

ANNUAL REPORT 2019

April 2018 – March 2019



Fighting Disease with Electronics

 **NIHON KOHDEN**

Profile

Nihon Kohden continues to create value for society by fighting disease and improving health with advanced technology.

Management Philosophy

We contribute to the world by fighting disease and improving health with advanced technology, and create a fulfilling life for our employees.

Throughout our history, Nihon Kohden has always pursued solutions to healthcare challenges through innovative and high-quality medical devices with the aim of realizing our Management Philosophy.

Our medical devices developed so far have been used in medical practice in more than 120 countries around the world to save many patients.

Now and in future, Nihon Kohden will continue to provide this value to medical professionals and patients by leveraging our core strengths of i) the capacity to develop technologies rooted in medical practice, ii) a broad clientele base inside and outside Japan, iii) high-quality products and services, and the development, production, sales, and service systems to support them, and iv) the strength of a brand cultivated over many years.

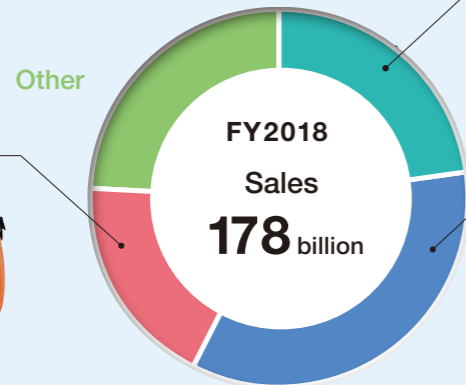
Long-Term Vision

In 2010, Nihon Kohden established a long-term vision, The CHANGE 2020 -The Global Leader of Medical Solutions-, for the next ten years to 2020. The envisioned corporate status for 2020 is to (1) lead the world in the development of revolutionary breakthrough technology, (2) achieve the highest level of quality in the world, and (3) attain the top share of applicable global markets.

Nihon Kohden has produced a number of innovative medical devices and technologies with its technological development capabilities rooted in medical practice. In part because of the strength of the Nihon Kohden brand, which we have built up over many years, Nihon Kohden has many products with the top market share in Japan.

Treatment Equipment

AEDs
Nihon Kohden is the only company that develops and manufactures AEDs in Japan, holding the largest domestic market share.



Physiological Measuring Equipment

EEGs
Nihon Kohden is a global EEG manufacturer with an overwhelming domestic market share of 80%.



Patient Monitors

Patient Monitors
Nihon Kohden is the top manufacturer of patient monitors in Japan, contributing to medical safety.



Contents

Profile

1 Profile

Strategies Generating Value

2 Mid-term Business Plan TRANSFORM 2020
5 Management Interview

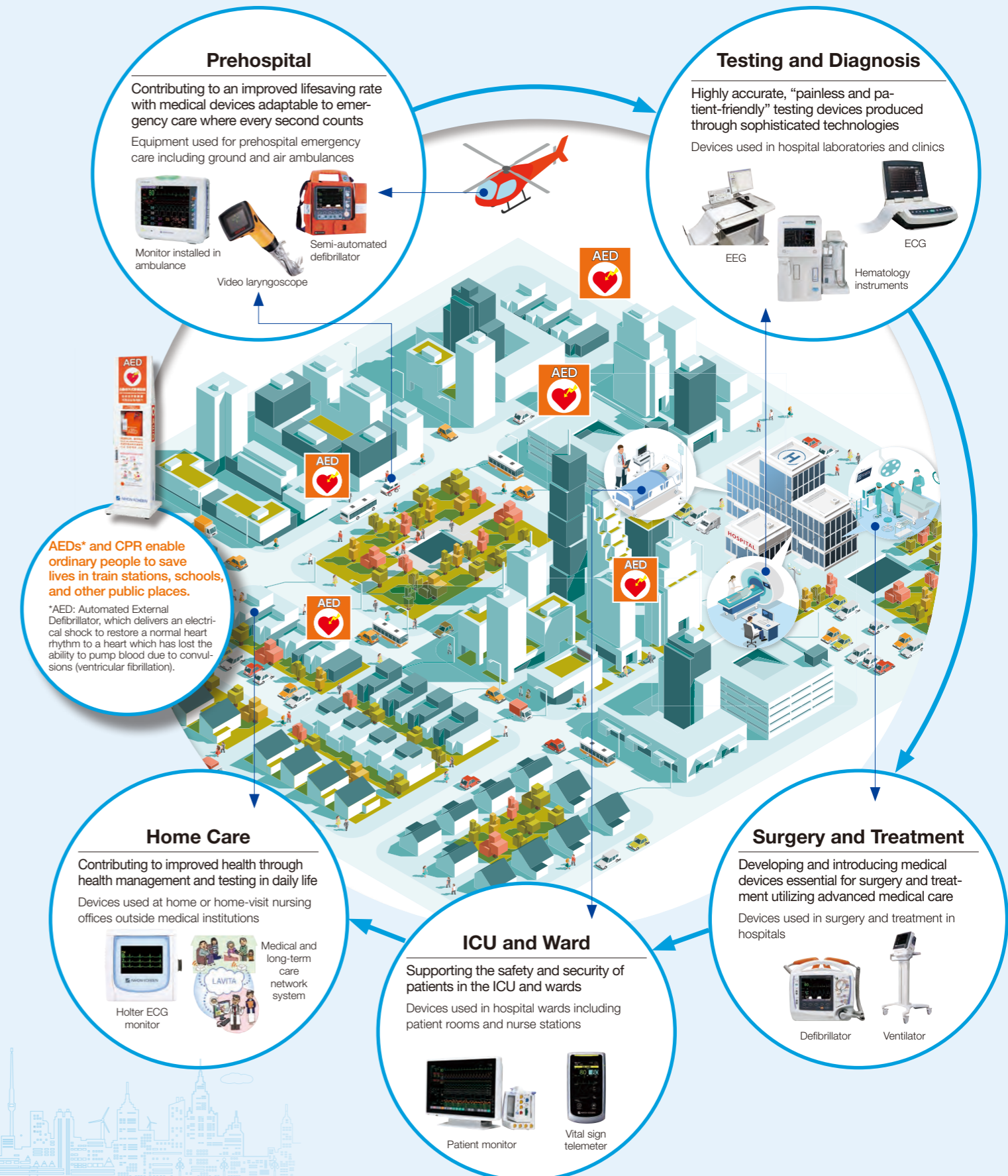
Measures to Realize Sustainability

8 ESG Summary
9 Enhancing Corporate Governance
11 Message from Outside Directors
12 Management Team

Financial and Corporate Data

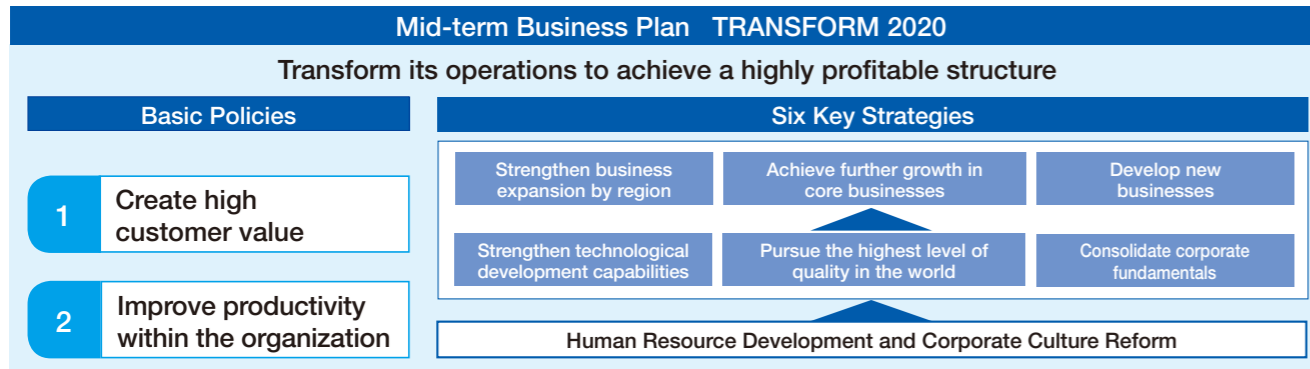
14 Financial Summary
16 Management's Discussion and Analysis
17 Overview by product category (consolidated)
18 Consolidated Balance Sheet
20 Consolidated Statement of Income
20 Consolidated Statement of Comprehensive Income
21 Consolidated Statement of Changes in Net Assets
22 Consolidated Statement of Cash Flows
23 Notes to Consolidated Financial Statements
35 Independent Auditor's Report
36 Company Information

Nihon Kohden's business and products are continuing to provide safety and security because of their total support for medical practice, including emergency care, testing, diagnosis, treatment, rehabilitation, and home care.



Mid-term Business Plan TRANSFORM 2020

Under TRANSFORM 2020, its three-year Mid-term Business Plan, Nihon Kohden is promoting two basic policies, create high customer value and improve productivity within the organization, with the aim of transforming its operations to achieve a highly profitable structure. Together with a report on the progress made on those policies, here we present overviews about three of the Plan's six key strategies, strengthen technological development capabilities, achieve further growth in core businesses, and strengthen business expansion by region.



1 Create high customer value

Since April 2017, Nihon Kohden has been launching many products with high customer value, such as CSM-1500/1700 series, midrange bedside monitors. In its IT solutions business, the Company released LAVITA, a medical and long-term care network system that enables the utilization of information and communications technologies (ICTs) in home medical care and nursing care. LAVITA is our first monthly fee service system to utilize a cloud server and a new business model for which future growth is anticipated.

In our consumables and services business, we released MD Linkage, a medical device remote monitoring system that is a value-added service making use of IoT. Having started with the MEK-1303, an automated hematology analyzer and clinical chemistry analyzer, we plan to expand the lineup of applicable devices. As a result of focusing on both the domestic and overseas markets, the sales ratio for the consumables and services business has risen to 44.3%, which has led to a stable revenue base.



Expand sales of consumables and services business ▶ Sales ratio FY2016 42.8% → FY2018 44.3%

*CSM-1500/1700 were launched in Japan and internationally. Others were launched only in Japan.

2 Improve productivity within the organization

By consolidating the R&D divisions at the Advanced Technology Center, we are working on cost reductions from the development stage by promoting the common use of parts and sharing of design assets. At the Tomioka Production Center, we are working to improve production efficiency, and per capita production has improved at an annual rate of more than 5% since the start of operations in 2015.

In the Group as a whole, following on from the U.S., Europe and China, we have introduced ERP systems in the Middle East and South Korea, while making progress with the construction of a global supply chain. We are working on ICT-driven business process reform to streamline operations between the headquarters and sales branches in Japan.

Strengthen Technological Development Capabilities

To combine our own core technologies and create new clinical value that is completely unique, we consolidated R&D divisions at the Advanced Technology Center that was built in 2016 and facilitated collaboration within each research area.

For the CSM-1701/1702 bedside monitors that were launched in 2018, we extended the functions of the monitor and realized a new solution by integrating diagnostic equipment technologies such as electroencephalography (EEG) and ultrasound.

Bedside monitor CSM-1701/1702 Extend functions by integrating our core technologies in order to realize easy and prompt diagnosis

EEG Monitoring

Due to the aging population, incidences of epilepsy in the elderly are increasing. Elderly people with epilepsy rarely have convulsions, instead they suddenly become confused, or stare into space, or can't answer questions. Treatment may be delayed by the symptoms having been mistaken for dementia. By connecting an EEG headset, which can quickly measure EEG with a simple attachment, the CSM-1701/1702 bedside monitors have enabled early screening for nonconvulsive status epilepticus (NCSE) in emergency rooms and intensive care units.

Point of Care Ultrasound

In a world first for patient monitors, the CSM-1701/1702 bedside monitors have a built-in function that enables the connection of an ultrasound probe and the display of an echo image. This function assists prompt ultrasound tests for trauma patients in emergency rooms. The ultrasound probe can also be used as a portable echography unit because it can be connected not only with a bedside monitor but also with a dedicated tablet computer.

Collaboration of CSM-1700 bedside monitors and EEG headset



Portable echography can be achieved by connecting the ultrasound probe to a dedicated tablet computer



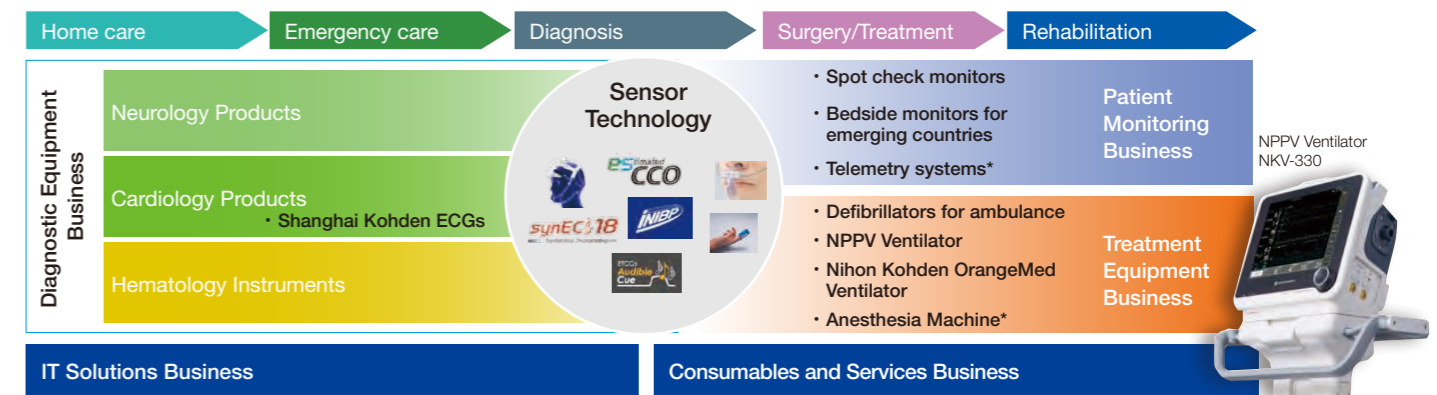
Achieve Further Growth in Core Businesses

Focusing on our unique sensor technology, we are expanding in five core business areas. In the fiscal year ending March 2020, we plan to introduce new products to our cardiology lineup as well as to our patient monitoring and treatment equipment businesses. Expected to generate new business in particular are the Company's first two in-house manufactured ventilators. NPPV* ventilators are developed by leveraging our base technologies in patient monitors and

our unique sensor technology. We are aiming to realize respiratory management that is unique to Nihon Kohden and provides greater safety and less burden on patients. Since ventilators are used in conjunction with our mainstay patient monitors in both intensive care units and general wards, synergistic effects are also expected.

*NPPV (Noninvasive Positive Pressure Ventilation): Artificial respiratory management that does not require intratracheal intubation and tracheotomy

Major new products expected to be introduced in FY2019



* It will be launched only in Japan

Mid-term Business Plan TRANSFORM 2020

Strengthen Business Expansion by Region

Nihon Kohden has reinforced its business development in Japan, developed countries, and emerging markets to achieve sustainable growth in Japan and strong growth internationally.

- Japan: Establish the business foundation for future growth to meet medical needs in an aging society
- Strengthen its business structure in the United States which is the world's largest market and a center of leading-edge medical care
- Conduct strategic business expansion to meet medical needs in high-growth emerging markets

Strengthening Nihon Kohden's business structure in the United States

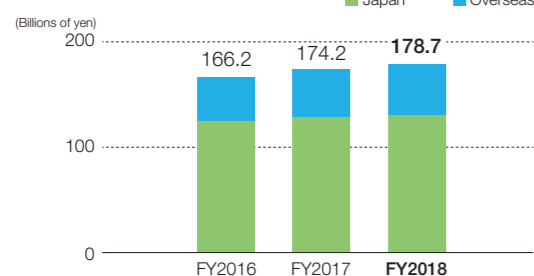
In the United States, we have three business pillars: Patient Monitors, Neurology such as EEGs, and Treatment Equipment that includes AEDs.

We are focusing on expanding our Patient Monitoring business, and sales of patient monitors have increased favorably as a result of the enhancement of our local sales and service networks. Our brand awareness is increasing as our patient monitoring systems have been introduced in leading U.S. hospitals. We estimate our current market share is around 9%. In FY2019, we plan to introduce our first spot check monitors as well as midrange bedside monitors. By introduc-

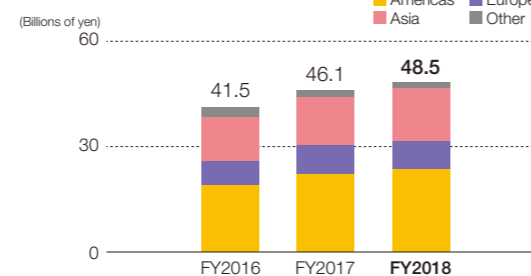
ing spot check monitors, we aim at providing comprehensive patient monitoring solutions which enable the centralized management of all patients' data in the hospital.

In Treatment Equipment, we entered the AED market in the United States by acquiring Defibtech, a U.S. manufacturer of resuscitation equipment in 2012. Currently, we are developing a ventilator at Nihon Kohden OrangeMed, which was established in 2015, and plan to launch this ventilator in Europe, emerging markets, and the United States.

Sales by region



Overseas sales by region



Management Interview



TRANSFORM 2020 moves into its final stage. Further promoting initiatives targeting a highly profitable structure and establishing a strong business foundation.

Hirokazu Ogino
Representative Director, President and CEO

Q Please outline the Japanese and overseas market environment for Nihon Kohden.

In Japan, healthcare reform aimed at realizing the government's vision for the future of medical/long-term care services in 2025 is progressing rapidly, and the integration and restructuring of medical institutions and functions will be accelerated in line with regional healthcare plans. We realize the importance of capturing the demand of acute care hospitals that will be updating their medical devices.

In the overseas markets, demand for capital investment remains robust in the U.S., where progress is being made in the expansion of integrated delivery networks (IDNs) that extend from large hospitals to clinics and nursing care faci-

ties. In order to work in such an environment, medical devices now require advanced network technology, and with cyber security becoming a key point in the selection of patient monitors. I believe our progress in improving performance in these areas allows us to increase our competitive advantages in the market. While demand for medical devices appears likely to expand as the population increases in many emerging markets, there is also a growing protectionism in some countries and it is therefore important for the Company to manage risks associated with changing political and economic conditions.

Management Interview

Q Can you update us on progress in the TRANSFORM 2020 Mid-term Business Plan?

FY2018 marked the second of three years in the Mid-term Business Plan, TRANSFORM 2020 and we continued to make progress in transforming to a highly profitable structure toward 2020 and thereafter, through creating high customer value and improving productivity within the organization.

First, to create high customer value, we consider it essential to develop high-value-added products. As an example, in FY2018 we launched the CSM-1700 series, the key midrange bedside monitors, which we expect to serve as growth drivers for the Company alongside the CSM-1500 series. In the consumables and services business, FY2018 saw the launch of MD Linkage, a medical device remote monitoring system, as a value-added service by utilizing the Internet of things (IoT) technologies. We are proud to say that this service has been very well received. MD Linkage is a system that remotely monitors medical equipment to prevent malfunctions. The system was initiated with hematology analyzers and we intend to expand its application to other medical equipment moving forward.

Second, to improve productivity within the organization, we are promoting the reform of the Company's global production and distribution system for expanding overseas business. We are working to further strengthen the global supply chain by making the most of IT to improve the forecast accuracy and reduce cost by increasing production efficiency at the Tomioka Production Center.

We are also actively working to improve efficiency in development. At the Advanced Technology Center, formed through the consolidation of our R&D divisions, we promote enhanced cooperation among the divisions and the integra-

tion of core technologies in order to develop new products featuring high customer value.

In order to further strengthen our corporate structure, we are not only pursuing workstyle reforms, including introducing a flextime system and a work at home system, but also bolstering compliance among local employees overseas, through the launch of a global compliance program.

Mid-term Business Plan



Q Could you tell us about your key initiatives for FY2019, the last year in the TRANSFORM 2020 Mid-term Business Plan?

With the second year of the plan complete, there is only one year left in the TRANSFORM 2020 Mid-term Business Plan. Our aim in the final year is to further strengthen our efforts to transform to a highly profitable structure and build a solid business foundation for growth from 2020. We believe it vital to return to our manufacturing roots and to adapt to not only changes in society and the competitive environment, but also the rapid advancement of technology.

With this in mind, we will bring a number of strategic products to market in FY2019. Our first ventilator was launched in Japan in June 2019 and will be launched sequentially in overseas countries. We will also introduce spot check monitors and bedside monitors for emerging markets, which we expect to act as drivers for growth in overseas markets. We also plan to release defibrillators for ambulance during the year.

One of our key issues for FY2019 is the establishment of a global supply chain management system, centered on the Tomioka Production Center. We intend to bolster our production and supply systems in the U.S., China and Malaysia. The Eastern Japan Logistics Center, which is now under construction, will start operations within the year. We also plan to establish a reagent factory in Dubai to supply to the

Middle East and Africa, where the installation of hematology analyzers has been increasing. In terms of business process reforms, we are gradually introducing enterprise resource planning (ERP) to the overseas sales subsidiaries as part of our effort to improve operational efficiency and centrally manage information.

Q Please outline your efforts to create a sustainable society.

We are currently promoting our Mid-term CSR Plan, Sustainable Growth 2020 and are taking a wide range of initiatives to address social issues, focusing on three key fields: Healthcare, Environment and Corporate Activities.

First, in the Healthcare field, we continue to provide the high-quality products and services that contribute to improve quality and efficiency of medical care, and patient safety. This will be achieved through product development from the customer's perspective and innovative technologies that enhance clinical value. In addition, as the only AED manufacturer in Japan, we are also working to spread basic life support using AEDs in and outside Japan. Therefore, it can be said that our business activities themselves contribute to the realization of a sustainable society.

In the Environment field, we have set long-term environmental targets for reducing CO₂ emissions in line with the Paris Agreement, and are further strengthening our efforts in this area. More specifically, in addition to emissions from corporate activities (scopes 1 and 2), we have started to calculate

emissions from activities of suppliers and customers (scope 3) since 2016, aiming to reduce CO₂ emissions across the entire supply chain.

In Corporate Activities, in addition to further strengthening our global governance system, we are actively working on the promotion of global compliance programs and working style reforms to improve productivity. By signing the United Nations Global Compact in July 2015, we have clarified our stance on contributing to the creation of a sustainable society by promoting efforts in ten areas in four fields: human rights, labor, the environment, and anti-corruption.

Along with significant changes in the social environment, our business model is shifting from mainly selling products to providing solutions by using technology that solves various social issues such as realizing medical systems suitable for super-aging society in Japan and improving standards of medical care in emerging economies. Going forward we will work to further strengthen efforts in this direction.

Q Do you have any final words to stakeholders?

As a medical electronics manufacturer, we have worked toward realizing our Management Philosophy, "We contribute to the world by fighting disease and improving health with advanced technology, and create a fulfilling life for our employees." In this way, we are working toward establishing a relationship of trust as a company that is highly evaluated by its customers, shareholders, business partners and society.

Based on this basic policy, we will further improve the soundness, transparency and efficiency of management and grow into a company that is chosen by society. We do this to improve corporate value and realize a sustainable society.

We sincerely appreciate your kind understanding of our business and further support going forward.

ESG Summary

As a manufacturer specializing in medical equipment, Nihon Kohden vigorously strives to enhance its corporate value and contribute to a sustainable society. The Company does this through its business activities by taking on the challenges of solving a range of social issues such as fighting disease and improving health.

Mid-term CSR Plan

To increase corporate value, and contribute to the creation of a sustainable society, Nihon Kohden believes that it is important to resolve social issues through our business activities. As a means to achieve this, the Company established its Mid-term CSR Plan, Sustainable Growth 2020 that runs through FY2019. In three areas of Healthcare,

Environment, and Corporate Activities, Nihon Kohden establishes targets and solutions to address priority issues. The Company aims to solve these issues through its daily business activities by establishing prescribed activities based on clear goals.



Join UN Global Compact

In July 2015, Nihon Kohden signed on to the United Nations Global Compact. By engaging in corporate activities that adhere to the Ten Principles of the United Nations Global Compact in four areas of human rights, labor, the environment, and anti-corruption, Nihon Kohden seeks to earn the trust of society and to contribute to a sustainable society.



External Evaluation

FTSE4Good Index Series

Created by the global index provider FTSE Russell, the FTSE4Good Index Series is designed to measure the performance of companies demonstrating strong Environmental, Social and Governance (ESG) practices. FTSE Russell confirms that Nihon Kohden has been independently assessed according to the FTSE4Good criteria and has satisfied the requirements to become a constituent of the FTSE4Good Index Series for three consecutive years since 2017.



MSCI Japan ESG Select Leaders Index

The MSCI Japan ESG Select Leaders Index is a stock price index created by MSCI and is composed of companies with excellent ESG (Environment, Social, and Governance) ratings. Nihon Kohden has been a constituent of the MSCI Japan Select Leaders Index for three consecutive years since 2017.



Enhancing Corporate Governance

Nihon Kohden strives to strengthen its corporate governance with the aim of continually enhancing its corporate value

Basic Views on Corporate Governance

To realize the Company's Management Philosophy, Nihon Kohden aims at achieving sustained growth and establishing reliance as a company that is highly evaluated by the customers, shareholders, clients, and society in all aspects including products, service, technology, financial strength, quality of employees, and other points.

In order to realize this management basic policy and increase corporate value over the mid-to long-term, the Company recognizes that enhancing corporate governance, by establishing a management structure aiming at improving the soundness, transparency, and efficiency of management, is an important management issue.

Corporate Governance Structure

Nihon Kohden has adopted a Company with an Audit & Supervisory Committee structure to achieve the following: enhancement of supervisory function, improvement of soundness and transparency of management, and acceleration of management decision making. The Company currently has four independent outside directors which comprise one-third of the Board of Directors. The Company takes measures such as appointment of independent outside directors and introduction of an operating officer system as well as cooperation among the Audit & Supervisory Committee, Internal Auditing Department, and accounting auditor. The Company believes the management monitoring functions work sufficiently.

The Company registered four outside directors as independent directors, who have no conflict of interest between general shareholders and them, to the Tokyo Stock Exchange. Outside directors attend the important meetings such as the Management Council. They provide opinions from an objective and neutral standpoint if necessary and supervise the Company's management.

Board of Directors

The Board consists of a total of twelve directors, nine directors excluding Audit & Supervisory Committee members (including two outside directors) and three Audit & Supervisory Committee members (including two outside directors). The Board has monthly meetings to resolve the

matters pursuant to the Companies Act and makes decisions on the execution of important business for the Nihon Kohden Group as well as supervises directors' performance of their duties.

Audit & Supervisory Committee

The Audit & Supervisory Committee consists of three directors, including two outside directors and one full-time member. Each Audit & Supervisory Committee member attends the important meetings such as the Management Council. Each Audit & Supervisory Committee member audits the performance of the directors' duties through the investigation of business execution and assets of the Company and its subsidiaries. Those activities shall be in accordance with the audit policy and plan for the term which is decided at the Audit & Supervisory Committee. The full-time member of the Audit & Supervisory Committee has many years of experience in finance and accounting departments and possesses a considerable degree of knowledge about finance and accounting.

Management Council

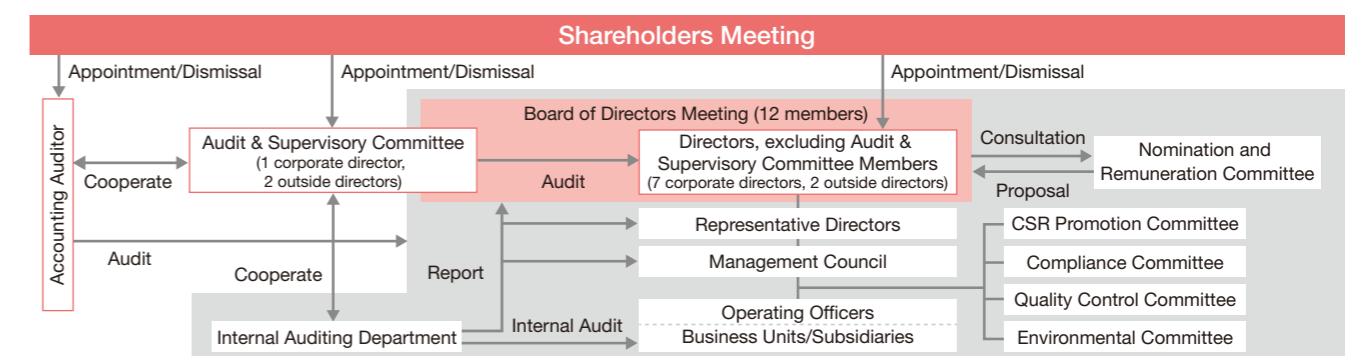
Meetings of the Management Council, which consists of all directors and operating officers, are held three times a month in order to undertake the management activities based on the policy approved by the Board as well as aiming at prompt decision making and flexible business operation. The Company has introduced an operating officer system that provides a clear segregation between managerial decision making and supervisory functions on the one hand and the execution of operations on the other.

Nomination and Remuneration Committee

The Company has established a Nomination and Remuneration Committee, which is a voluntary advisory committee under the Board, to ensure transparency and objectivity of the management. A majority of the committee members and the committee chair are appointed from outside directors.

Currently, committee members consist of a total of five members selected through a resolution of the Board of Directors: Masahiro Kawamura who is the committee chair, Hirokazu Ogino, Takashi Tamura, Masaya Yamauchi, and Shigeru Kawatsuhara. The Nomination and Remuneration Committee deliberates on the proposal of the candidates,

Corporate Organization and Internal Control System



Enhancing Corporate Governance

remuneration of directors, and succession plans in response to requests from the Board, and submits the proposals to the Board. A total of eight meetings were held in FY2018, and the attendance rate was 100% for all members.

■ Nomination and Dismissal of Directors

Director nomination is considered based on the following matters: the Board is well balanced in knowledge, experience, and abilities as a whole; the Board can make appropriate and quick decisions; and individual directors have excellent character, insight, and high ethical standards. The nomination policy of directors (excluding Audit & Supervisory Committee members) is stipulated in the Corporate Governance Guideline and of Audit & Supervisory Committee members is stipulated in Auditing Standards conducted by the Audit & Supervisory Committee. The dismissal policy of directors is stipulated in the Corporate Governance Guideline. In accordance with the policy above, nominations and dismissals of directors are proposed by the Nomination and Remuneration Committee and are approved by the Board.

The Company appoints outside directors who meet the independence criteria set by the Tokyo Stock Exchange and have a wealth of knowledge and experience in their fields, and can provide advice and supervise the management from their objective and neutral position.

■ Remuneration of Directors

Nihon Kohden has established the policy on determining the amount or calculation method of director remuneration which would further link with performance and shareholder value as well as aiming at the transparency of management and ensuring growth and profitability in mid- to long-term.

Remuneration of directors (excluding Audit & Supervisory Committee members and outside directors) consists of monthly fixed compensations and bonuses as a performance-based compensation. The monthly fixed compensations are determined based on the size of the role and the range of responsibilities of each position. Bonuses as a performance-based compensation are determined in consideration of their contributions, the Company's business performance, and full-year dividend per share every fiscal year. A certain percentage of monthly fixed compensation is allotted to purchasing shares of the Company for reflecting mid-to long-term business results. Directors shall hold the shares during the period served as directors. The purchase ratio for the Company's shares is determined based on each director's position. Remuneration of outside directors excluded.

The Total Amount of Remuneration of Directors in FY 2018

Millions of yen	Total amount	Total amount by type of compensation			Number of directors
		Fixed compensation	Performance-based compensation	Retirement benefits	
Directors (excluding Audit & Supervisory Committee members and outside directors)	246	174	48	23	9
Directors serving as Audit & Supervisory Committee members (excluding outside directors)	21	21	—	—	1
Outside Directors	37	37	—	—	4

ing Audit & Supervisory Committee members consists of monthly fixed compensations. Remuneration of directors excluding Audit & Supervisory Committee members is reviewed at the Nomination and Remuneration Committee and is presented as a proposal to the Board of Directors. Remuneration of Audit & Supervisory Committee members consists of monthly fixed compensations and is determined after consultation between Audit & Supervisory Committee members.

■ Cooperation with Accounting Auditor and Internal Auditing Department

The Audit & Supervisory Committee cooperates closely with the Accounting Auditor by receiving explanation of auditing plans and quarterly audit results, exchanging opinions, and attending accounting audits for main offices and subsidiaries conducted by the Accounting Auditor.

The Audit & Supervisory Committee meets regularly with the Internal Auditing Department (nine members), an organization under the direct supervision of the president, for exchanging information and enhancing cooperation. The Internal Auditing Department conducts regular internal audits of the Company and its subsidiaries regarding compliance, and effectiveness and appropriateness of business executions. The Internal Auditing Department cooperates with Audit & Supervisory Committee members to enhance monitoring functions on accounting and business executions. The Internal Auditing Department reports the internal audit results to the president and the Audit & Supervisory Committee each time the internal audit is conducted. Internal audit results and progress of improvements are reported to directors and operating officers at the Board of Directors Meetings every quarter.

■ Board Evaluation

Nihon Kohden analyzes and evaluates the effectiveness of the Board to clarify issues and improvement of the Board and further improve the functions of the Board. The Company conducted self-evaluations of all directors including Audit & Supervisory Committee members in an anonymous survey related to (1) the size and constitution of the Board, (2) the operation of the Board, (3) the supporting system for outside directors including Audit & Supervisory Committee members, (4) the decision-making process of the Board, and (5) the communication with shareholders and stakeholders.

In FY2018, based on the FY2017 evaluation results, the Company reviewed the range of matters which require a resolution by the Board. On the other hand, the Board members shared that the following issues need further discussion: gender and international diversity, and the risk management of overseas subsidiaries.

The Company will continue existing improvement initiatives. In accordance with the FY2018 evaluation results, the Company continues to consider the appointment of women and non-Japanese as members of the Board, and strengthen the monitoring of the risk management system of overseas subsidiaries. The Company will continue to improve overall effectiveness of the Board aiming at sustained growth of corporate value and for an enhancement of corporate governance.

Message from Outside Directors

Masaya Yamauchi Outside Director Hibiki-Sogo Law Office



I believe the role expected of outside directors is to provide a different perspective on management decisions and corporate governance, based on our external independent position, and thereby enhance corporate value.

Nihon Kohden continues to take the initiative of proactively enhancing its corporate governance and facilitating active discussion from multi-dimensional perspectives at Board Meetings. I am ongoingly committed to further fulfilling my role in monitoring based on generally accepted social norms from an external perspective and as a lawyer.

I will sincerely perform my duties going forward to contribute to the further enhancement of the Nihon Kohden Group's corporate value by faithfully undertaking the abovementioned role to the best of my abilities.

Minoru Obara Outside Director Professor Emeritus at Keio University



With the management team and the outside directors maintaining a moderately tense but non-confrontational relationship, I hope to contribute to the sustained growth of Nihon Kohden. Nihon Kohden is a leading company in the medical device industry and contributes to society by continually providing medical devices and services of the finest quality to medical industry customers. The Internet has allowed humanity to be globally connected for the first time in its history, while also bringing fast-paced and chaotic change. In such an environment, it will be vital for companies to quickly and accurately analyze and synthesize big data, avoid becoming over-reliant on AI, carefully monitor and manage future expectations, and formulate management strategies to act quickly. I would like to proactively contribute to the further enhancement of corporate value as an outside director through tireless effort and the promotion of constructive dialogue, and by fulfilling my supervisory function with a strong sense of responsibility.

Masahiro Kawamura Outside Director (Audit & Supervisory Committee Member) Kawamura Tax Accounting Office



Most major companies compete to appoint outside directors following the introduction of the Corporate Governance Code. It sometimes seems like most companies are just trying to meet the set number of Directors. However, at the time I was appointed as an outside Audit & Supervisory Board member nine years ago, Nihon Kohden had already had four outside officers. One could say, in that sense, that the Company has been focused on the necessity and effective utilization of outside directors well ahead of other companies.

Going forward, I am committed to fulfilling the duties entrusted by shareholders substantively and as an outside director by openly stating my opinions at not only meetings of the Board of Directors and Management Council but also at meetings of the Nomination and Remuneration Committee from a neutral and independent perspective, as well as based on my professional knowledge and experience as a certified public accountant and tax accountant.

Shigeru Kawatsuhara Outside Director (Audit & Supervisory Committee Member)



I believe Audit and Supervisory Committee members, independent officers, and outside directors must always act responsibly, not only by providing oversight and checks on the system, and eliminating illegal activity, including even the appearance of improper behavior, but also by contributing to sustainable growth at the company and the improvement of corporate value over the medium to long term.

Directors at Nihon Kohden have benefitted from a substantial number of reports regarding the execution of business at the Company, and have been actively engaged in the exchange of opinions. I believe stakeholders look at my past experience in management and expect me to provide advice based on an objective understanding of the issues and provide support for management that balances safety and risk-taking as it pursues future growth.

I intend to be fully engaged in activities focused on these issues moving forward.

Management Team



Shigeru Kawatsuhara Eiichi Tanaka Masahiro Kawamura Kazuteru Yanagihara Kazuhiko Ikuta Fumio Hirose Masaya Yamauchi Yasuhiro Yoshitake Minoru Obara Takashi Tamura Hirokazu Ogino Tadashi Hasegawa

Hirokazu Ogino Representative Director President and CEO
 Served as Director for 7 years
 Attendance at Board Meetings 25/25 (100%)

Date of birth May 28, 1970
 April 1995 Joined the Company
 April 2007 President of Nihon Kohden Europe GmbH
 April 2011 General Manager of Marketing Strategy Department
 June 2011 Operating Officer
 June 2012 Corporate Director and Operating Officer
 April 2013 General Manager of International Operations
 June 2013 Corporate Director and Senior Operating Officer
 October 2013 CEO of Nihon Kohden America, Inc.
 June 2015 Representative Director, President and COO
 June 2017 Representative Director, President and CEO (current position)

Takashi Tamura Representative Director Executive Operating Officer, General Manager of Sales Operations
 Served as Director for 11 years
 Attendance at Board Meetings 25/25 (100%)

Date of birth March 22, 1959
 April 1983 Joined the Company
 April 2003 President of Nihon Kohden Kansai Corporation
 April 2007 General Manager of Sales Operations
 June 2007 Operating Officer
 June 2008 Corporate Director and Operating Officer
 April 2011 General Manager of International Operations
 April 2013 General Manager of Service Business Division
 April 2014 General Manager of Customer Service Operations
 June 2015 Corporate Director and Senior Operating Officer
 April 2016 General Manager of Sales Operations (current position)
 June 2017 Representative Director and Executive Operating Officer (current position)

Tadashi Hasegawa Director Senior Operating Officer, Responsible for Finance, Legal Affairs, Compliance, Human Resources, General Affairs, and Information Systems
 Served as Director for 4 years
 Attendance at Board Meetings 25/25 (100%)

Date of birth June 17, 1959
 April 1983 Joined The Saitama Bank Ltd.
 June 2009 Operating Officer of Saitama Resona Bank Limited
 June 2011 Senior Operating Officer of Saitama Resona Bank Limited
 June 2013 Corporate Director and Senior Operating Officer of Saitama Resona Bank Limited
 March 2014 Retired as Corporate Director and Senior Operating Officer of Saitama Resona Bank Limited
 April 2014 Joined the Company
 June 2014 Operating Officer and Responsible for Internal Auditing Department
 June 2015 Corporate Director and Senior Operating Officer (current position)

Kazuteru Yanagihara Director Senior Operating Officer, General Manager of Strategic Technology Operations
 Served as Director for 4 years
 Attendance at Board Meetings 25/25 (100%)

Date of birth January 22, 1957
 April 1980 Joined the Company
 April 2009 Deputy General Manager of Biomedical Instrument Technology Center
 April 2011 General Manager of Technology Promotion Center
 June 2011 Deputy General Manager of Biomedical Instrument Technology Center
 April 2012 General Manager of Biomedical Instrument Technology Center
 June 2012 Operating Officer
 April 2014 General Manager of Strategic Technology Operations (current position)
 June 2015 Corporate Director and Operating Officer
 June 2017 Corporate Director and Senior Operating Officer (current position)

Fumio Hirose Director Senior Operating Officer, General Manager of IVD Business Operations
 Served as Director for 4 years
 Attendance at Board Meetings 24/25 (96%)

Date of birth March 2, 1960
 April 1982 Joined the Company
 April 2003 President of Nihon Kohden Chushikoku Corporation
 April 2006 Chief Manager of Global Marketing Operations
 April 2009 General Manager of Corporate Planning Department
 June 2009 Operating Officer
 April 2013 General Manager of Ventilator & Anesthesia Device Business Operations
 June 2015 Corporate Director and Operating Officer
 June 2017 Corporate Director and Senior Operating Officer (current position)
 April 2018 General Manager of IVD Business Operations (current position)

Eiichi Tanaka Director Operating Officer, General Manager of Corporate Strategy Division and Import Business Operations
 Served as Director for 2 years
 Attendance at Board Meetings 23/25 (92%)

Date of birth July 15, 1962
 April 1985 Joined the Company
 April 2002 General Manager of Marketing & Business Development Department
 October 2003 President of Nihon Kohden America, Inc.
 April 2008 General Manager of General Affairs and Human Resources Department
 June 2008 Operating Officer
 April 2011 General Manager of Accessories & Consumables Business Operations
 April 2013 Corporate Director & Senior Operating Officer of Nihon Kohden Tomioka Corporation
 April 2014 President of Nihon Kohden Tomioka Corporation
 April 2017 General Manager of Import Business Operations (current position)
 June 2017 Corporate Director and Operating Officer (current position)
 April 2019 General Manager of Corporate Strategy Division (current position)

Yasuhiro Yoshitake Director Operating Officer, General Manager of International Operations, President and CEO of Nihon Kohden America, Inc.
 Served as Director for 2 years
 Attendance at Board Meetings 23/25 (92%)

Date of birth March 20, 1966
 April 1988 Joined the Company
 October 2003 President of Nihon Kohden Europe GmbH
 April 2007 General Manager of Sales Promotion Division, International Operations
 April 2008 Managing Director of Nihon Kohden Trading (Shanghai) Co., Ltd.
 April 2011 General Manager of China Operations
 June 2011 Operating Officer
 April 2013 General Manager of Asia and Middle East Operations
 April 2015 General Manager of International Operations (current position)
 June 2017 Corporate Director and Operating Officer (current position)
 February 2019 President and CEO of Nihon Kohden America, Inc. (current position)

Masaya Yamauchi Outside Director Independent Director
 Served as Director for 9 years
 Attendance at Board Meetings 25/25 (100%)

Date of birth March 20, 1960
 April 1988 Registered as an attorney (Tokyo Bar Association)
 September 1993 Established Nakagawa & Yamauchi Law Office
 August 2001 Integrated into Hibiki-Sogo Law Office (current position)
 June 2010 Outside Director of the Company (current position)

Minoru Obara Outside Director Independent Director
 Served as Director for 7 years
 Attendance at Board Meetings 25/25 (100%)

Date of birth September 29, 1947
 April 1986 Associate Professor at Dept. of Electrical Engineering, Faculty of Science and Technology, Keio University
 April 1993 Professor at Dept. of Electrical Engineering (current Dept. of Electronics and Electrical Engineering), Faculty of Science and Technology, Keio University
 June 2012 Outside Director of the Company (current position)
 April 2013 Professor Emeritus at Keio University (current position)

Kazuhiko Ikuta Director (Full-time Audit & Supervisory Committee Member)
 Served as Director for 3 years
 Attendance at Board Meetings 25/25 (100%)
 Attendance at Audit & Supervisory Committee Meetings 30/30 (100%)

Date of birth May 29, 1956
 April 1980 Joined the Company
 April 2006 Senior Manager of Finance Department, General Administrative Division
 April 2009 General Manager of Finance Department
 June 2009 Operating Officer
 June 2016 Director (Full-time Audit & Supervisory Committee Member) (current position)

Masahiro Kawamura Outside Director (Audit & Supervisory Committee Member) Independent Director
 Served as Director for 3 years
 Attendance at Board Meetings 25/25 (100%)
 Attendance at Audit & Supervisory Committee Meetings 30/30 (100%)

Date of birth August 19, 1949
 June 1977 Registered as a Tax Accountant
 March 1979 Registered as a Certified Public Accountant
 August 1979 Joined Kawamura Tax Accounting Office (current position)
 June 2010 Outside Audit & Supervisory Board Member of the Company
 June 2016 Outside Director (Audit & Supervisory Committee Member) of the Company (current position)
 Outside Director (Audit & Supervisory Committee Member) of Daitogyorui Co., Ltd. (current position)

* Masahiro Kawamura served as an Outside Audit & Supervisory Board Member of the Company for six years before he became Outside Director.

Shigeru Kawatsuhara Outside Director (Audit & Supervisory Committee Member) Independent Director
 Served as Director for 3 years
 Attendance at Board Meetings 25/25 (100%)
 Attendance at Audit & Supervisory Committee Meetings 30/30 (100%)

Date of birth February 14, 1952
 April 1975 Joined Toko, Inc.
 April 2002 Senior Manager of Sales Department 1, Sales Operations, Toko, Inc.
 April 2004 General Manager of Sales Center, Toko, Inc.
 June 2005 Corporate Director and General Manager of Sales Center, Toko, Inc.
 April 2008 President of Toko, Inc.
 May 2014 Chairman of Toko, Inc.
 March 2015 Senior Advisor of Toko, Inc.
 April 2016 Part-time Advisor of Toko, Inc.
 June 2016 Outside Director (Audit & Supervisory Committee Member) of the Company (current position)

Financial Summary

April 2010 to March 2020



Millions of yen unless otherwise stated

Fiscal year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Business results											
Net sales	109,123	107,013	113,380	120,718	132,538	153,194	160,803	165,522	166,285	174,249	178,799
Operating income	8,106	9,321	10,598	12,027	13,484	17,547	15,921	16,438	13,585	14,517	15,044
Income attributable to owners of parent ¹	4,610	5,917	6,573	7,621	9,151	12,346	11,142	10,516	9,149	9,154	11,191
Financial position											
Current assets ²	61,470	69,685	75,366	82,742	95,181	106,515	118,389	112,929	119,235	120,687	132,211
Current liabilities ²	26,277	29,722	29,673	30,714	39,028	41,248	45,654	42,901	45,006	44,601	48,346
Total assets ²	80,479	88,000	92,495	99,403	116,800	130,917	146,755	144,270	152,806	157,910	169,717
Net assets	53,569	57,949	62,294	67,911	76,256	88,512	99,304	97,671	103,887	109,355	116,087
Cash flows											
Cash flows from operating activities	4,123	10,679	5,892	7,559	13,189	9,383	12,505	10,765	11,356	10,843	9,819
Cash flows from investing activities	(5,968)	(2,810)	(1,874)	(2,338)	(6,959)	(4,421)	(4,689)	(7,802)	(6,344)	(3,346)	(3,258)
Free cash flow	(1,844)	7,869	4,018	5,220	6,229	4,962	7,815	2,962	5,011	7,497	6,561
Cash flows from financing activities	(601)	(2,850)	(1,536)	(2,726)	(1,174)	(3,436)	(3,267)	(9,488)	(3,517)	(4,628)	(3,074)
Cash and cash equivalents	11,197	16,331	18,808	21,304	26,683	28,808	34,113	27,283	28,560	31,285	34,697
Per share information											
Net income (Yen) ³	104.94	134.68	149.62	173.49	208.31	281.03	126.83	120.12	106.81	106.92	131.43
Dividends (Yen) ⁴	37.0	37.0	44.0	44.0	52.0	70.0	70.0	35.0	35.0	35.0	35.0
Other											
R&D costs	4,656	4,418	5,105	5,583	6,424	7,108	5,745	5,910	6,466	7,226	7,243
Number of employees (Persons)	3,552	3,588	3,776	4,057	4,360	4,495	4,616	4,776	4,934	5,031	5,169
Number of shares issued at end of year (Thousands of shares) ⁵	45,765	45,765	45,765	45,765	45,765	45,765	45,765	89,730	89,730	89,730	88,730
Key performance indicators											
ROE (%)	8.8	10.6	10.9	11.7	12.7	15.0	11.9	10.7	9.1	8.6	9.9
Operating income margin (%)	7.4	8.7	9.3	10.0	10.2	11.5	9.9	9.9	8.2	8.3	8.4
Dividend payout ratio (%)	35.3	27.5	29.4	25.4	25.0	24.9	27.6	29.1	32.8	32.7	26.6

¹ The figures for FY2014 or earlier periods represent net income.² Since the beginning of FY2018 ended March 31, 2019, the Company has applied the partial amendments to the Accounting Standard for Tax Effect Accounting (ASBJ No. 28, February 16, 2018). These accounting standards apply to FY2017 figures retrospectively.³ Effective April 1, 2015, each share of common stock was split into two shares. The Company calculates net income per share on the assumption that the stock split was conducted at the beginning of FY2014.⁴ Effective April 1, 2015, each share of common stock was split into two shares. The figures for FY2014 or earlier periods represent dividends per share based on the number of shares before the said stock split.⁵ Effective April 1, 2015, each share of common stock was split into two shares.

Management's Discussion and Analysis

Market Environment

In Japan, reorganization of medical institution functions and enhancement of medical coordination, with an eye toward 2025, were promoted in order to establish integrated community care systems. Medical equipment companies were also further pressed to provide solutions which would contribute to improving the quality and efficiency of medical care and enhancing regional medical care coordination.

Internationally, overall demand for medical equipment remained steady, although there was concern regarding the impact of protectionist trade policies in the U.S. and weakness of emerging-market currencies.

Review of Operations

Nihon Kohden implemented its three-year Mid-term Business Plan, TRANSFORM 2020, aiming to achieve transformation to a highly profitable structure through creating high customer value and improving productivity within the organization. In line with this plan, the Company undertook key strategies including strengthening business expansion by region and achieving further growth in its core businesses.

The Company has continued to introduce new products: new midrange bedside monitors for the acute care hospital market, a hematology analyzer and clinical chemistry analyzer, EEGs, an AED for home use, and an AED with color display. The Company also initiated a medical device remote monitoring system.

As a result, overall sales during the term under review increased 2.6% over the previous fiscal year to ¥178,799 million.

Sales by Region

Japan

Sales of AEDs in the PAD market increased favorably, and sales in the public hospital market also increased as the Company received orders related to replacement of diagnostic information systems and clinical information systems. Sales in the university and private hospital market remained flat, while sales in the clinic market decreased as sales of locally purchased products fell in accordance with the Company's initiative to expand in-house products sales. As a result, domestic sales increased 1.6% over FY2017 to ¥130,223 million.

International

In the Americas, sales in the U.S. increased favorably as the Company expanded its patient monitoring business and reorganized the sales structure for EEGs. Sales in Latin America decreased due to weak sales in Chile and Colombia, offsetting strong sales in Brazil and Mexico. Sales in Europe fell as sales in Russia and Turkey declined, despite strong sales in France and the U.K. In Asia, sales were favorable in China and Thailand, and sales recovered in India. Sales in Other decreased due to weak sales in Ethiopia and other African countries. As a result of these factors, international sales increased 5.4% over the previous fiscal year to ¥48,575 million.

Cost of Sales, SGA Expenses, Operating Income, and Income Attributable to Owners of Parent

Cost of sales amounted to ¥92,811 million. The gross profit margin improved 60 basis points to 48.1%, as the Company focused on selling in-house products both in Japan and inter-

nationally in addition to cost reduction in its factory. Gross profit on sales increased 3.9% over the previous fiscal year to ¥85,987 million.

Selling, general and administrative expenses rose on enhanced human resource capabilities and other factors. The ratio of SGA expenses to sales increased 50 basis points to 39.7%. Research and development costs rose ¥17 million year on year to ¥7,243 million (4.1% of sales).

As a result, operating income increased 3.6% over FY2017 to ¥15,044 million. Income attributable to owners of parent increased 22.3% year on year, to ¥11,191 million. Contributing factors included the posting of provision for loss on litigation, meanwhile, tax expenses decreased in reaction to the impact of tax reform in the U.S. in the previous fiscal year.

Assets, Liabilities and Equity

Assets

At the end of FY2018, total assets increased ¥11,807 million from the end of the previous fiscal year. Current assets were up ¥11,524 million from the previous fiscal year end owing to increases in merchandise and finished goods, and trade notes and accounts receivable. Non-current assets increased ¥282 million compared to the end of the previous fiscal year on account of higher deferred tax assets and other factors.

Liabilities and Equity

Liabilities increased ¥5,074 million from the end of the previous fiscal year on account of increases in trade notes and accounts payable, and accrued income taxes. Net assets increased ¥6,732 million compared to the end of the previous fiscal year due to the recording of income attributable to owners of parent and other factors. The shareholders' equity ratio fell 90 basis points, from 69.3% to 68.4%.

Cash Flows

Net cash provided by operating activities fell ¥1,024 million from the previous fiscal year to ¥9,819 million. This includes ¥15,519 million of income before income taxes, ¥3,542 million of depreciation and amortization, and ¥3,687 million of income taxes paid.

Net cash used in investing activities decreased ¥88 million from the previous fiscal year to ¥3,258 million. We used ¥2,794 million for capital expenditures.

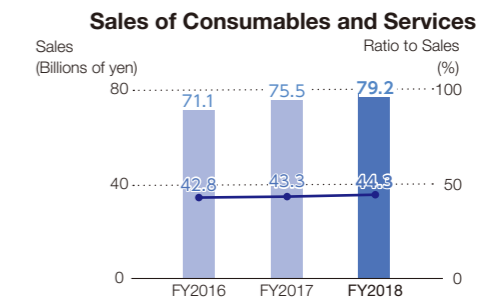
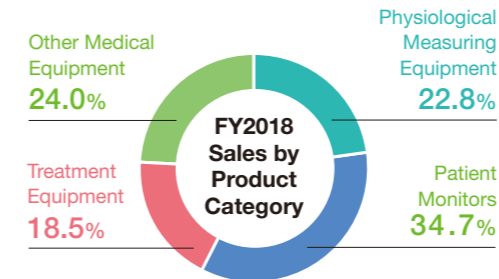
Net cash used in financing activities amounted to ¥3,074 million, a decline of ¥1,553 million from the previous fiscal year. We paid ¥2,983 million for shareholders dividends.

As a result, cash and cash equivalents as of March 31, 2019 increased ¥3,412 million from the end of the previous fiscal year to ¥34,697 million.

ROE

ROE in FY2018 increased to 9.9% from 8.6% in FY2017 because the ratio of net income to sales increased as a result of the increase in income before income taxes. This was also due to the decline in tax expenses compared to the previous fiscal year, in which income taxes increased due to the tax reform in the U.S.

Overview by Product Category (Consolidated)



Review of FY2018

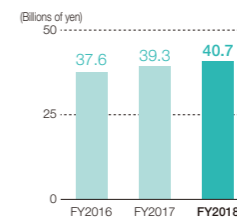
Physiological Measuring Equipment



EEG-1290
Electroencephalograph

By drawing upon its core technological strength of sensor technology, Nihon Kohden continues to provide excellent physiological measuring equipment that can detect the faint signals produced by the human body. Our main products include EEGs, ECGs, evoked potential/EMG measuring instruments, and polygraphs for cath labs. In particular, our EEG, an indispensable device for the diagnosis of epilepsy, sleep disorders, and other conditions, maintains a strong market share around the world.

Sales ¥40.7billion
% change YoY +3.7%



Japan
Sales of polygraphs for cath labs and diagnostic information systems increased favorably. Sales of EEGs and ECGs decreased.

International
Sales of EEGs increased favorably, while sales of ECGs decreased.

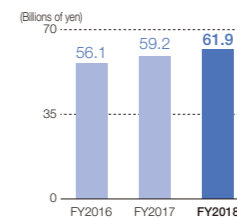
Patient Monitors



CSM-1702
Bedside monitor

Patient monitors, which continuously monitor the patient's vital signs such as ECG, temperature, SpO₂ (blood oxygen saturation), and NIBP (noninvasive blood pressure) are used in various types of medical practice including intensive care units (ICUs/CCUs), operating rooms, and general wards. Nihon Kohden undertakes product development based on our wide range of expertise from simpler monitoring systems for family doctors to transport monitors used in hospitals and sophisticated monitoring systems with intensive monitoring functions.

Sales ¥61.9billion
% change YoY +4.6%



Japan
Sales of clinical information systems increased favorably. Consumables such as sensors also contributed to increased sales.

International
Sales in the Americas and Asia showed strong growth. Sales in Europe remained flat, and sales in Other decreased.

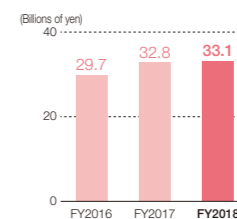
Treatment Equipment



AED-3101
Automated external defibrillator

The defibrillator for resuscitation delivers an electrical shock to a heart in a state of ventricular fibrillation in order to restore a normal heart rhythm. Nihon Kohden develops and manufactures defibrillators, which are used in hospitals and emergency practice, and AEDs, which can be handled by the general public. We also concentrate our resources on the import and sale of world-leading overseas products, including implantable pacemakers, ventilators, and anesthesia machines.

Sales ¥33.1billion
% change YoY +0.8%



Japan
Sales remained flat. Sales of AEDs and ventilators increased favorably, while sales of locally purchased products decreased.

International
Sales of AEDs increased, while sales of defibrillators decreased in reaction to the strong performance in the previous fiscal year.

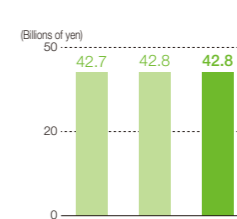
Other Medical Equipment



MEK-1303
Automated hematology analyzer and clinical chemistry analyzer

In the hematology testing area, Nihon Kohden develops and produces hematology analyzers for the measurement of blood cell count in the blood and reagents for laboratory blood testing, and has continuously improved measurement precision. Nihon Kohden also offers instruments for clinical chemical analysis to measure HbA1c, which is used as a diagnosis indicator of diabetes, and C-reactive protein (CRP).

Sales ¥42.8billion
% change YoY +0.2%



Japan
The launch of an automated hematology analyzer and clinical chemistry analyzer for the clinic market contributed to the sales increase. Sales of installation services and maintenance services for medical devices also increased favorably.

International
Sales of locally purchased products decreased, while sales of hematology analyzers increased in Latin America and Asia.

Consolidated Balance Sheet

Nihon Kohden Corporation and Consolidated Subsidiaries
March 31, 2019

Millions of yen

Assets	2019	2018
Current assets:		
Cash and deposits (note 2)	¥ 18,811	¥ 16,589
Trade notes and accounts receivable	66,889	64,151
Short-term investments (note 3)	16,000	15,000
Inventories	28,599	23,098
Other current assets	2,083	1,973
Less allowance for doubtful receivables	171	126
Total current assets	132,211	120,687
Property, plant and equipment, net of accumulated depreciation; ¥28,633 million in 2019 and ¥27,493 million in 2018:		
Buildings and structures	11,631	12,123
Machinery, equipment and vehicles	776	837
Tools, furniture and fixtures	2,809	2,817
Land	3,514	3,514
Leased assets	27	28
Construction in progress	1,185	1,003
Net property, plant and equipment	19,945	20,324
Intangible assets, net:		
Goodwill	1,938	2,112
Other intangible assets	2,624	2,967
Total intangible assets	4,563	5,079
Investments and other assets:		
Investments in securities (note 3)	5,235	5,729
Deferred income taxes (note 6)	5,664	4,324
Other investments and other assets	2,277	1,953
Less allowance for doubtful receivables	180	189
Total investments and other assets	12,997	11,818
Total non-current assets	37,505	37,222
Total assets	¥169,717	¥157,910

See accompanying notes to consolidated financial statements.

Millions of yen

Liabilities and Net Assets	2019	2018
Current liabilities:		
Trade notes and accounts payable	¥ 32,645	¥ 29,846
Short-term debt (note 4)	406	488
Other payables	2,113	3,178
Accrued income taxes (note 6)	3,649	2,067
Accrued expenses	3,179	3,682
Accrued bonuses	3,098	2,942
Provision for loss on litigation (note 9)	285	—
Other current liabilities (note 4)	2,966	2,396
Total current liabilities	48,346	44,601
Non-current liabilities:		
Liabilities for retirement benefits (note 5)	3,827	2,565
Deferred income taxes (note 6)	2	5
Other non-current liabilities (note 4)	1,452	1,382
Total non-current liabilities	5,282	3,953
Total liabilities	53,629	48,554
Stockholders' equity:		
Common stock (note 7):	7,544	7,544
Authorized 197,972,000 shares; issued 88,730,980 shares and 89,730,980 shares in 2019 and 2018		
Additional paid-in capital (note 7)	10,414	10,414
Retained earnings (note 8)	102,397	96,141
Treasury stock, at cost; 3,574,898 shares in 2019 and 4,574,383 shares in 2018	(6,991)	(8,945)
Total stockholders' equity	113,365	105,155
Accumulated other comprehensive income (loss):		
Net unrealized gain on other securities (note 3)	1,758	2,082
Foreign currency translation adjustments	1,443	1,875
Remeasurements of defined benefit plans (note 5)	(479)	241
Total accumulated other comprehensive income	2,722	4,199
Total net assets	116,087	109,355
Commitments and contingencies (note 9)		
Total liabilities and net assets	¥169,717	¥157,910

Consolidated Statement of Income

Nihon Kohden Corporation and Consolidated Subsidiaries
March 31, 2019

	Millions of yen	
	2019	2018
Net sales	¥178,799	¥174,249
Cost of sales (note 11)	92,811	91,489
Gross profit	85,987	82,759
Selling, general and administrative expenses (notes 10 and 11)	70,943	68,241
Operating income	15,044	14,517
Other income (deductions):		
Interest income	67	47
Dividend income	103	101
Interest expenses	(9)	(27)
Foreign exchange gain (loss)	85	(733)
Subsidy income	298	322
Gain on sale of investments in securities (note 3)	31	27
Loss on sale/disposal of property, plant and equipment	(93)	(77)
Gain on valuation of investments in securities (note 3)	60	36
Office/plant relocation expenses	—	(43)
Retirement benefit expenses	—	(225)
Surcharges paid	—	(195)
Provision for loss on litigation (note 9)	(285)	—
Other, net	215	203
	474	(563)
Income before income taxes	15,519	13,954
Income taxes (note 6):		—
Current	5,197	3,931
Deferred	(870)	868
	4,327	4,799
Net income	11,191	9,154
Income attributable to owners of parent	¥ 11,191	¥ 9,154

See accompanying notes to consolidated financial statements.

Consolidated Statement of Comprehensive Income

Nihon Kohden Corporation and Consolidated Subsidiaries
March 31, 2019

	Millions of yen	
	2019	2018
Net income	¥11,191	¥9,154
Other comprehensive income (loss) arising during the year (note 12):		
Net unrealized gain (loss) on other securities (note 3)	(324)	477
Foreign currency translation adjustments	(431)	(83)
Remeasurements of defined benefit plans (note 5)	(720)	389
Total other comprehensive income arising during the year	(1,477)	783
Comprehensive income	¥ 9,714	¥9,937
Comprehensive income attributable to:		
Owners of parent	¥ 9,714	¥9,937
Non-controlling interests	—	—

See accompanying notes to consolidated financial statements.

Consolidated Statement of Changes in Net Assets

Nihon Kohden Corporation and Consolidated Subsidiaries
March 31, 2019

	Stockholders' equity					Accumulated other comprehensive income (loss)				
	Common stock (note 7)	Additional paid-in capital (note 7)	Retained earnings (note 8)	Treasury stock	Total	Net unrealized gain on other securities (note 3)	Foreign currency translation adjustments	Remeasurements of defined benefit plans (note 5)	Total	Total net assets
Balance at March 31, 2017	¥7,544	¥10,414	¥ 89,984	¥(7,473)	¥100,470	¥1,604	¥1,959	¥(147)	¥3,416	¥103,887
Changes arising during year:										
Cash dividends			(2,997)		(2,997)					(2,997)
Income attributable to owners of parent			9,154		9,154					9,154
Purchase of treasury stock				(1,471)	(1,471)					(1,471)
Net changes other than stockholders' equity						477	(83)	389	783	783
Total changes during the year	—	—	6,156	(1,471)	4,684	477	(83)	389	783	5,468
Balance at March 31, 2018	7,544	10,414	96,141	(8,945)	105,155	2,082	1,875	241	4,199	109,355
Changes arising during year:										
Cash dividends			(2,980)		(2,980)					(2,980)
Income attributable to owners of parent			11,191		11,191					11,191
Purchase of treasury stock				(1)	(1)					(1)
Disposition of treasury stock		(0)	—	0	0					0
Cancellation of treasury stock			(1,955)	1,955	—					—
Net changes other than stockholders' equity						(324)	(431)	(720)	(1,477)	(1,477)
Total changes during the year	—	(0)	6,256	1,953	8,209	(324)	(431)	(720)	(1,477)	6,732
Balance at March 31, 2019	¥7,544	¥10,414	¥102,397	¥(6,991)	¥113,365	¥1,758	¥1,443	¥(479)	¥2,722	¥116,087

See accompanying notes to consolidated financial statements.

Consolidated Statement of Cash Flows

Nihon Kohden Corporation and Consolidated Subsidiaries
March 31, 2019

Millions of yen

	2019	2018
Cash flows from operating activities:		
Income before income taxes	¥15,519	¥13,954
Adjustments to reconcile income before income taxes to net cash provided by operating activities:		
Depreciation and amortization	3,692	3,486
Loss on sale/disposal of property, plant and equipment	93	77
Loss on sale/disposal of intangible assets	0	—
Increase (decrease) in allowance for doubtful receivables	37	(24)
Increase in accrued bonuses	155	275
Increase in provision for loss on litigation	285	—
Decrease in liabilities for retirement and severance benefits	223	594
Interest and dividend income	(171)	(149)
Interest expenses	9	27
Gain on valuation of investments in securities	(60)	(36)
Gain on sale of investments in securities	(31)	(27)
Increase in trade notes and accounts receivable	(2,114)	(3,017)
Increase in inventories	(5,602)	(496)
Increase (decrease) in trade notes and accounts payable	2,905	(2,487)
Other, net	(1,600)	2,526
Sub-total	13,341	14,702
Interest and dividends received	178	148
Interest paid	(12)	(24)
Income taxes paid	(3,687)	(3,983)
Net cash provided by operating activities	9,819	10,843
Cash flows from investing activities:		
Proceeds from sale of investments in securities	164	143
Purchase of investments in securities	(44)	(70)
Capital expenditures	(2,794)	(2,901)
Purchase of intangible assets	(456)	(414)
Other, net	(125)	(104)
Net cash used in investing activities	(3,258)	(3,346)
Cash flows from financing activities:		
Decrease in short-term debt	(75)	(142)
Dividends paid to stockholders	(2,983)	(2,996)
Purchase of treasury stock	(1)	(1,471)
Other, net	(14)	(17)
Net cash used in financing activities	(3,074)	(4,628)
Effect of exchange rate changes on cash and cash equivalents	(74)	(144)
Net increase in cash and cash equivalents	3,412	2,724
Cash and cash equivalents at beginning of year	31,285	28,560
Cash and cash equivalents at end of year (note 2)	¥34,697	¥31,285

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Nihon Kohden Corporation and Consolidated Subsidiaries
March 31, 2019

Amounts are rounded down to the nearest million yen.

1. Summary of Significant Accounting Policies

(a) Basis of Presenting Consolidated Financial Statements

Nihon Kohden Corporation (the "Company") and its domestic subsidiaries maintain their books of account and prepare their financial statements in conformity with financial accounting standards of Japan, and its foreign subsidiaries in conformity with those of the countries of their domicile.

"Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements" (ASBJ Practical Issues Task Force (PITF) No. 18, May 17, 2006) requires that for the preparation of consolidated financial statements, the accounting policies and procedures applied to a parent company and its subsidiaries for similar transactions and events under similar circumstances should be unified, in principle, and financial statements prepared by foreign subsidiaries in accordance with IFRSs or the generally accepted accounting principles in the United States (U.S. GAAP) tentatively may be used for the consolidation process, however, the items listed in the PITF should be adjusted in the consolidation process so that net income is accounted for in accordance with Japan GAAP unless they are not material. The Company made necessary modification to the consolidated financial statements according to the PITF.

In preparing the accompanying consolidated financial statements, certain reclassifications have been made in the financial statements issued domestically in Japan in order to present them in a form which is more familiar to readers outside Japan. In addition, the notes to the consolidated financial statements include information which is not required under accounting principles generally accepted in Japan but is presented herein as additional information.

(b) Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Company and its 29 subsidiaries.

All significant intercompany accounts and transactions have been eliminated in consolidation.

The Accounting Standards for Consolidation require the control or influence concept for the consolidation scope of subsidiaries and affiliates. Under the control or influence concept, a company in which the parent company or its consolidated subsidiaries, directly or indirectly, are able to exercise control over operations is fully consolidated, and a company over which the parent company and/or its consolidated subsidiaries have the ability to exercise significant influence is accounted for by the equity method.

The difference between the cost and the underlying net assets at the date of investments in subsidiaries or affiliates is allocated to identifiable assets and liabilities based on fair market value at the date of investments.

The unallocated portion of the difference, which is recognized as goodwill, is amortized within 20 years, or if the amount is immaterial, it is charged to income in the year of investments.

(c) Cash and Cash Equivalents

For the purpose of the statement of cash flows, the Company considers all highly liquid investments with insignificant risk of changes in value which have maturities of generally three months or less when purchased to be cash equivalents.

(d) Short-term Investments and Investments in Securities

Under the Accounting Standards for Financial Instruments, securities are classified into four categories – "trading securities", "held-to-maturity securities", "investments in affiliates" and "other securities". Securities classified as "trading securities" are stated at fair value and unrealized gains or losses are recorded in the consolidated statement of income. Securities classified as "held-to-maturity securities" are stated at amortized cost. Securities classified as "other securities" with fair value are stated at fair value and unrealized gains or losses, net of related taxes, are excluded from earnings and recorded in a separate component of net assets. Realized gains and losses on the other securities are computed using the moving-average cost. Debt securities classified as "other securities" for which fair value is not available are stated at the amortized cost. Equity securities classified as "other securities" for which fair value is not available are stated at the moving-average cost. Holding securities of the Company are classified as other securities.

(e) Inventories

Inventories are measured at the lower of cost or net selling value, which is defined as the selling price less additional estimated manufacturing costs and estimated direct selling expenses. Finished goods, merchandises, semi-finished goods, raw materials and supplies are determined principally by the moving average method. Work in process is determined principally by the specific identification method.

(f) Property, Plant and Equipment

Property, plant and equipment are carried substantially at cost. The Company and its domestic subsidiaries provided depreciation principally by the declining-balance method based on the estimated useful lives, except for the buildings acquired on or after April 1, 1998 and the equipment attached to buildings and structures acquired on or after April 1, 2016, which are depreciated based on the straight-line method. Its foreign subsidiaries provided depreciation principally by the straight-line method.

Notes to Consolidated Financial Statements

The estimated useful lives are as follows:

Buildings and structures	3-50 years
Machinery, equipment and vehicles	2-15 years

(g) Intangible Assets

Intangible assets are carried at cost less amortization. The expenses for internal use computer software are deferred and amortized by the straight-line method over the estimated useful lives (mainly 5 years). Intangible assets other than software are deferred and amortized by the straight-line method at rates based on the estimated useful lives of the respective assets.

(h) Allowance for Doubtful Receivables

An allowance for doubtful receivables is provided at an amount for uncollectible receivables based on historical loss ratios and an amount that takes into consideration the possibility of specific liabilities.

(i) Provision for loss on litigation

Provision for loss on litigation is provided at an amount of estimate possible future losses to prepare for loss against lawsuits.

(j) Retirement and Severance Benefits

The Company and its consolidated subsidiaries have retirement benefit plans covering substantially all employees.

Liabilities for retirement benefits have been made in the accompanying consolidated financial statements based on the present value of the projected future retirement and severance benefits attributable to employee services rendered by the end of the year, less amounts funded under pension plans.

The retirement benefit obligation is attributed to each period by the benefit formula basis.

Actuarial gain or loss is amortized in the subsequent year that it occurs by the declining-balance method within the average remaining years of service of the employees (5 years).

(k) Leases

All finance lease transactions are capitalized. Leased assets related to finance lease transactions without title transfer are depreciated on a straight-line basis, with the lease periods as their useful lives and no residual value.

(l) Foreign Currency Translation

Under the Accounting Standards for Foreign Currency Transactions, foreign currency transactions are translated into yen on the basis of the rates in effect at the transaction date, receivables and payables denominated in foreign currencies are translated into yen at the rate of exchange at the balance sheet date, and gains or losses resulting from the translation of foreign currencies are credited or charged to income. Assets and liabilities of overseas subsidiaries are translated into yen at the rate of exchange at the balance sheet date and revenues and expenses into yen at the average rate of exchange prevailing during the year, and a comprehensive adjustment resulting from translation is presented as "Foreign currency translation adjustments" in a component of accumulated other comprehensive income.

(m) Income Taxes

Income taxes in Japan applicable to the Company and its domestic consolidated subsidiaries consist of corporate tax, inhabitant tax and business tax.

The Accounting Standards for Income Taxes require that deferred income taxes be accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the expected future tax consequences of events that have been included in the financial statements or tax returns. Under this method, deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled, and the effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

The Company applied, "Partial Amendments to Accounting Standard for Tax Effect Accounting (ASBJ Statement No. 28, February 16, 2018 (hereinafter, "Statement No. 28")), which requires deferred tax assets and deferred tax liabilities to be classified as investments and other assets and long-term liabilities, respectively from the beginning of the year ended March 31, 2019.

As a result, the Company retrospectively reclassified "Deferred income tax" of ¥3,914 million in the current assets, "Deferred income tax" in "Other current liabilities" of ¥4 million in the current liabilities and "Deferred income tax" of ¥27 million in the non-current liabilities to "Deferred income tax" in the investments and other assets and presented as ¥4,324 million, and "Deferred income tax" in the non-current liabilities presented as ¥5 million for the year ended March 31, 2019.

The note related to tax effect accounting additionally included those described in note 8 (excluding total amount of valuation allowance) and note 9 of "Accounting Standard for Tax Effect Accounting", which are required in Paragraph 3 to 5 of Statement No. 28.

However, those additional information corresponding to the previous fiscal year is not disclosed, following the transitional treatments prescribed in Paragraph 7 of Statement No. 28.

(n) Reclassifications

Certain reclassifications have been made to the prior years' consolidated financial statements to conform to the presentation used as of and for the year ended March 31, 2018.

(o) New accounting pronouncements not yet adopted

Accounting Standards for Revenue Recognition (ASBJ Statement No. 29, March 30, 2018) and Implementation Guidance on Accounting Standards for Revenue Recognition (ASBJ Guidance No. 30, March 30, 2018) are comprehensive accounting standards for revenue recognition and revenues are recognized based on the following five step approach:

- Step 1: Identify the contracts with customers
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognize revenue when or as the entity satisfies a performance obligation

The Company scheduled to adopt these standards from the year ending March 31, 2022 and is currently assessing the impact of adoption on these standards on consolidated financial statements.

2. Cash and Cash Equivalents

Reconciliation between "Cash and deposits" in the accompanying consolidated balance sheet and "Cash and cash equivalents" in the accompanying consolidated statement of cash flows at March 31, 2019 and 2018 is follows:

	Millions of yen	
	2019	2018
Cash and deposits	¥18,811	¥16,589
Short-term investments that have maturities of three months or less	16,000	15,000
Time deposits with maturities of over three months	(113)	(304)
Cash and cash equivalents	¥34,697	¥31,285

3. Short-term Investments and Investments in Securities

Balance sheet amount, acquisition cost, gross unrealized gain and gross unrealized loss of other securities with fair value at March 31, 2019 and 2018 are summarized as follows:

	Millions of yen			
	Balance sheet amount	Gross unrealized gain	Gross unrealized loss	Acquisition cost
March 31, 2019				
Equity securities	¥4,616	¥2,564	¥(17)	¥2,068
March 31, 2018				
Equity securities	¥4,991	¥2,901	¥(1)	¥2,092

The Company recognized proceeds from the sale of other securities of ¥164 million and ¥143 million, gross realized gains of ¥31 million and ¥39 million and gross realized losses of nil and ¥12 million for the years ended March 31, 2019 and 2018, respectively.

The Company recognized impairment loss on other securities of ¥32 million for the year ended March 31, 2018. There was no impairment loss on other securities for the year ended March 31, 2019.

Notes to Consolidated Financial Statements

4. Short-term and Long-term Debt

Short-term debt is represented by bank loans which are due within one year. The weighted average interest rates of short-term debt are 1.1% and 1.2% at March 31, 2019 and 2018, respectively.

Lease liabilities at March 31, 2019 and 2018 is summarized as follows:

	Millions of yen	
	2019	2018
Lease liabilities maturing in installments through 2023	¥29	¥30
Less current installments	12	12
	¥17	¥17

The aggregate annual maturities of lease liabilities after March 31, 2020 are as follows:

Year ending March 31:	Millions of yen	
	2021	2022
2021	¥8	5
2022		2
2023		0
2024		

As is customary in Japan, both short-term and long-term bank loans are under general agreements which provide that security and guarantees for present and future indebtedness will be given upon request of the bank, and that the bank shall have the right, as the obligations become due or in the event of default, to offset cash deposits against obligations due the bank.

5. Retirement and Severance Benefits

The Company and consolidated subsidiaries have funded and unfunded defined benefit and defined contribution retirement and pension plans for covering retirement benefits for employees.

Under the defined benefit corporate pension plans, benefits are provided in a form of lump-sum payment or pension payment based on the salary and length of services.

The Company and certain consolidated subsidiaries had enrolled in Japanese Welfare Pension Fund as a multi-employer plan which was terminated during the year ended March 31, 2018. Because the Company's proportion of plan assets corresponding to Company's contribution cannot be reasonably estimated, the contribution is accounted for as defined contribution plans.

Defined benefit plans

Followings are the information for the Company's and the consolidated subsidiaries' defined benefit plans at March 31, 2019 and 2018 and for the years then ended.

(1) Reconciliation of changes in retirement benefit obligation

	Millions of yen	
	2019	2018
Retirement benefit obligation at beginning of year	¥22,475	¥21,429
Service cost	1,416	1,368
Interest cost	83	96
Actuarial gains or losses	1,075	195
Benefits paid	(673)	(839)
Other	—	225
Retirement benefit obligation at end of year	¥24,376	¥22,475

(2) Reconciliation of changes in plan assets

	Millions of yen	
	2019	2018
Plan assets at beginning of year	¥20,004	¥18,994
Expected return on plan assets	70	94
Actuarial gains or losses	164	678
Employer contributions	1,101	1,076
Benefits paid	(668)	(839)
Plan assets at end of year	¥20,672	¥20,004

(3) Reconciliation between retirement benefit obligation and plan assets and liabilities for retirement benefits and assets for retirement benefits recognized in consolidated balance sheet

	Millions of yen	
	2019	2018
Funded retirement benefit obligation	¥24,376	¥22,475
Plan assets	(20,672)	(20,004)
	3,704	2,471
Unfunded retirement benefit obligation	123	93
Net liabilities for retirement benefits recognized in consolidated balance sheet	¥ 3,827	¥ 2,565
Liabilities for retirement benefits	¥ 3,827	¥ 2,565
Net liabilities for retirement benefits recognized in consolidated balance sheet	¥ 3,827	¥ 2,565

(4) The components of retirement benefit expenses

	Millions of yen	
	2019	2018
Service cost	¥1,416	¥1,368
Interest cost	83	96
Expected return on plan assets	(70)	(94)
Amortization of actuarial gain or loss	(128)	78
Retirement benefit expenses	¥1,300	¥1,449

Other than the above, the Company recorded the future adjustment for a partial introduction of the corporate defined contribution pension plan of ¥225 million as retirement benefit expenses for the year ended March 31, 2018.

(5) Remeasurements of retirement benefit plans before related tax effects

	Millions of yen	
	2019	2018
Actuarial gain or loss	¥1,038	¥(561)
Total	¥1,038	¥(561)

(6) Accumulated remeasurements of retirement benefit plans before related tax effects

	Millions of yen	
	2019	2018
Unrecognized actuarial gain or loss	¥690	¥(348)
Total	¥690	¥(348)

Notes to Consolidated Financial Statements

(7) Plan assets

(a) Percentage by major category of plan assets

	2019	2018
Debt securities	26.1%	26.3%
Equity securities	27.4	27.0
Short-term investments	19.5	19.7
General account	26.2	26.2
Other	0.8	0.8
Total	100.0%	100.0%

(b) Determination procedure for long-term expected rate of return on plan assets

In determining long-term expected rate of return on plan assets, the Company considers the current and projected asset allocation, as well as current and future long-term rate of returns for various categories of the plan assets.

(8) Basis for calculation of actuarial assumptions

	2019	2018
Discount rate	0.2%	0.4%
Long-term expected rate of return	0.2	0.4

Defined contribution plans

The amount to be paid by the consolidated subsidiaries to the defined contribution plans was ¥960 million and ¥87 million for the years ended March 31, 2019 and 2018, respectively.

Multi-employer pension plan

The amount to be paid by the Company to the Welfare Pension Fund under multi-employer pension plan was ¥31 million and ¥399 million for the years ended March 31, 2019 and 2018, respectively.

Because the Welfare Pension Fund is in the process of settlement, the information for the years ended March 31, 2019 and 2018 are not disclosed.

6. Income Taxes

The Company and its domestic subsidiaries are subject to Japanese corporate, inhabitant and business taxes based on income.

The reconciliation of the statutory tax rate and the effective tax rate as a percentage of income before income taxes for the years ended March 31, 2019 and 2018 was as follows:

	2019	2018
Statutory tax rate	30.6%	30.9%
Change in valuation allowance	1.6	0.6
Expenses not deductible for tax purposes	0.2	0.7
Income not credited for tax purposes	(0.0)	(0.0)
Per capita tax	0.7	0.8
Difference in statutory tax rates of subsidiaries	(1.2)	(0.6)
Tax credits primarily for research and development costs	(3.0)	(4.1)
Change in tax rates	—	4.2
Other	(1.0)	1.9
Effective tax rate	27.9%	34.4%

Significant components of deferred tax assets and liabilities at March 31, 2019 and 2018 are as follows:

	Millions of yen	
	2019	2018
Deferred tax assets:		
Valuation loss for inventories	¥ 972	¥ 880
Accrued business tax	182	132
Accrued bonuses	901	847
Liabilities for retirement benefits	1,174	787
Accrued warranty expenses	101	118
Allowance for doubtful receivables	48	47
Depreciation and amortization	1,851	1,577
Intercompany profits on inventories, and property, plant and equipment	1,059	879
Intangible assets	591	683
Asset retirement obligations	255	253
Tax loss carryforwards	766	439
Other	1,269	1,069
	9,175	7,714
Valuation allowance for tax loss carryforwards	(766)	—
Valuation allowance for deductible temporary differences	(700)	—
Total valuation allowance	(1,466)	(1,219)
	7,709	6,495
Deferred tax liabilities:		
Asset retirement obligations	(210)	(224)
Net unrealized gain on other securities	(760)	(903)
Valuation difference	(264)	(302)
Undistributed retained earnings of foreign subsidiaries	(768)	(697)
Other	(42)	(47)
	(2,046)	(2,175)
Net deferred tax assets	¥5,662	¥(4,319)

Amounts of tax loss carryforwards and related valuation allowance for the year ended March 31, 2019 are as follows:

	Millions of yen					
	Due within one year	Due after one year through two years	Due after two years through three years	Due after three years through four years	Due after four years through five years	Due after five years
Tax loss carryforwards	¥—	¥—	¥—	¥—	¥—	¥766
Valuation allowance for tax loss carryforwards	—	—	—	—	—	(766)
Deferred tax asset	—	—	—	—	—	—

Figures for tax loss carryforwards are the amounts multiplied by effective statutory tax rate.

7. Common Stock

Under the Companies Act, the entire amount of the issue price of shares is required to be designated as stated common stock account although a company in Japan may, by resolution of its Board of Directors, account for an amount not exceeding 50% of the issue price of new shares as additional paid-in capital.

8. Retained Earnings and Dividends

The Companies Act provides that an amount equal to 10% of distributions from retained earnings paid by the Company and its Japanese subsidiaries be appropriated as a legal reserve. No further appropriations are required when the total amount of the additional paid-in capital and the legal reserve equals 25% of their respective stated capital. The Companies Act also provides that additional paid-in capital and legal reserve are available for appropriations by the resolution of the stockholders. Balances of the legal reserve are included in retained earnings in the accompanying consolidated balance sheet.

Notes to Consolidated Financial Statements

Cash dividends charged to retained earnings for the years ended March 31, 2019 and 2018 represent dividends paid out during those years. The amount available for dividends is based on the amount recorded in the Company's non-consolidated books of account in accordance with the Companies Act.

(a) Dividends paid during the year ended March 31, 2018

The following was approved by the general meeting of stockholders held on June 28, 2017.

(a) Total dividends	¥1,541 million
(b) Cash dividends per common share	¥18
(c) Record date	March 31, 2017
(d) Effective date	June 29, 2017

The following was approved by the Board of Directors held on November 6, 2017.

(a) Total dividends	¥1,456 million
(b) Cash dividends per common share	¥17
(c) Record date	September 30, 2017
(d) Effective date	November 28, 2017

(b) Dividends paid during the year ended March 31, 2019

The following was approved by the general meeting of stockholders held on June 27, 2018.

(a) Total dividends	¥1,532 million
(b) Cash dividends per common share	¥18
(c) Record date	March 31, 2018
(d) Effective date	June 28, 2018

The following was approved by the Board of Directors held on November 2, 2018.

(a) Total dividends	¥1,447 million
(b) Cash dividends per common share	¥17
(c) Record date	September 30, 2018
(d) Effective date	November 27, 2018

(c) Dividends to be paid after the balance sheet date but the record date for the payment belongs to the year ended March 31, 2019

The following was approved by the general meeting of stockholders held on June 26, 2019.

(a) Total dividends	¥1,532 million
(b) Dividend source	Retained earnings
(c) Cash dividends per common share	¥18
(d) Record date	March 31, 2019
(e) Effective date	June 27, 2019

9. Contingent liabilities

The Company recorded provision for loss on litigation due to the arbitration of a labor issue at Nihon Kohden America, the Company's subsidiary. The amount of loss may change as the arbitration is ongoing.

10. Selling, General and Administrative Expenses

Significant components of selling, general and administrative expenses are as follows:

	Millions of yen	
	2019	2018
Salaries	¥27,520	¥26,446
Retirement benefit expenses	2,135	1,831
Depreciation	2,331	2,430
Legal welfare	5,167	5,023
Traveling	3,151	2,956

11. Research and Development Costs

Research and development costs charged to manufacturing costs and selling, general and administrative expenses for the years ended March 31, 2019 and 2018 are ¥7,243 million and ¥7,226 million, respectively.

12. Other Comprehensive Income (Loss)

The reclassification adjustment and the related income tax effects allocated to each component of other comprehensive income (loss) for the years ended March 31, 2019 and 2018 are as follows:

	Millions of yen	
	2019	2018
Net unrealized gain (loss) on other securities:		
Arising during the year	¥ (436)	¥715
Reclassification adjustment	(31)	(27)
Before tax amount	(467)	688
Tax expense	143	(210)
Net-of-tax amount	(324)	477
Foreign currency translation adjustments:		
Arising during the year	(431)	(83)
Remeasurements of defined benefit plans:		
Arising during the year	(910)	482
Reclassification adjustment	(128)	78
Before tax amount	(1,038)	561
Tax expense	318	(171)
Net-of-tax amount	(720)	389
Total other comprehensive income	¥(1,477)	¥783

13. Per Share Information

(a) Net Income per Share

Basic net income per share, and reconciliation of the numbers and the amounts used in the basic net income per share computations for the years ended March 31, 2019 and 2018 are as follows:

	Yen	
	2019	2018
Basic net income per share	¥131.43	¥106.92

	Millions of yen	
	2019	2018
Income attributable to owners of parent	¥11,191	¥9,154
Income not applicable to common stockholders	—	—
Income attributable to owners of parent applicable to common stockholders	¥11,191	¥9,154

	Number of shares (Thousands)	
	2019	2018
Weighted average number of shares outstanding on which basic net income per share is calculated	85,156	85,618

(b) Net Assets per Share

Net assets per share, and reconciliation of the numbers and the amounts used in the net assets per share computations at March 31, 2019 and 2018 are as follows:

	Yen	
	2019	2018
Net assets per share	¥1,363.24	¥1,284.17

Notes to Consolidated Financial Statements

	Millions of yen	
	2019	2018
Total net assets	¥116,087	¥109,335
Amount deducted from total net assets	—	—
Net assets applicable to common stockholders	¥116,087	¥109,335

	Number of shares (Thousands)	
	2019	2018
Number of shares outstanding at end of year on which net assets per share is calculated	85,156	85,156

14. Leases

The Company leases mainly certain vehicles under finance leases.

Future minimum payments required under noncancellable operating leases at March 31, 2019 and 2018 are as follows:

	Millions of yen	
	2019	2018
Within one year	¥26	¥18
Over one year	23	11
	¥49	¥29

15. Financial Instruments

Conditions of financial instruments

(1) Management policy

The Company and subsidiaries (the "Group") has a policy to invest in sound and highly safe financial instruments. The Group uses its own resources for business, and when a temporary shortfall of the operating funds the Group finances funds through bank loans. Surplus funds are invested in highly safe financial instruments.

The Group uses derivatives to hedge future fluctuation of foreign exchange rates and does not enter into derivatives for speculative purposes.

(2) Financial instruments and risks

Trade notes and accounts receivable are exposed to customer's credit risk. Trade receivables and loans receivable denominated in foreign currency are exposed to fluctuation risk of foreign exchange rates. Investment securities are exposed to market fluctuation risk.

Maturities of trade notes and accounts payable are within one year. Trade payables denominated in foreign currency are exposed to fluctuation risk of foreign exchange rates. The Group finances necessary funds through short-term bank loans when a temporary shortfall of the operating funds.

(3) Financial instruments risk management

1) Credit risk

The Group performs due date controls and monitors major customers' credit status, rapidly understands the collectability issues to mitigate customers' credit risk of notes and accounts receivable.

To mitigate the counterparty risk, the counterparties to derivative transactions are limited to financial institutions with high credit ratings.

2) Market risk

To mitigate the foreign currency fluctuation risk categorized by currency, the Group uses a foreign exchange forward contract for hedging the cash flow fluctuation risk associated with trade receivables and payables and loans receivable denominated in foreign currencies. Foreign exchange forward contracts entered into by the Group are limited to the extent of existing foreign trade receivables and payables and loans receivable or a highly probably forecasted transaction.

The Group regularly monitors a stock price, an issuer's financial status and a market condition, and continuously considers whether the Group holds the stock.

3) Liquidity risk

The Group prepares and updates a funds management plan on a monthly basis in order to control liquidity risk.

(4) Supplemental explanation regarding fair value of financial instruments

Fair value of financial instruments are measured based on the quoted market price, if available, or reasonably assessed value if a quoted market price is not available. Fair value of financial instruments for which quoted market price is not available is calculated based on certain assumptions, and the fair value might differ if different assumptions are used.

Fair value of financial instruments

The carrying amounts on the consolidated balance sheet, fair value, and differences at March 31, 2019 and 2018 are as follows.

Financial instruments, of which it is extremely difficult to measure the fair value, are not included. (Please see "<2> Financial instruments of which the fair value is extremely difficult to measure")

	Millions of yen					
	March 31, 2019			March 31, 2018		
	Carrying value	Fair value	Differences	Carrying value	Fair value	Differences
(1) Cash and deposits	¥18,811	¥18,811	¥—	¥16,589	¥16,589	¥—
(2) Trade notes and accounts receivable	66,889	66,889	—	64,151	64,151	—
(3) Short-term investments	16,000	16,000	—	15,000	15,000	—
(4) Investments in securities—Other securities	4,616	4,616	—	4,991	4,991	—
(5) Trade notes and accounts payable	32,645	32,645	—	29,846	29,846	—
(6) Short-term debt	406	406	—	488	488	—

<1> Fair value measurement of financial instruments

Assets and liabilities:

(1) Cash and deposits, (2) Trade notes and accounts receivable, (3) Short-term investments

The fair value approximates the carrying value because of the short maturity of these instruments.

(4) Investments in securities- Other securities

The fair value is calculated by quoted market price.

(5) Trade notes and accounts payable and (6) Short-term debt

The fair value approximates the carrying value because of the short maturity of these instruments.

<2> Financial instruments of which the fair value is extremely difficult to measure

	Millions of yen	
	2019	2018
Unlisted equity securities	¥237	¥236
Investments in limited partnership and similar partnership	381	501

The above are not included in "(4) Investments in securities - other securities" because there is no market value and future cash flows cannot be estimated, therefore it is extremely difficult to measure the fair value.

<3> Projected future redemption of monetary claim and securities with maturities at March 31, 2019

	Millions of yen			
	Due within one year	Due after one year through five years	Due after five years through ten years	Due after ten years
(1) Cash and deposits	¥18,811	¥—	¥—	¥—
(2) Trade notes and accounts receivable	66,889	—	—	—
(3) Short-term investments	16,000	—	—	—

<4> The annual maturities of the long-term debt

Please see note (4) Short-term and Long-term Debt.

Notes to Consolidated Financial Statements

16. Segment Information

Because the Company and consolidated subsidiaries operate in one operating segment, medical electronic equipment business, the segment information is not disclosed for the years ended March 31, 2019 and 2018.

Related Information

(a) Information by products and services

Sales by products and services for the years ended March 31, 2019 and 2018 are as follows:

	Millions of yen	
	2019	2018
Physiological measuring equipment	¥ 40,773	¥ 39,323
Patient monitors	61,978	59,229
Treatment equipment	33,149	32,892
Other	42,898	42,804
	¥178,799	¥174,249

(b) Geographic information

(1) Geographical sales for the years ended March 31, 2019 and 2018 are as follows:

	Millions of yen	
	2019	2018
Japan	¥130,223	¥128,144
Americas	23,508	22,000
Europe	8,167	8,462
Asia	15,096	13,634
Other	1,802	2,008
	¥178,799	¥174,249

(2) Because property, plant and equipment located in Japan are over 90% of property, plant and equipment in the consolidated balance sheet, the geographic information of property, plant and equipment is not disclosed for the years ended March 31, 2019 and 2018.

(c) Information by major customers

Because a third party with over 10% of sales in the consolidated statement of income does not exist, the information by major customers is not disclosed for the years ended March 31, 2019 and 2018.

Information of impairment loss on fixed assets by reported segments

The information is not applicable for the years ended March 31, 2019 and 2018.

Goodwill by reported segments

The information is not applicable for the years ended March 31, 2019 and 2018.

Negative goodwill incurred by reported segments

The information is not applicable for the years ended March 31, 2019 and 2018.

17. Subsequent Event

The arbitration in a labor issue at Nihon Kohden America, the Company's subsidiary, which is described in Note 9 Contingent liabilities reached settlement on June 14, 2019 (US local time).

The Company recorded provision for loss on litigation of ¥271 million for the settlement amount of ¥683 million.

Independent Auditor's Report

Nihon Kohden Corporation and Consolidated Subsidiaries
March 31, 2019



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Independent Auditor's Report

To the Board of Directors of
Nihon Kohden Corporation

We have audited the accompanying consolidated financial statements of Nihon Kohden Corporation, which comprise the consolidated balance sheet as of March 31, 2019, and the consolidated statement of income, comprehensive income, changes in net assets and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Nihon Kohden Corporation as of March 31, 2019, and of its financial performance and its cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

Crowe Toyo & Co.
Tokyo, Japan
June 27, 2019

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Company Information

Company Overview (as of March 31, 2019)

Common Name	NIHON KOHDEN
Official Name	NIHON KOHDEN CORPORATION
Incorporated	August 7, 1951
Capital Stock	¥7,544 million
Net Sales	(Consolidated) ¥178.7 billion (fiscal year ended March 31, 2019)
Type of Business	Development, production, and sales of medical electronic devices
Employees	(Consolidated) 5,169 persons

Stock Overview (as of March 31, 2019)

Number of Shares Authorized	197,972,000 shares
Number of Shares Issued	88,730,980 shares
Number of Shareholders	6,965 persons

Subsidiaries: 29 companies (as of March 31, 2019)

Sales and Promotion

Nihon Kohden America, Inc.
Nihon Kohden Mexico S.A. de C.V.
Nihon Kohden Latin America S.A.S.
Nihon Kohden Do Brasil Ltda.
Nihon Kohden Europe GmbH
Nihon Kohden Deutschland GmbH
Nihon Kohden France Sarl
Nihon Kohden Iberica S.L.
Nihon Kohden Italia S.r.l.
Nihon Kohden UK Ltd.
Nihon Kohden Singapore Pte Ltd.
NKS Bangkok Co., Ltd.
Nihon Kohden Middle East FZE
Nihon Kohden Korea, Inc.

Defibtech, LLC
Nihon Kohden India Pvt. Ltd.
Nihon Kohden Malaysia Sdn. Bhd.
Nihon Kohden Firenze S.r.l.

Development of Medical Electronic Equipment and Software

NKUS Lab
Neurotronics, Inc.
Nihon Kohden Innovation Center, Inc.
Nihon Kohden OrangeMed, Inc.

Group General Affairs and Staffing

E-Staff Corporation
E-Staff Insurance Services Corporation

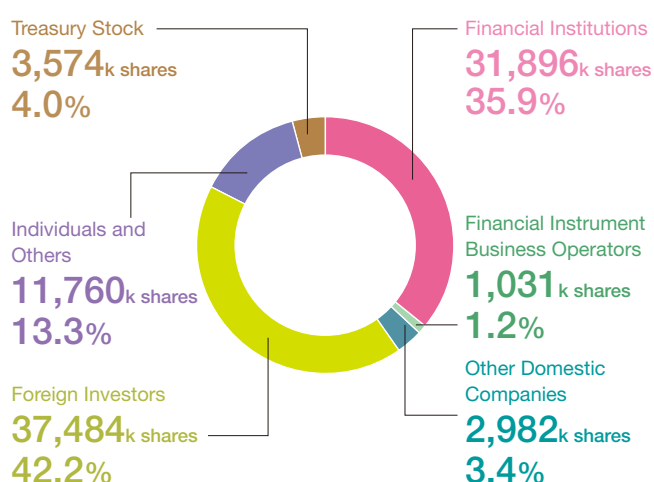
Other

RESUSCITATION SOLUTION, INC.

Development, Manufacturing, Sales, and Sales Promotion

Nihon Kohden Tomioka Corporation
Nippon Bio-Test Laboratories Inc.
Beneficks Corporation
Shanghai Kohden Medical Electronic Instrument Corp.

Ownership Breakdown (as of March 31, 2019)



Major Shareholders (as of March 31, 2019)

Shareholders	Number of Shares (Thousands of shares)	Shareholding Ratio (%)
State Street Bank and Trust Company 505223	9,230	10.83
The Master Trust Bank of Japan, Ltd. (trust account)	5,986	7.02
Saitama Resona Bank, Ltd.	4,193	4.92
Japan Trustee Service Bank, Ltd. (trust account)	3,753	4.40
State Street Bank and Trust Company 505103	1,780	2.09
Japan Trustee Service Bank, Ltd (trust account 5)	1,729	2.03
RBC IST 15 PCT LENDING ACCOUNT - CLIENT ACCOUNT	1,527	1.79
Japan Trustee Service Bank, Ltd. (trust account 9)	1,442	1.69
SSBTC CLIENT OMNIBUS ACCOUNT	1,428	1.67
MUFG Bank, Ltd.	1,325	1.55

* The above list excludes Nihon Kohden's treasury stock of 3,574 thousand shares (shareholding ratio of 4.02%). Each shareholding ratio is calculated excluding treasury stock.

Disclaimer

This report contains not only past or present facts related to Nihon Kohden, but also forward-looking statements including plans and forecasts as of the time of publication. Forward-looking statements are assumptions or determinations based on information available at the time such statements were made. Due to changes in various conditions, the results of future business activities or events may differ from those described in such statements. We appreciate your kind understanding.

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