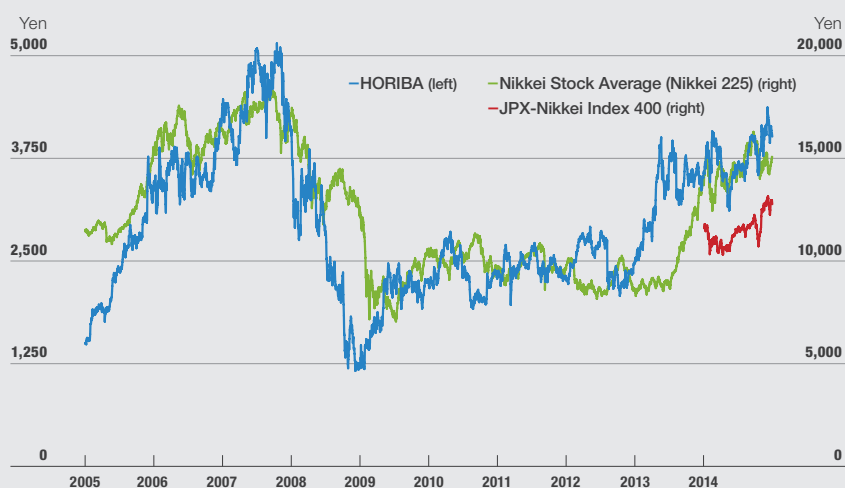
Head Office	2, Miyanohigashi-cho, Kisshoin, Minami-ku, Kyoto 601-8510, Japan	
Founded	October 17, 1945	
Incorporated	January 26, 1953	
Net sales	¥153,065 million (Consolidated)	Fiscal 2014
Paid in Capital	¥12,011 million	As of December 31, 2014
Number of Employees	5,965(Consolidated)	As of December 31, 2014
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, 2014

Name of Shareholders	Shares (Thousands)	Percentage (%)
Japan Trustee Service Bank, Ltd.	3,162	7.44
The Master Trust Bank of Japan, Ltd.	1,987	4.67
Taiyo Fund, L.P.	1,781	4.19
PICTET AND CIE (EUROPE) S.A.	1,462	3.44
National Mutual Insurance Federation of Agricultural Cooperatives	1,287	3.03
Masao Horiba	1,150	2.70
The Bank of Kyoto, Ltd.	828	1.95
Atsushi Horiba	810	1.90
HORIBA Raku-Raku Kai (partner suppliers)	779	1.83
JAPAN RE FIDELITY	673	1.58

## Stock Price Trend



### 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.

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**HORIBA** Report 2014



**HORIBA, Ltd.**

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

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

E-mail : [ir-info@horiba.com](mailto:ir-info@horiba.com)

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

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