Eleven-Year Summary

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

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

1. The U.S. dollar amounts are provided solely for convenience at the rate of ¥105.39 to US$1.00, the rate prevailing on December 31, 2013.
2. Effective from the year ended December 31, 2006, HORIBA adopted the revised accounting standard for presentation of net assets in the balance sheet. The amounts in prior years have not been restated.
3. For the year ended December 31, 2006, the accounting term for HORIBA, Ltd. and HORIBA Advanced Techno Co., Ltd. was only 9 months and 11 days and that for HORIBA STEC Co., Ltd. was only 9 months as a result of a change in the fiscal year-end to December 31.

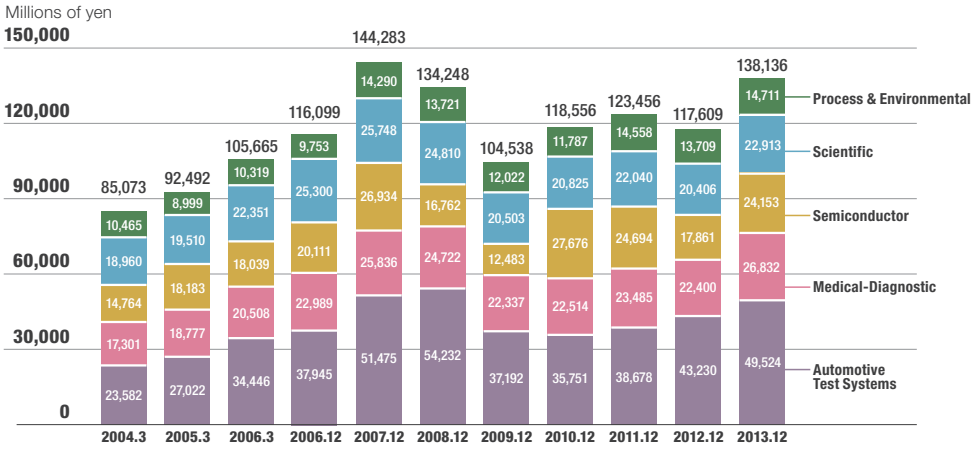
2008.12	2009.12	2010.12	2011.12	2012.12	2013.12	2013.12
					Millions of yen	Thousands of U.S. dollars
¥134,248	¥104,538	¥118,556	¥123,456	¥117,609	**¥138,136**	**$1,310,712**
123,290	99,394	106,256	108,549	105,857	**124,402**	**1,180,396**
10,958	5,144	12,299	14,906	11,751	**13,733**	**130,306**
6,039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

Computations: Shareholders' equity = net assets - subscription rights to shares - minority interests
Net income per share (¥) = (net income – projected bonuses to directors and corporate auditors)*
/ (average number of shares issued and outstanding in the fiscal period, corrected for treasury stock)
Net assets per share (¥) = (shareholders' equity – projected bonuses to directors and corporate auditors)*
/ (number of shares issued and outstanding, corrected for treasury stock)
Operating income to net sales (%) = 100 x operating income / net sales
Return on assets (ROA, %) = 100 x net income / average total assets in prior fiscal period
Return on equity (ROE, %) = 100 x net income / average shareholders' equity in prior fiscal period
Shareholders' equity ratio (%) = 100 x shareholders' equity / total assets
Consolidated dividend payout ratio (%) = 100 x dividends paid / net income (consolidated)
Nonconsolidated dividend payout ratio (%) = 100 x dividends paid / net income (nonconsolidated)

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

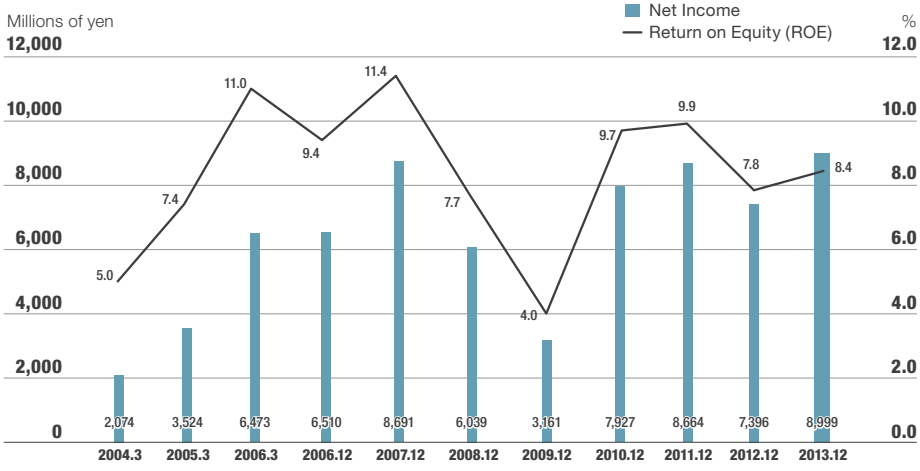
Eleven-Year Summary

Net Sales by Segment



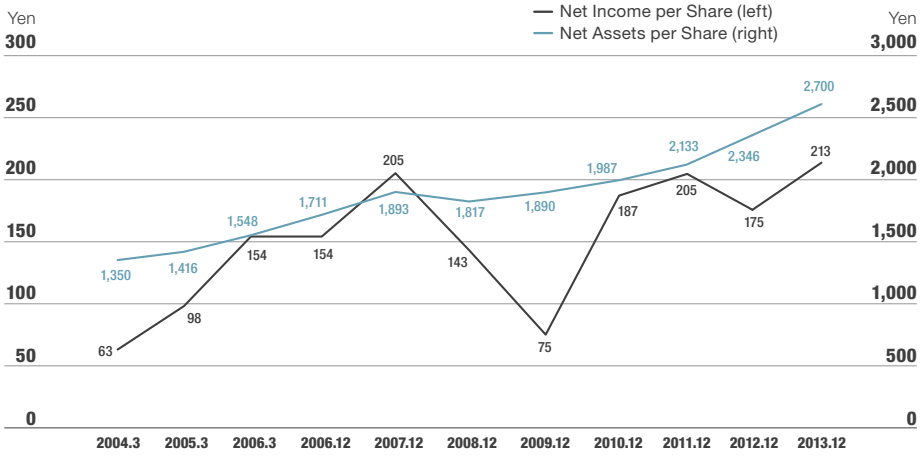
In fiscal 2013, ended December 31, 2013, HORIBA's net sales increased from the previous year in all segments, as the weaker yen boosted the value of overseas sales when converted into yen and investments by semiconductor manufacturers and automakers also grew. The net sales amount was the second highest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

Net Income and Return on Equity (ROE)



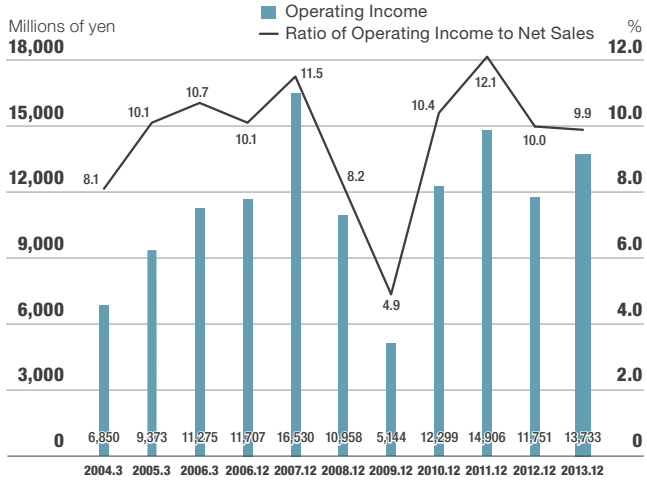
In addition to an increase in operating income, an extraordinary gain associated with the sale of a building in the U.S. contributed to record-high net income.
This resulted in ROE rising by 0.6 percentage points to 8.4%.

Net Income per Share and Net Assets per Share

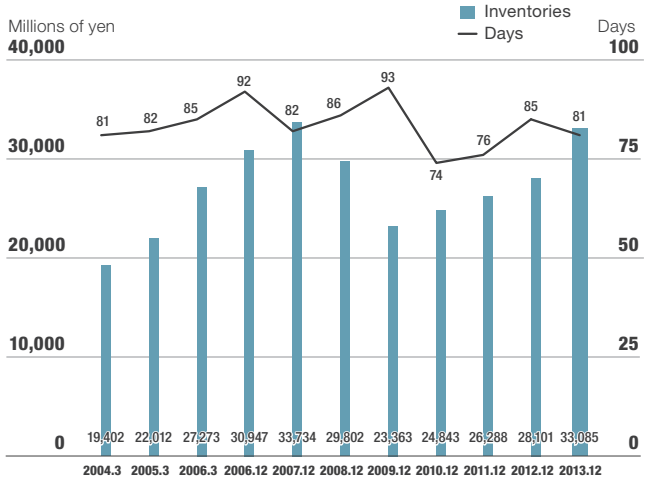


Fiscal 2013 net assets per share reached a record high of ¥2,700, while net income per share also ended up at a record high of ¥213, up ¥38 from the previous year. The price to book value ratio was approximately 1.3 times.

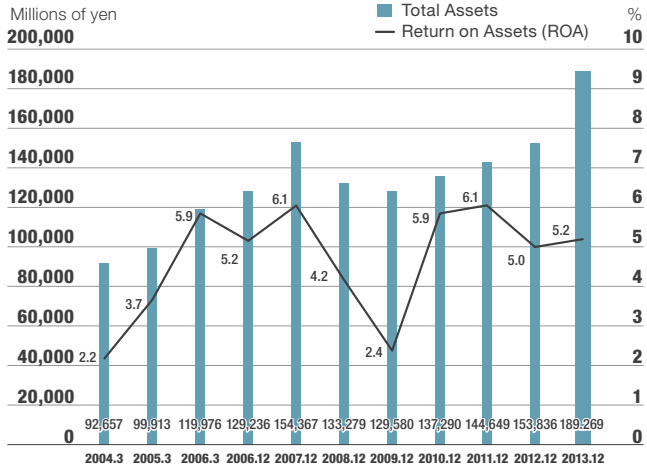
Operating Income and Ratio of Operating Income to Net Sales



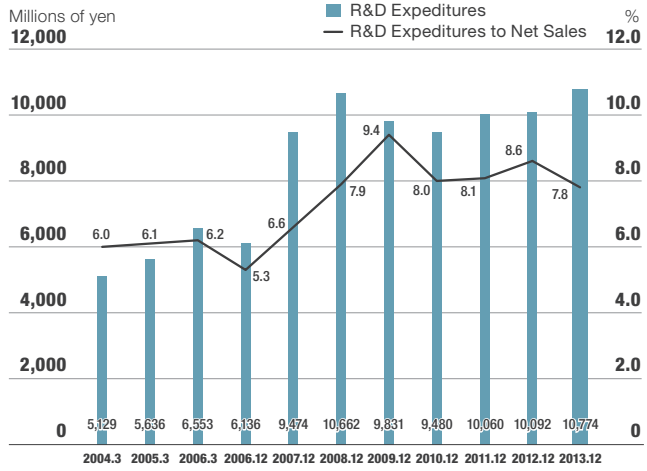
Inventories and Inventory Turnover (Days)



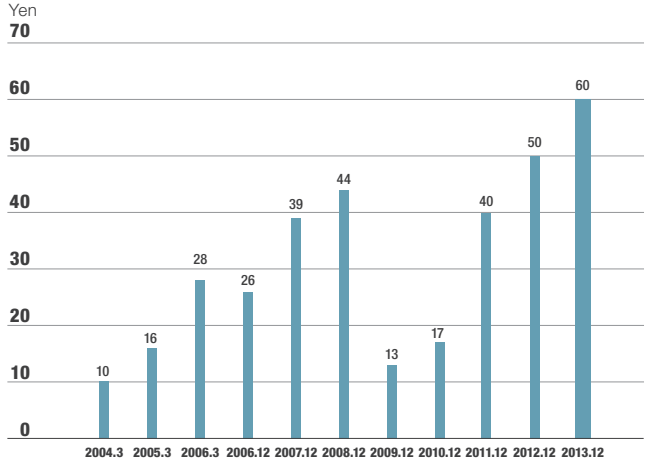
Total Assets and Return on Assets (ROA)



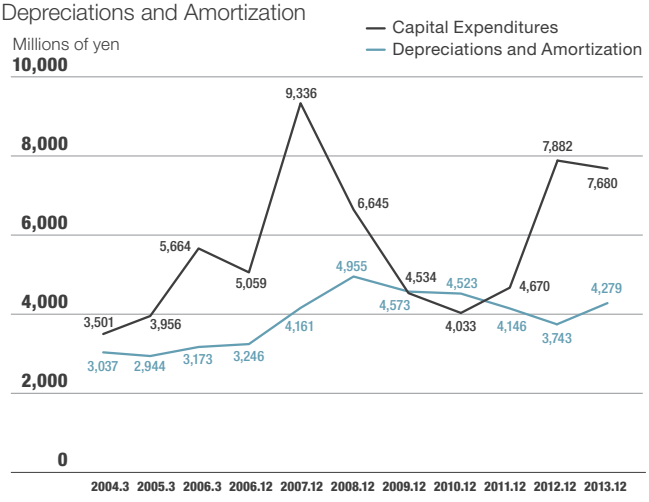
R&D Expenditures and R&D Expenditures to Net Sales



Cash Dividends per Share



Capital Expenditures and Depreciations and Amortization



HORIBA, Ltd. and Consolidated Subsidiaries | Consolidated Financial Review

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

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

In the face of these economic conditions, HORIBA, Ltd. ("the Company") and its consolidated subsidiaries (together "the HORIBA Group" or "HORIBA" as a consolidated group) implemented measures to enhance our businesses in 2013. The HORIBA Group promoted business restructuring through the Corporate & Segment Strategy Division, which was established in fiscal year 2011 to design and promote overall business strategy, and accelerated the launch of products that met market needs.

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

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

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

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

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

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

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

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

Net Sales

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

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

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

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

As a result, consolidated operating income increased by ¥1,981 million, or 16.9%, year-on-year to ¥13,733 million. The operating income ratio was 9.9%, down 0.1 percentage points from 10.0% for the previous year.

Business Segments

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

(Automotive Test Systems)

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

(Process & Environmental Instruments & Systems)

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

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

(Medical-Diagnostic Instruments & Systems)

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

HORIBA, Ltd. and Consolidated Subsidiaries | Consolidated Financial Review

(Semiconductor Instruments & Systems)

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

(Scientific Instruments & Systems)

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

Net Income

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

Financial Position

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

Total consolidated liabilities increased by ¥20,423 million from the previous year to ¥74,723 million. The increase in total liabilities was due mainly to an increase of ¥4,580 million in trade notes and accounts payable, and ¥5,420 million in long-term debt. HORIBA, Ltd. No.3 Unsecured Straight Bonds were assigned under a debt assumption agreement with financial institutions, to which a transitional measure for the accounting standard for financial instruments was applied. Thus, it is treated as having been redeemed.

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

Cash Flows

(Cash Flow from Operating Activities)

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

(Cash Flow from Investing Activities)

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

(Cash Flow from Financing Activities)

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

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

Dividend Policy

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

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

Major Risks

1. Business Risks

(1) Risks Associated with International Business Activities

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

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

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

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

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

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

(4) Risks Associated with Contracts and Transactions

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

(5) Litigation Risks

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

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

(6) Other Business Risks

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

2. Risks Associated with Development and Production

(1) Compensation for Product Liability

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

(2) Delays in Development of New Products

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

(3) Risks Concerning Intellectual Property Rights

HORIBA possesses a wide range of intellectual property rights related to the products it manufactures, including patents, trademarks and expertise, which give it superiority in terms of competitiveness. HORIBA exercises all possible caution regarding the management and protection of these intellectual property rights. However, in the case of infringement by a third party, it is possible that HORIBA will be unable to attain its expected earnings. There is also a possibility of disputes over intellectual property rights with other companies. Such disputes could significantly affect HORIBA's financial condition and business performance.

(4) Risks Associated with Fluctuations in Raw Material Prices

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

3. Financial Risks

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

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

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

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

(3) Dissolution of Employees' Pension Fund

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

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

4. Risks by Business Segment

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

(1) Automotive Test Systems

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

(2) Process & Environmental Instruments & Systems

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

(3) Medical-Diagnostic Instruments & Systems

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

(4) Semiconductor Instruments & Systems

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

(5) Scientific Instruments & Systems

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

Consolidated Balance Sheets

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

ASSETS	Millions of yen 12/2012	Millions of yen 12/2013	Thousands of U.S. dollars (Note 1) 12/2013
Current assets:			
Cash and cash equivalents	¥38,858	¥49,246	$467,273
Trade notes and accounts receivable (Note 7)			
Affiliated companies	4	25	237
Other	37,516	47,386	449,625
Allowance for doubtful receivables	(856)	(914)	(8,672)
Marketable securities (Note 5)	1,501	1,800	17,079
Inventories (Note 6)	28,101	33,085	313,929
Deferred tax assets (Note 15)	2,881	3,186	30,230
Other current assets	3,980	6,419	60,907
Total current assets	111,988	140,235	1,330,629
Property, plant and equipment:			
Land	8,172	9,504	90,179
Buildings and structures	24,210	27,688	262,719
Machinery, equipment and vehicles	12,807	16,175	153,477
Construction in progress	1,851	1,763	16,728
Other property, plant and equipment	13,386	14,952	141,873
Total	60,428	70,085	665,006
Accumulated depreciation	(32,249)	(36,758)	(348,780)
Net property, plant and equipment	28,179	33,326	316,215
Investments and other noncurrent assets:			
Investment securities (Note 5)	3,977	5,984	56,779
Investments in nonconsolidated subsidiaries and affiliates	67	105	996
Deferred tax assets (Note 15)	2,030	1,750	16,604
Allowance for doubtful accounts	(74)	(45)	(426)
Other investments and other assets	3,176	2,801	26,577
Total	9,178	10,597	100,550
Intangibles:			
Goodwill (Note 20)	319	314	2,979
Software	3,488	3,054	28,978
Other intangibles	681	1,741	16,519
Total	4,490	5,110	48,486
Total assets	¥153,836	¥189,269	$1,795,891
LIABILITIES AND NET ASSETS			
Current liabilities:			
Short-term loans (Note 8)	¥4,300	¥5,534	$52,509
Current portion of long-term debt (Note 8)	1,388	1,229	11,661
Trade notes and accounts payable:			
Affiliated companies	–	–	–
Other	11,829	16,409	155,697
Accounts payable – other	9,195	12,112	114,925
Accrued income taxes	1,317	3,523	33,428
Deferred tax liabilities (Note 15)	6	87	825
Accrued bonuses to employees	902	905	8,587
Accrued bonuses to directors and corporate auditors	38	56	531
Reserve for product warranty	1,176	1,492	14,156
Other current liabilities	7,504	10,786	102,343
Total current liabilities	37,662	52,138	494,714
Long-term liabilities:			
Long-term debt (Note 8)	12,394	17,814	169,029
Deferred tax liabilities (Note 15)	153	659	6,252
Employees' retirement benefits (Note 9)	2,066	2,406	22,829
Directors' and corporate auditors' retirement benefits	195	–	–
Provision for compensation losses	457	158	1,499
Other noncurrent liabilities	1,370	1,546	14,669
Total long-term liabilities	16,637	22,585	214,299
Total liabilities	54,299	74,723	709,014
Contingent liabilities (Note 13)			
Net assets (Note 10):			
Shareholders' equity:			
Common stock	12,011	12,011	113,967
Authorized – 100,000,000 shares			
Issued and outstanding – 42,297,169 shares (excluding treasury stock) at 12/2012			
Issued and outstanding – 42,301,569 shares (excluding treasury stock) at 12/2013			
Capital surplus	18,717	18,717	177,597
Retained earnings	71,725	78,477	744,634
Treasury stock – 235,583 shares at 12/2012 and 231,183 shares at 12/2013	(780)	(765)	(7,258)
Total shareholders' equity	101,674	108,441	1,028,949
Accumulated other comprehensive income:			
Unrealized gains (losses) on available-for-sale securities	987	2,296	21,785
Deferred gains or losses on hedges (Note 14)	–	3	28
Foreign currency translation adjustments	(3,413)	3,468	32,906
Total accumulated other comprehensive income	(2,426)	5,768	54,730
Subscription rights to shares (Note 11)	245	335	3,178
Minority interests in consolidated subsidiaries	42	0	0
Total net assets	99,536	114,545	1,086,867
Total liabilities and net assets	¥153,836	¥189,269	$1,795,891

See the notes to the consolidated financial statements.

Consolidated Statements of Income

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

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

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

Consolidated Statements of Comprehensive Income

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

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

See the notes to the consolidated financial statements.

Consolidated Statements of Changes in Net Assets

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

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

See the notes to the consolidated financial statements.

Consolidated Statements of Cash Flows

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

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

See the notes to the consolidated financial statements.

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

1. Basis of presenting consolidated financial statements

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

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

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

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

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

The translation of the Japanese yen amounts into U.S. dollar amounts is included solely for the convenience of readers outside Japan, using the prevailing exchange rate at December 31, 2013, which was ¥105.39 to U.S. $1.00. The translations should not be construed as representations that the Japanese yen amounts have been, could have been or could in the future be converted into U.S. dollars at this or any other rate of exchange. The U.S. dollars amounts are then rounded down to the nearest thousand.

Certain prior year amounts have been reclassified to conform to the current year's presentation.

2. Summary of significant accounting policies

(a) Principles of consolidation

The consolidated financial statements include the accounts of the Company and 37 (36 in fiscal 2012) of its subsidiaries ("HORIBA" as a consolidated group). In fiscal 2013, one company was newly incorporated.

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

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

statements for fiscal 2012 and fiscal 2013.

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

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

The Company has two affiliated companies (four in fiscal 2012). Investments in the affiliates (generally 20%-50% ownership) and in one nonconsolidated subsidiary were accounted for on a cost basis, not by the equity method, as the effect on income and retained earnings was immaterial.

(b) Cash and cash equivalents

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

(c) Securities

Available-for-sale securities with available fair market values are stated at fair market value. Unrealized gains and losses on these securities are reported, net of applicable income taxes, as a separate component of net assets. Realized gains and losses on the sale of such securities are computed using moving average cost. Available-for-sale securities with no available fair market value are stated mainly at moving average cost.

(d) Inventories

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

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

Property, plant and equipment are stated at cost. Depreciation is computed by the straight-line method over the estimated useful life of the asset. The estimated useful lives of buildings and structures range from 3 to 60 years and those of machinery, equipment and vehicles from 2 to 18 years.

(f) Goodwill

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

(g) Software

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

(h) Leases

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

(i) Allowance for doubtful receivables

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

(j) Accrued bonuses to employees

Accrued bonuses to employees are provided for the expected payment of employee bonuses for fiscal 2013 to those employees employed at the end of the fiscal year.

(k) Accrued bonuses to directors and corporate auditors

Some consolidated subsidiaries provide for accrued bonuses to directors and corporate auditors for the expected payment of director and corporate auditor bonuses for fiscal 2013 to those directors and corporate

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

auditors serving at the end of the fiscal year.

(l) Reserve for product warranty

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

(m) Retirement benefits and pension plans

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

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

(n) Provision for compensation losses

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

(o) Sales and costs of completed construction

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

(p) Foreign currency translation

Short-term and long-term receivables and payables in foreign currencies are translated into Japanese yen based on exchange rates at the balance sheet date.

Balance sheet accounts of consolidated foreign subsidiaries are translated into Japanese yen at the balance sheet date, except for shareholders' equity accounts, which are translated at historical rates. Revenue and expense accounts of consolidated foreign subsidiaries are translated into Japanese yen at average annual exchange rates. Differences arising from the application of the process stated above are presented separately in the consolidated financial statements in "Foreign currency translation adjustments" and "Minority interests in consolidated subsidiaries" in net assets.

(q) Derivatives

Derivative financial instruments are stated at fair value, and changes in the fair value are recognized as gains or losses, unless the derivative financial instruments are used for hedging purposes. HORIBA uses foreign currency exchange contracts to manage risk related to its importing and exporting activities. Regarding derivative transactions, in addition to conducting exchange agreement transactions within the limit of the balance of foreign currency-denominated receivables and payables, HORIBA conducts forward exchange agreement transactions for the expected foreign currency-denominated receivables and payables, which would be generated with certainty by scheduled export or import trading. HORIBA also uses interest rate swap contracts to avoid the risk of rising interest rates. Contracts are entered into and controlled by the finance department, which reports results to the director. Transactions involving derivative contracts are limited to highly rated banking institutions, and HORIBA considers that there are no material credit risks associated with them.

(r) Hedge accounting

i) Hedge accounting method

Deferred hedge accounting is applied.

ii) Hedging instruments and hedged items

Hedging instruments: Forward foreign exchange contracts, etc.

Hedged items: Foreign currency-denominated forecast transactions

iii) Hedging policy

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

iv) Assessment of hedge effectiveness

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

(s) Research and development expenses

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

(t) Income taxes

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

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

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

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

(u) Per share information

The computations of net income per share are based on the weighted average number of shares of common stock outstanding during each period. The weighted average number of shares of common stock used in the computation for fiscal 2012 and fiscal 2013 was 42,297 thousand and 42,299 thousand, respectively. Diluted net income per share of common stock assumes full conversion of dilutive convertible bonds at the beginning of the year or at the later date of issuance, with an applicable adjustment for related interest expense, net of tax and dilutive stock option plans. The weighted average number of shares used in the computation for fiscal 2012 and fiscal 2013 was 42,418 thousand and 42,448 thousand, respectively.

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

3. Accounting standards issued but not yet effective

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

(a) Overview

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

(b) Date of application

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

(c) Effect of applying these accounting standards

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

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

4. Financial instruments

(1) Overview of financial instruments

Management policy

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

Financial instruments, risks and risk management

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

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

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

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

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

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

Regarding derivative transactions, in addition to conducting exchange agreement transactions within the limit of the balance of foreign currency-denominated receivables and payables, HORIBA conducts forward exchange agreement transactions for the expected foreign currency-denominated receivables and payables, which would be generated with certainty by scheduled export or import trading. HORIBA conducts interest rate swap transactions aimed at avoiding interest rate fluctuation risk within the limit of the balance of borrowings. HORIBA's policy is not to engage in speculative transactions.

Supplementary explanation of the estimated fair value of financial instruments

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

(2) Fair value of financial instruments

The book value and fair value of financial instruments and any difference between the two as of December 31, 2012 and December 31, 2013 are set forth in the table below. Financial instruments whose fair value was extremely difficult to estimate are not included (See Note 2).

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

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

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

Assets

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

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

(3) Marketable securities and investment securities

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

Liabilities

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

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

(5) Bonds

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

(6) Long-term loans

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

Derivative transactions

See Note 14 for derivative transactions.

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

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

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

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

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

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

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

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

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

Note 4. Repayment schedule of bonds and long-term debt

See Note 8 for short-term loans and long-term debt.

5. Securities

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

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

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

Note. Non-listed equity securities, etc, of ¥146 million and ¥129 million ($1,224 thousand) for the fiscal year ended December 31, 2012 and December 31, 2013, respectively, are not included in the above table because they did not have market values and the fair value was extremely difficult to estimate.

The following table summarizes available-for-sale securities sold for the fiscal year ended December 31, 2012 and December 31, 2013.

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

Impairment loss on marketable securities

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

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6. Inventories

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

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

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

December 31, 2012 and December 31, 2013, the end of the period, were bank holidays. Notes receivable maturing on those dates were settled on the following business day. Therefore, notes in the amount of ¥318 million were included in the ending balance at December 31, 2012 and notes in the amount of ¥290 million ($2,751 thousand) were included in the ending balance at December 31, 2013.

8. Short-term loans and long-term debt

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

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

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

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

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

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

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

9. Employees' severance and pension benefits

Outline of adopted retirement pension fund

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

(1) The funded status of the multi-employer pension plan at December 31, 2012 and December 31, 2013 (available information as of March 31, 2012 and 2013), to which contributions were recorded as net periodic retirement benefit costs, was as follows:

(a) Funded status of pension plans

	Millions of yen		Thousands of U.S. dollars
	12/2012	12/2013	12/2013
Fair value of plan assets	¥46,533	**¥49,891**	**$473,394**
Pension benefits obligation recorded by pension fund	77,138	**71,774**	**681,032**
Net balance	(¥30,604)	**(¥21,883)**	**($207,638)**

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

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

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

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

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

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

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

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

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

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

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

Assumptions used were as follows:

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

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

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10. Net assets

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

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

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

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

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

11. Stock options

(1) Expenses and items related to stock options

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

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

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

(a) Details of stock options

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

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

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

Note 2. Vesting conditions are not stipulated.

Note 3. The service period is not stipulated.

(b) Number, movement and price of stock options

Stock options are convertible into an equal number of shares.

(i) Number of shares

	No. 1 Stock-based Compensation Type Stock Option	No. 2 Stock-based Compensation Type Stock Option	No. 3 Stock-based Compensation Type Stock Option	No. 4 Stock-based Compensation Type Stock Option
Options before vesting (number of shares)				
Balance at December 31, 2012	–	–	–	–
Granted	–	–	–	–
Forfeited	–	–	–	–
Vested	–	–	–	–
Balance at December 31, 2013	–	–	–	–
Options after vesting (number of shares)				
Balance at December 31, 2012	47,400	24,200	30,400	28,200
Vested	–	–	–	–
Exercised	1,300	600	700	1,100
Forfeited	–	–	–	–
Balance at December 31, 2013	46,100	23,600	29,700	27,100

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

(ii) Price per share

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

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

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

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

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

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

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

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

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

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

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

12. Leases

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

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

At December 31, 2012 and December 31, 2013, assets leased under non-capitalized finance leases were as follows:

Acquisition cost, accumulated depreciation and balance of assets leased

	Millions of yen		Thousands of U.S. dollars
	12/2012	12/2013	12/2013
Machinery, equipment and vehicles	¥109	**¥109**	**$1,034**
Other property, plant and equipment	117	**45**	**426**
Other intangibles	4	**–**	**–**
Less accumulated depreciation and amortization	(181)	**(128)**	**(1,214)**
Total	¥50	**¥27**	**$256**

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

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

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

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

13. Contingent liabilities

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

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

14. Derivative transactions

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

Currency related:

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

Note. Market value is determined by banking institutions.

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

Interest rate related:

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

Note. Market value is determined by banking institutions.

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

Currency related:

	Millions of yen 12/2012				Millions of yen 12/2013			
	Hedged items	Contract amount	Amount of principal due over 1 year	Market value	Hedged items	Contract amount	Amount of principal due over 1 year	Market value
Forwards								
Selling								
Euro	–	–	–	–	Accounts receivable	¥8	–	(¥0)
Buying								
Euro	–	–	–	–	Accounts payable	54	–	6
Total	–	–	–	–		¥63	–	¥5

Note. Market value is determined by banking institutions.

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

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

15. Income taxes

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

The following table summarizes the significant differences between the statutory tax rate and HORIBA's effective tax rate for financial statement purposes for the years ended December 31, 2012 and December 31, 2013.

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

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

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

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

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

16. Impairment loss

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

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

(Background)

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

(Method used for grouping)

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

(Method used for calculating a recoverable amount)

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

HORIBA reviewed its long-lived assets for impairment, and, as a result, impairment losses were recognized by the Company for the following asset groups as other expenses for the year ended December 31, 2013.

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

(Background)

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

(Method used for grouping)

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

(Method used for calculating a recoverable amount)

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

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17. Asset retirement obligations

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

18. Investment and rental property

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

19. Consolidated statement of comprehensive income

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

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

20. Segment information

General information regarding reportable segments

(1) Calculation method for reportable segments

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

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

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

Major products of each segment are described below.

(a) Automotive Test Systems

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

(b) Process & Environmental Instruments & Systems

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

(c) Medical-Diagnostic Instruments & Systems

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

(d) Semiconductor Instruments & Systems

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

(e) Scientific Instruments & Systems

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

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

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

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

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

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

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

Note 1. Details of adjustment amounts are as follows:

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

(2)The adjustment amounts of ¥48,865 million and ¥61,776 million ($586,165 thousand) of segment assets for the years ended December 31, 2012 and December 31, 2013 represent corporate assets that are not allocated to each business segment. They include cash and cash equivalents, short-term investments, investment securities, idle land, etc.

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

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

<Related Information>

1. Information regarding geographic areas

(1) Net sales

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

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

(2) Property, plant and equipment

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

2. Information regarding major customers

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

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

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

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

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

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

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

5. Information regarding gain on bargain purchase by reporting segment

The year ended December 31, 2012

Not applicable

The year ended December 31, 2013

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

21. Related party transactions

(1) Related party transactions with the Company

Directors and major shareholders (individuals only) of the Company

The year ended December 31, 2012

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

The year ended December 31, 2013

Category		Director's close family member	
Name		Masao Horiba	
Address		–	
Amount of capital stock (millions of yen)		–	
Business or occupation		Advisor	
Percentage of voting rights held		2.8% (direct)	
Relationship		Consulting contract	
Transaction	Transaction amount	Consulting fee (Note 2)	¥24 million ($227 thousand)
Account	Balance at December 31, 2013	–	–

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

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

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

Directors and major shareholders (individuals only) of the Company

The year ended December 31, 2012

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

The year ended December 31, 2013

Category		Director's close family member	
Name		Masao Horiba	
Address		–	
Amount of capital stock (millions of yen)		–	
Business or occupation		Advisor	
Percentage of voting rights held		2.8% (direct)	
Relationship		Consulting contract	
Transaction	Transaction amount	Consulting fee (Note 2)	¥30 million ($284 thousand)
Account	Balance at December 31, 2013	–	–

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

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

22. Subsequent events

(Special Dissolution of Employees' Pension Fund)

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

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