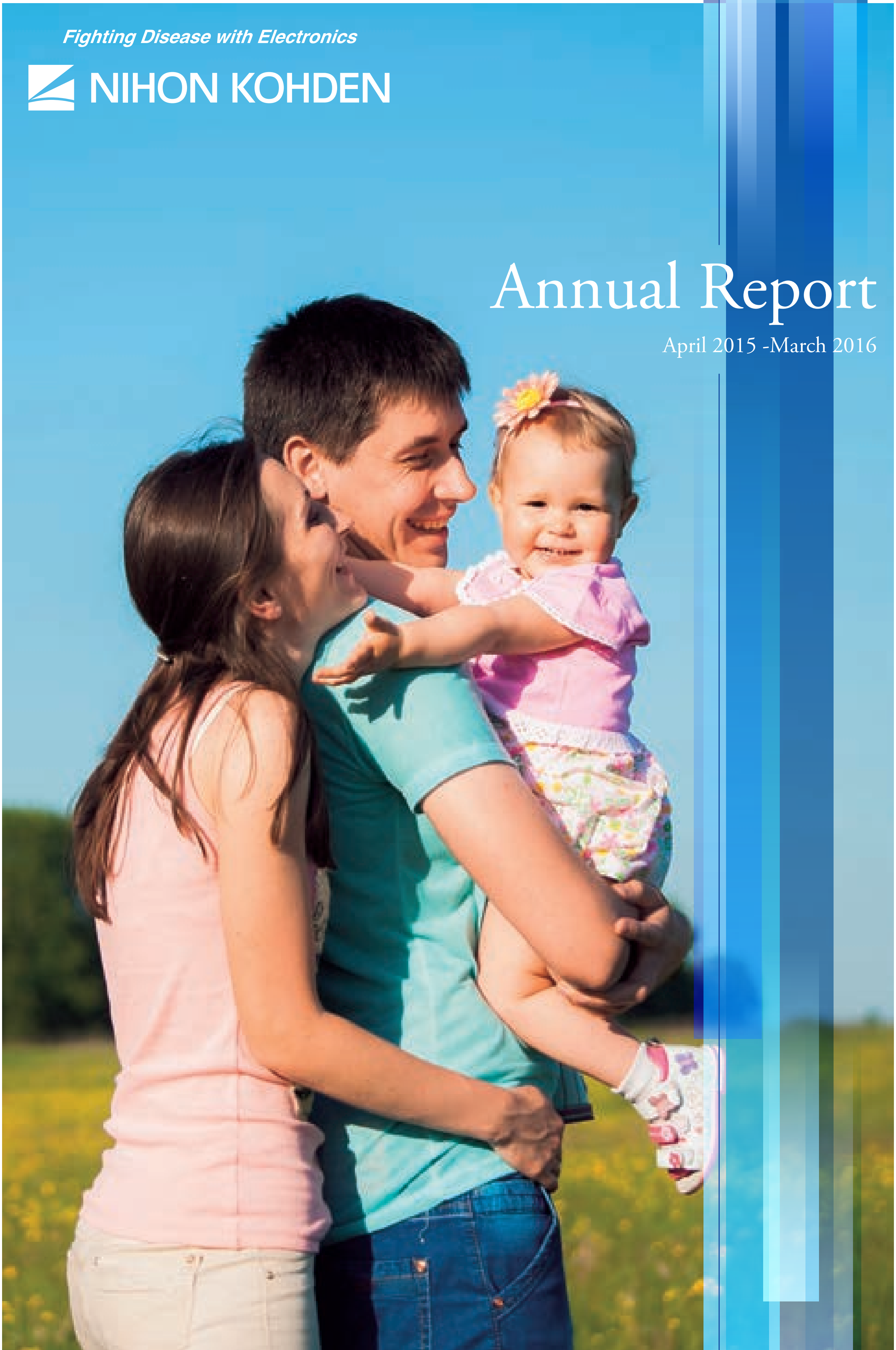
*Fighting Disease with Electronics*

NIHON KOHDEN

# Annual Report

April 2015 -March 2016



# Company Profile

Nihon Kohden is the leading manufacturer, developer and distributor of medical electronic equipment with subsidiaries in the Americas, Europe and Asia. The company's products are now used in more than 120 countries, and it is the largest supplier of electroencephalography products worldwide. Health care professionals throughout the world are familiar with Nihon Kohden as a manufacturer of innovative equipment that is reliable, high quality, safe, and easy to operate.

In 1951, Dr. Yoshio Ogino established Nihon Kohden and developed the world's first electroencephalograph that was completely AC powered. For more than half a century since then, the Company has broadened its product range into a variety of high technology medical equipment such as patient monitors, electrocardiographs, defibrillators, AEDs (automated external defibrillators), hematology analyzers, and other physiological measuring equipment and sensors.

**Commitment to High Quality and Reliability**

With our 1995 ISO9001 certification, the international standard of quality assurance, and CE marking in 1996, based on the EU Medical Device Directive, Nihon Kohden has constructed a consistent quality assurance system covering all areas, from development to after sales service.

Based on our quality policy "to have the customers feel continuous satisfaction with their purchase of Nihon Kohden products," we are continually striving to develop the highest quality products.

**Care of the Environment**

Nihon Kohden is making every possible effort to ensure that the actions of the Company and its employees contribute to preserving the environment. As evidence of this commitment, we established an environmental policy in October 2000. We have received company-wide integrated ISO14001 certification of environment management system for our offices including our head office and all production factories in Japan.

Nihon Kohden's logo graphically expresses the light beaming from a lighthouse. Just as a shining stream of light on a dark nocturnal sea has ensured the safety of mariners, so we have been beaming a light offering hope to those suffering from illness.

On a stormy night, that light offers hope and confidence that the ship will sail on safely. That beam of light evokes the image of limitless progress in the future.

As one of the leaders in the medical industry, we at Nihon Kohden sincerely desire to continue the meaningful work of protecting the health of humans and improving medical treatment.

## Contents

# Consolidated Financial Highlights

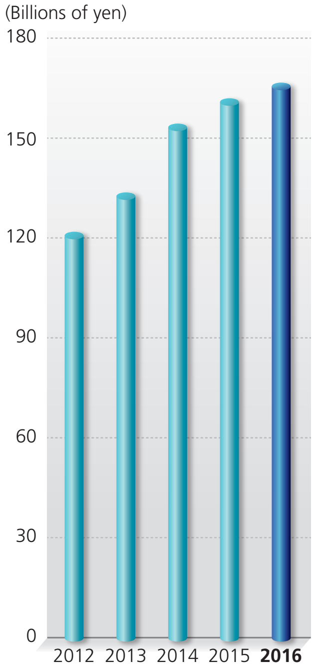
Nihon Kohden Corporation and Consolidated Subsidiaries
Years ended March 31 2016, 2015, 2014, 2013, and 2012

| | Millions of yen | | | | | Thousands of U.S. dollars[1] |
|---|---|---|---|---|---|---|
| | **2016** | 2015 | 2014 | 2013 | 2012 | **2016** |
| Net sales | **¥165,522** | ¥160,803 | ¥153,194 | ¥132,538 | ¥120,718 | **$1,468,956** |
| Operating income | **16,438** | 15,921 | 17,548 | 13,484 | 12,027 | **145,882** |
| Income before income taxes and non-controlling interests | **15,939** | 17,426 | 19,022 | 14,525 | 12,181 | **141,454** |
| Income attributable to owners of parent | **10,517** | 11,143 | 12,346 | 9,152 | 7,622 | **93,335** |
| Total assets | **144,271** | 146,756 | 130,918 | 116,800 | 99,403 | **1,280,360** |
| Net assets | **97,672** | 99,304 | 88,512 | 76,256 | 67,911 | **866,809** |
| Amounts per share[2]: | Yen | | | | | U.S. dollars |
| Net income-basic[3] | **¥120.12** | ¥126.83 | ¥140.52 | ¥208.31 | ¥173.49 | **$1.07** |
| Cash dividends | **35.00** | 70.00 | 70.00 | 52.00 | 44.00 | **0.31** |

Notes : (1) U.S. dollars amounts are translated from yen, for convenience only, at the rate of ¥112.68 = US$1.
(2) Computation of net income and dividends per share was based on the average number of shares of common stock outstanding during each fiscal year.
Cash dividends per share are dividends applicable to the respective years including dividends to be paid after the end of the year.
See Note 9 and 13 of Consolidated Financial Statements.
(3) Effective on April 1, 2015, each share of common stock was split into two shares. The Company calculated EPS for fiscal years ended March 31, 2014 and 2015 on the assumption that stock split was conducted at the beginning of the fiscal year ended March 31, 2014.

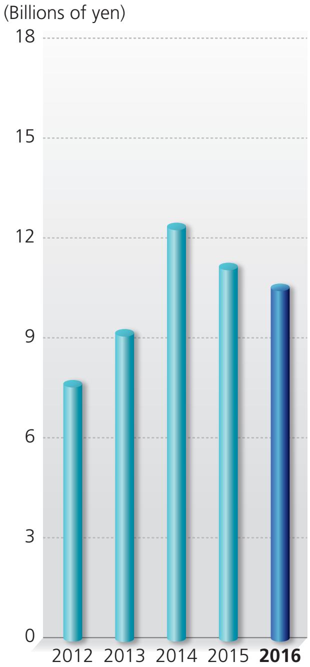
**Net sales**

(Billions of yen)



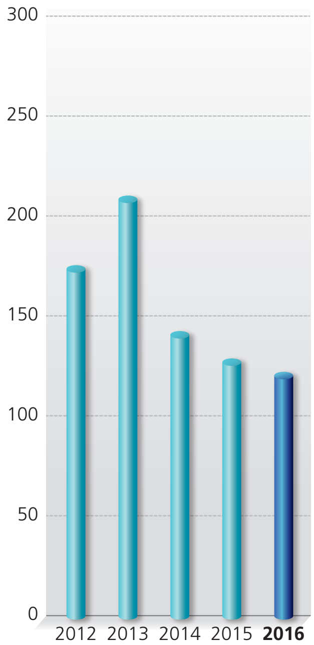

**Income attributable to owners of parent**

(Billions of yen)



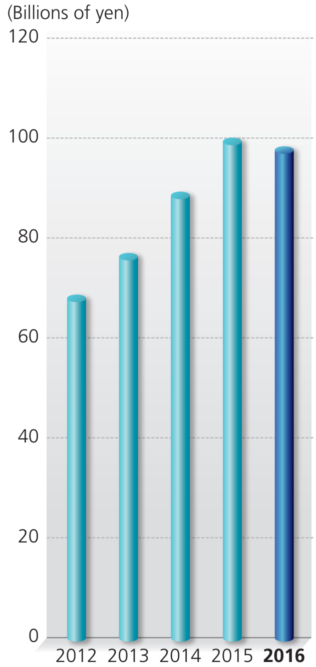

**Net income per share**

(Yen)




**Net assets**

(Billions of yen)



# To Our Stockholders

First of all we would like to sincerely thank everyone for your continued support.

Ever since the Company's founding in 1951, Nihon Kohden has strived to contribute to the world by fighting disease and improving health with advanced technology, as well as create a fulfilling life for employees. This has led to innovative technologies and high quality medical devices.

Based on our engineering specialty, the human-machine interface, Nihon Kohden is supporting the patient care cycle with leading edge technology such as unique sensing and algorithms. Nihon Kohden developed the principle of pulse oximetry. This was a revolutionary technology that allowed the measurement of arterial blood oxygen saturation ($SpO_2$) with just a sensor placed on the fingertip.

In order to provide better medical solutions for various medical fields, Nihon Kohden gives top priority to patients and is actively developing innovative medical electronic equipment. We have become the world's leading manufacturer of electroencephalographs. Our electrocardiographs, evoked potential and electromyogram measuring systems, patient monitors, defibrillators, automated hematology analyzers and other medical equipment have earned an excellent reputation among users around the world.

**Expanding Global Network**

Every year Nihon Kohden is expanding its global network, from research and development to manufacturing, sales, and service, in order to fulfill its mission to save lives with the most advanced medical technology. The Company now has sales subsidiaries in the US, Mexico, Colombia, Brazil, Germany, France, Spain, Italy, the UK, China, Singapore, Thailand, Malaysia, India, UAE, and Korea.

**Review of FY2015**

In Japan, there were spending restraints in the university market and public hospital market in the first half of FY2015. Thanks to a recovery of capital investments since October 2015, full year sales were flat compared to FY2014. Internationally, sales in all areas increased as the Company strengthened its international business structure. As a result, both overall sales and operating income increased year on year.

In line with the Company's philosophy, we aim to achieve sustained group growth and enhance corporate value. The Company is now promoting its four-year mid-term business plan, Strong Growth 2017, to realize its long-term vision, The CHANGE 2020. In FY2016, which is the last year of Strong Growth 2017, Nihon Kohden is continuing to execute its key strategies with company-wide efforts.

**Corporate Philosophy**

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

**Long-term Vision** April 2010 to March 2020

**THE CHANGE 2020**
**- The Global Leader of Medical Solutions-**

**4-year Mid-term Business Plan** April 2013 to March 2017

**Strong Growth 2017**

**Corporate Governance**

To strengthen its corporate governance, Nihon Kohden adopted a "Company with an Audit & Supervisory Committee" structure in June 2016. Under this new governance structure, the number of independent directors was increased from two to four. We expect the supervisory function will be strengthened and management transparency will be enhanced.

**CSR and UN Global Compact**

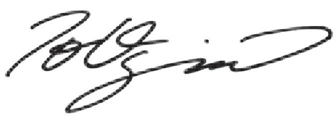
Nihon Kohden will contribute to sustainable development, give value to stakeholders and achieve strong growth.

In July 2015, Nihon Kohden joined the United Nations Global Compact and will work toward the development of a sustainable society by initiatives aimed at the Ten Principles of human rights, labor, environment and anti-corruption.

We remain wholly committed to increasing the value of the company and we ask for your continued support.

Fumio Suzuki
Chairman and CEO

Hirokazu Ogino
President and COO



## Nihon Kohden establishes a U.S. subsidiary which specializes in ventilator development

In the mid-term business plan, Strong Growth 2017, we will implement key strategies such as further growth in core businesses and development of new businesses.

In line with this,  we established a subsidiary, OrangeMed, Inc., in California in April 2015. OrangeMed focuses on developing ventilators. A synergistic effect is expected with the combination between ventilators and our core product of patient monitors.

OrangeMed, Inc.

With their growing economies and expanding populations, the demand for building medical infrastructure is increasing in emerging countries. We will expand our product line-up of ventilators and enhance our sales network for these markets.

## Nihon Kohden reorganizes its sales organization in Latin America

We established a sales subsidiary, Nihon Kohden Mexico (NKMX), and reorganized our sales subsidiaries in Central and South America in January 2016.

Previously, Nihon Kohden Do Brasil (NKBR) provided sales and after-sales support for medical devices in Brazil and Nihon Kohden Latin America (NKLA) provided sales and after-sales support in other Central and South America countries. From this year, NKMX provides sales and after-sales support for medical devices in Mexico and northern South America. NKLA becomes an affiliate of NKMX. NKBR expands its sales territory to Chile, Argentina, Uruguay, and Paraguay.


The Company will continue to develop products which are tailored to these markets as well as expand its sales networks and provide quality products and good after-sales service.

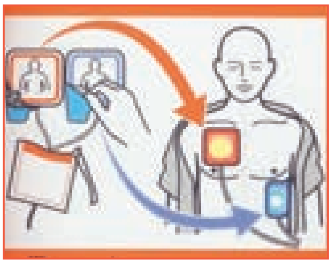
# A new compact and lightweight AED, AED-3100

An automated external defibrillator (AED) is a medical device that analyzes the heart rhythm and can send an electric shock to the heart to try to restore a normal rhythm. Until July 2004, only medical and emergency personnel were allowed to operate an AED in Japan, but now lay people can use them as well. AEDs can now be found in various public places as well as private companies.

In addition to the conventional functions which were well received, AED-3100 provides an enhanced self-test function with a compact and lightweight design. AED-3100 is durable in a wide range of operating temperatures from -5˚C to 50˚C.

## Easy 3 steps operation

*STEP 1*
Open the lid



*STEP 2*
Attach the pads to the patient

*STEP 3*
Push the shock button

# A new intraoperative monitoring system with high performance and portability, MEE-2000

Operating rooms are fast-paced and stressful environments that require meticulous precision and attention to ensure optimal patient outcomes. Neurophysiological monitoring is an essential technology for any surgery that has the risk of damage to the nervous system. Neuromonitoring is often used in spine, neurology, vascular orthopedic and otolaryngologic surgeries, among others.

The Neuromaster MEE-2000 offers several modules for electrophysiology such as electroencephalography, electromyography, and a variety of evoked potentials that can be configured according to surgical indication and patient need. MEE-2000 satisfies advanced customers with its high specifications while also satisfying the demands for portable IOM machines. Its small footprint and fewer cables make it easy to bring MEE-2000 from one hospital to another.

# At a Glance

## Physiological Measuring Equipment

RMC-5000

Electroencephalographs, evoked potential and electromyogram measuring systems, electrocardiographs, polygraphs for cath labs, diagnostic information systems, and related consumables and services

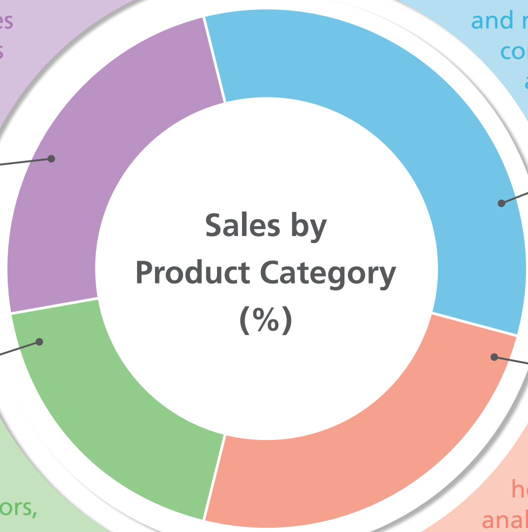
**23.7%**

## Patient Monitors

Instruments that continuously monitor the patient's condition (central monitors, bedside monitors, wireless monitors, Remote Access Software and other equipment), clinical information systems, and related consumables and services

SVM-7500

**33.1%**




**18.5%**

AED-3100

Defibrillators, AEDs (automated external defibrillators), pacemakers, ICDs, ventilators, anesthesia machines, VNSs (vagus nerve stimulations), cochlear implants, and related consumables and services

## Treatment Equipment

**24.7%**

Automated hematology analyzers, clinical chemistry analyzers, ultrasound diagnostic equipment, basic laboratory equipment, other equipment, and consumables and services

MEK-6500

## Other Medical Equipment

Note: The products shown on this page may not be available in certain markets.

## Raising the Level of Health Care in Japan - Our Import Business -

To satisfy every customer demand, Nihon Kohden continues to introduce the most advanced medical products from all over the world into Japan. Nihon Kohden is not only a leading manufacturer, but a leading distributor of medical devices in Japan.

Nihon Kohden currently imports and distributes a wide range of medical devices in various fields such as cardiology, anesthesiology, respiratory care, emergency care, POCT and rehabilitation.

Through our nationwide sales network of approximately 120 sales offices, we continue to introduce the world's first-class medical products and be Japan's provider of choice for advanced medical products.

# Review of Operations

During the term under review (April 1, 2015 to March 31, 2016), the Japanese government worked on healthcare system reform under its 2025 future vision of medical/long-term care services. After medical treatment fees were revised and a reporting system for hospital classification was introduced in 2014, the government issued guidelines to draw up a regional health vision in 2015. As hospital management was affected by responses to differentiate medical institution functions and cooperate with local medical treatment facilities, the medical equipment industry was required to meet the changing needs of medical institutions. Internationally, demand for medical equipment remained steady in the U.S., Europe and emerging countries although there was political and economic uncertainty in some regions.

Under these circumstances, the Company implemented key strategies such as strengthening technological development capabilities, strengthening business expansion by region, and further growth in core businesses under its four-year mid-term business plan, Strong Growth 2017.

The Company has continued to introduce new products since April 2015: a compact and lightweight AED, a defibrillator for ambulance use, and a High DNA content measuring flow cytometer as a new area in hematology instruments. An intraoperative monitoring system and an automated resuscitation machine were launched with initial introduction in the USA.

Nihon Kohden also strengthened its international business structure. The Company established an R&D subsidiary for developing ventilators in the U.S. and a sales subsidiary in Mexico.

As a result, overall sales during the term under review increased 2.9% over FY2014 to ¥165,522 million. Operating income increased 3.3% to ¥16,438 million due to higher sales and gross margin ratio. Income attributable to owners of parent decreased 5.6% to ¥10,517 million, reflecting foreign exchange losses compared to gains in the previous fiscal year.

## New products

**High DNA content measuring flow cytometer FCM-2200**

**Intraoperative monitoring system MEE-2000**

**Automated resuscitation machine RMU-1000**

Note: The products shown on this page may not be available in certain markets.

# Management's Discussion and Analysis

## Sales

In the term under review, sales increased ¥4,719 million, or 2.9%, to ¥165,522 million.

### Sales by Product Category

**Physiological Measuring Equipment:** In Japan, sales of polygraphs for cath lab and diagnostic information systems increased, while sales of EEGs and ECGs decreased. Internationally, sales of ECGs increased in Europe and Asia. Sales of EEGs decreased due to the reclassification of locally installed products in the U.S. and increased steadily in the Americas and Asia on a comparable basis. Overall, sales increased 5.5% over the previous fiscal year to ¥39,219 million.

**Patient Monitors:** In Japan, sales of bedside monitors decreased, although consumable sales such as sensors and sales of clinical information systems increased favorably. Outside Japan, sales in the Americas and Asia showed strong growth, while sales in Europe were weak. Overall, sales increased 3.3% over the previous fiscal year to ¥54,824 million.

**Treatment Equipment:** In Japan, sales of defibrillators were weak and sales of cochlear implants also decreased due to change of supplier. AED sales increased, supported by a new product launch. Internationally, sales of defibrillators increased favorably in the Americas and Europe. Sales of AEDs showed strong growth in all areas. Overall, sales increased 4.1% over the previous fiscal year to ¥30,611 million.

**Other Medical Equipment:** In Japan, sales of locally purchased products decreased in accordance with the Company's selling policy with a focus on its own products and consumables. Sales of hematology instruments increased. Internationally, sales of hematology analyzers increased in Asia and Other. Overall, sales decreased 0.7% over the previous fiscal year to ¥40,868 million.

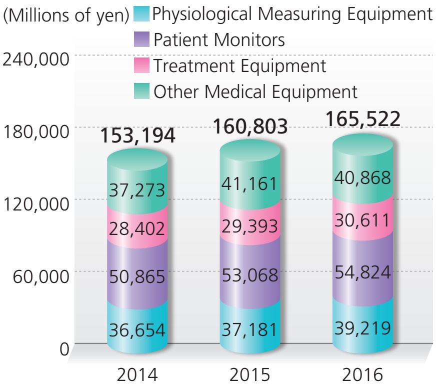
### Sales by Region

**Japan:** Sales in the university market increased with robust sales of patient monitors, thanks to a recovery of capital investments since October 2015. Sales in the clinic market also increased as the Company marketed products and services that meet clinical needs such as enhancing the role of family doctors. Consulting business for private practice startups also contributed to sales increase. Sales in the public hospital market were flat because the 2014 revision of medical treatment fees and the consumption tax hike continued to affect earnings of hospitals. Sales in the private hospital market decreased from the previous fiscal year when there was a higher demand in response to the stricter standards for acute care. As a result, domestic sales decreased 0.4% over FY2014 to ¥121,989 million.

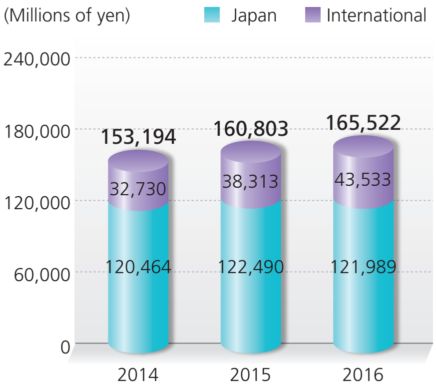
**International:** Sales in all areas and all product categories increased as the Company strengthened its international business structure and sales promotion of consumables. In the Americas, sales in the U.S. showed strong growth, while sales in Latin America remained at the same level as the previous fiscal year. Sales in Europe increased favorably, especially in Western Europe led by Germany, as the Company strengthened its local sales and service network by reorganizing its European subsidiaries. In Asia, sales in India, Korea and the Middle

Years ended March 31

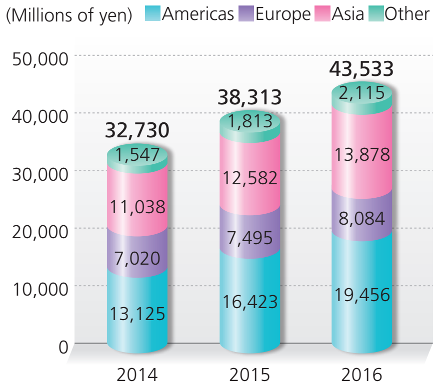
**Sales by Product Category**




**Net Sales by Region**




**Breakdown of International Sales**



East showed strong growth. Sales in China also increased. As a result, international sales increased 13.6% over FY2014 to ¥43,533 million.

## Cost of Sales, SGA Expenses and Operating Income

In the term under review, cost of sales were ¥84,811 million. Gross profit ratio improved 40 basis points to 48.8%. It was due to the Company's selling policy with a focus on its own products and consumables. Gross profit on sales increased ¥2,816 million, or 3.6%, to ¥80,711 million.

Selling, general and administrative expenses increased mainly due to the enhancement of human resources. The ratio of SGA expenses to sales increased 40 basis points to 38.9%. Research and development costs were ¥5,910 million (3.6% of sales).

As a result, operating income increased ¥517 million, or 3.3% to ¥16,438 million.

## Other Income and Deductions, Income Attributable to Owners of Parent

Net other income (deductions) turned negative and totaled (¥499 million), from ¥1,505 million in the previous fiscal year, mainly due to appreciation of the yen. Foreign exchange losses were ¥911 million in this fiscal year, compared to foreign exchange gains of ¥818 million in the previous fiscal year.

Income before income taxes and non-controlling interests decreased ¥1,487 million to ¥15,939 million.

Income attributable to owners of parent decreased ¥626 million to ¥10,517 million from ¥11,143 million in the previous fiscal year. Net income per share was ¥120.12.

## Cash Flows

Net cash provided by operating activities during the year under review decreased ¥1,740 million to ¥10,765 million. It includes ¥15,939 million of income before income taxes and non-controlling interests, ¥3,625 million of depreciation and amortization, and ¥5,805 million of income taxes paid.

Net cash used in investing activities increased ¥3,112 million to ¥7,802 million. We used ¥6,899 million for capital expenditures and ¥547 million for purchase of intangible assets.

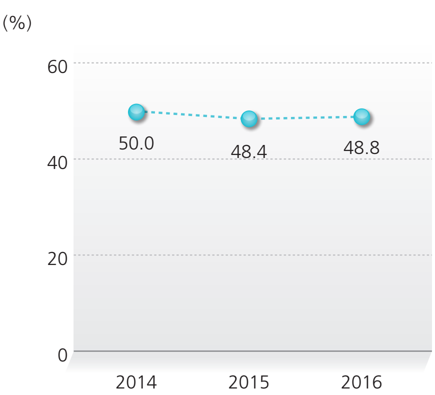
As a result of these factors, free cash flow amounted to ¥2,963 million.

Net cash used in financing activities increased ¥6,221 million to ¥9,488 million. We paid ¥6,439 million for purchasing treasury stock and ¥3,028 million for stockholders dividends.

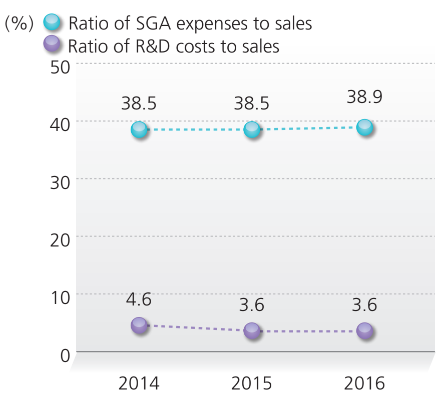
As a result, cash and cash equivalents as of March 31, 2016 decreased ¥6,829 million to ¥27,284 million.

Years ended March 31

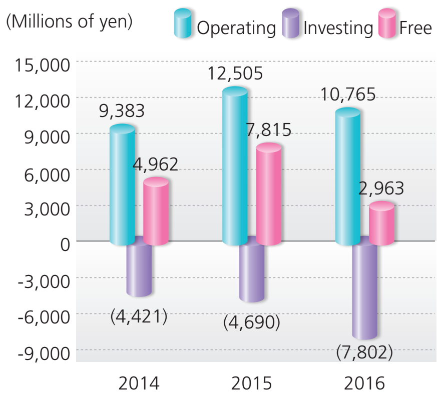
**Gross Profit Ratio**




**SGA Expenses/R&D Costs to Net Sales**




**Cash Flows**



# Consolidated Balance Sheet

March 31, 2016

| Assets | Millions of yen | | Thousands of U.S. dollars (note 2) |
|---|---|---|---|
| | 2016 | 2015 | 2016 |
| Current assets: | | | |
| Cash (note 3) | ¥ 16,422 | ¥ 13,233 | $ 145,740 |
| Trade notes and accounts receivable | 59,339 | 58,835 | 526,615 |
| Short-term investments (note 4) | 11,000 | 21,000 | 97,622 |
| Inventories | 19,676 | 19,270 | 174,618 |
| Deferred income taxes (note 7) | 4,589 | 4,526 | 40,726 |
| Other current assets | 2,118 | 1,729 | 18,797 |
| Less allowance for doubtful receivables | 214 | 204 | 1,899 |
| Total current assets | 112,930 | 118,389 | 1,002,219 |
| Property, plant and equipment, net of accumulated depreciation; ¥26,836 million ($238,161 thousand) in 2016 and ¥25,880 million in 2015: | | | |
| Buildings and structures | 4,078 | 4,216 | 36,191 |
| Machinery, equipment and vehicles | 784 | 555 | 6,958 |
| Tools, furniture and fixtures | 3,047 | 3,058 | 27,041 |
| Land | 3,581 | 3,548 | 31,780 |
| Leased assets | 45 | 47 | 399 |
| Construction in progress | 4,161 | 787 | 36,928 |
| Net property, plant and equipment | 15,696 | 12,211 | 139,297 |
| Intangible assets, net: | | | |
| Goodwill | 2,393 | 2,559 | 21,237 |
| Other intangible assets | 3,799 | 4,226 | 33,715 |
| Total intangible assets | 6,192 | 6,785 | 54,952 |
| Investments and other assets: | | | |
| Investments in securities (note 4) | 6,149 | 6,686 | 54,571 |
| Deferred income taxes (note 7) | 1,594 | 1,299 | 14,146 |
| Other investments and other assets | 1,889 | 1,571 | 16,764 |
| Less allowance for doubtful receivables | 179 | 185 | 1,589 |
| Total investments and other assets | 9,453 | 9,371 | 83,892 |
| Total assets | ¥144,271 | ¥146,756 | $1,280,360 |

See accompanying notes to consolidated financial statements.

| Liabilities and Net Assets | Millions of yen | | Thousands of U.S. dollars (note 2) |
|---|---|---|---|
| | **2016** | 2015 | **2016** |
| Current liabilities: | | | |
| Trade notes and accounts payable | **¥ 29,727** | ¥ 30,816 | **$ 263,818** |
| Short-term debt and current installments of long-term debt (note 5) | **1,175** | 1,117 | **10,428** |
| Other payables | **2,349** | 3,683 | **20,847** |
| Accrued income taxes (note 7) | **2,031** | 2,350 | **18,024** |
| Accrued expenses | **2,784** | 2,802 | **24,707** |
| Accrued bonuses | **2,860** | 2,889 | **25,382** |
| Other current liabilities (note 5) | **1,976** | 1,997 | **17,536** |
| Total current liabilities | **42,902** | 45,654 | **380,742** |
| Non-current liabilities: | | | |
| Liabilities for retirement benefits (note 6) | **3,165** | 619 | **28,088** |
| Deferred income taxes (note 7) | **68** | 579 | **603** |
| Other non-current liabilities (note 5) | **464** | 600 | **4,118** |
| Total non-current liabilities | **3,697** | 1,798 | **32,809** |
| Total liabilities | **46,599** | 47,452 | **413,551** |
| Stockholders' equity: | | | |
| Common stock (note 8): Authorized 197,972,000 shares; issued 89,730,980 shares in 2016 and 45,765,490 shares in 2015 | **7,545** | 7,545 | **66,960** |
| Additional paid-in capital (note 8) | **10,415** | 10,487 | **92,430** |
| Retained earnings (note 9) | **83,834** | 77,336 | **744,001** |
| Treasury stock, at cost; 4,073,033 shares in 2016 and 1,835,752 shares in 2015 | **(7,472)** | (2,030) | **(66,312)** |
| Total stockholders' equity | **94,322** | 93,338 | **837,079** |
| Accumulated other comprehensive income (loss): | | | |
| Net unrealized gain on other securities (note 4) | **2,036** | 2,327 | **18,069** |
| Foreign currency translation adjustments | **2,559** | 3,069 | **22,710** |
| Remeasurements of defined benefit plans (note 6) | **(1,245)** | 509 | **(11,049)** |
| Total accumulated other comprehensive income | **3,350** | 5,905 | **29,730** |
| Non-controlling interests | **—** | 61 | **—** |
| Total net assets | **97,672** | 99,304 | **866,809** |
| Commitments and contingencies | | | |
| Total liabilities and net assets | **¥144,271** | ¥146,756 | **$1,280,360** |

# Consolidated Statement of Income

March 31, 2016

| | Millions of yen | | Thousands of U.S. dollars (note 2) |
|---|---|---|---|
| | 2016 | 2015 | 2016 |
| Net sales | ¥165,522 | ¥160,803 | $1,468,956 |
| Cost of sales (note 11) | 84,811 | 82,908 | 752,671 |
| Gross profit | 80,711 | 77,895 | 716,285 |
| Selling, general and administrative expenses (notes 10 and 11) | 64,273 | 61,974 | 570,403 |
| Operating income | 16,438 | 15,921 | 145,882 |
| Other income (deductions): | | | |
| Interest income | 30 | 44 | 266 |
| Dividend income | 108 | 101 | 959 |
| Interest expenses | (58) | (46) | (515) |
| Foreign exchange gains (losses) | (911) | 818 | (8,085) |
| Subsidy income | 288 | 177 | 2,556 |
| Gain (loss) on sale/disposal of property, plant and equipment | (48) | 1 | (426) |
| Gain on transfer of business | – | 191 | – |
| Loss on devaluation of investments in securities | (25) | (36) | (222) |
| Plant relocation expenses | (128) | – | (1,136) |
| Other, net | 245 | 255 | 2,175 |
| | (499) | 1,505 | (4,428) |
| Income before income taxes and non-controlling interests | 15,939 | 17,426 | 141,454 |
| Income taxes (note 7): | | | |
| Current | 5,302 | 5,942 | 47,054 |
| Deferred | 92 | 335 | 816 |
| | 5,394 | 6,277 | 47,870 |
| Net income | 10,545 | 11,149 | 93,584 |
| Income attributable to non-controlling interests | 28 | 6 | 249 |
| Income attributable to owners of parent | ¥ 10,517 | ¥ 11,143 | $ 93,335 |

See accompanying notes to consolidated financial statements.

# Consolidated Statement of Comprehensive Income

March 31, 2016

| | Millions of yen | | Thousands of U.S. dollars (note 2) |
|---|---|---|---|
| | 2016 | 2015 | 2016 |
| Net income | ¥10,545 | ¥11,149 | $93,584 |
| Other comprehensive income (loss) arising during the year (note 12) : | | | |
| Net unrealized gain (loss) on other securities (note 4) | (291) | 1,445 | (2,583) |
| Foreign currency translation adjustments | (512) | 1,472 | (4,544) |
| Remeasurements of defined benefit plans (note 6) | (1,755) | 202 | (15,575) |
| Total other comprehensive income (loss) arising during the year | (2,558) | 3,119 | (22,702) |
| Comprehensive income | ¥ 7,987 | ¥14,268 | $70,882 |
| Comprehensive income attributable to: | | | |
| Owners of parent | ¥ 7,962 | ¥14,256 | $70,660 |
| Non-controlling interests | 25 | 12 | 222 |

See accompanying notes to consolidated financial statements.

# Consolidated Statement of Changes in Net Assets

March 31, 2016

| | Millions of yen | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Stockholders' equity | | | | | Accumulated other comprehensive income (loss) | | | | | |
| | Common stock (note 8) | Additional paid-in capital (note 8) | Retained earnings (note 9) | Treasury stock | Total | Net unrealized gain on other securities (note 4) | Foreign currency translation adjustments | Remeasurements of defined benefit plans (note 6) | Total | Non-controlling interests | Total net assets |
| Balance at March 31, 2014 | ¥7,545 | ¥10,487 | ¥69,654 | ¥(2,027) | ¥85,659 | ¥ 882 | ¥1,603 | ¥ 308 | ¥2,793 | ¥60 | ¥88,512 |
| Cumulative effects of accounting changes | | | (166) | | (166) | | | | | | (166) |
| Changes arising during year: | | | | | | | | | | | |
| Cash dividends | | | (3,295) | | (3,295) | | | | | | (3,295) |
| Income attributable to owners of parent | | | 11,143 | | 11,143 | | | | | | 11,143 |
| Purchase of treasury stock | | | | (3) | (3) | | | | | | (3) |
| Net changes other than stockholders' equity | | | | | | 1,445 | 1,466 | 201 | 3,112 | 1 | 3,113 |
| Total changes during the year | – | – | 7,848 | (3) | 7,845 | 1,445 | 1,466 | 201 | 3,112 | 1 | 10,958 |
| Balance at March 31, 2015 | 7,545 | 10,487 | 77,336 | (2,030) | 93,338 | 2,327 | 3,069 | 509 | 5,905 | 61 | 99,304 |
| Changes arising during year: | | | | | | | | | | | |
| Cash dividends | | | (3,028) | | (3,028) | | | | | | (3,028) |
| Income attributable to owners of parent | | | 10,517 | | 10,517 | | | | | | 10,517 |
| Purchase of treasury stock | | | | (6,439) | (6,439) | | | | | | (6,439) |
| Disposition of treasury stock | | (5) | (991) | 997 | 1 | | | | | | 1 |
| Changes in equity of parent arising from transactions with non-controlling interests | | (67) | | | (67) | | | | | | (67) |
| Net changes other than stockholders' equity | | | | | | (291) | (510) | (1,754) | (2,555) | (61) | (2,616) |
| Total changes during the year | – | (72) | 6,498 | (5,442) | 984 | (291) | (510) | (1,754) | (2,555) | (61) | (1,632) |
| Balance at March 31, 2016 | ¥7,545 | ¥10,415 | ¥83,834 | ¥(7,472) | ¥94,322 | ¥2,036 | ¥2,559 | ¥(1,245) | ¥3,350 | ¥ – | ¥97,672 |

| | Thousands of U.S. dollars (note 2) | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Stockholders' equity | | | | | Accumulated other comprehensive income (loss) | | | | | |
| | Common stock (note 8) | Additional paid-in capital (note 8) | Retained earnings (note 9) | Treasury stock | Total | Net unrealized gain on other securities (note 4) | Foreign currency translation adjustments | Remeasurements of defined benefit plans (note 6) | Total | Non-controlling interests | Total net assets |
| Balance at March 31, 2015 | $66,960 | $93,069 | $686,333 | $(18,016) | $828,346 | $20,652 | $27,236 | $ 4,517 | $52,405 | $541 | $881,292 |
| Changes arising during year: | | | | | | | | | | | |
| Cash dividends | | | (26,872) | | (26,872) | | | | | | (26,872) |
| Income attributable to owners of parent | | | 93,335 | | 93,335 | | | | | | 93,335 |
| Purchase of treasury stock | | | | (57,144) | (57,144) | | | | | | (57,144) |
| Disposition of treasury stock | | (44) | (8,795) | 8,848 | 9 | | | | | | 9 |
| Changes in equity of parent arising from transactions with non-controlling interests | | (595) | | | (595) | | | | | | (595) |
| Net changes other than stockholders' equity | | | | | | (2,583) | (4,526) | (15,566) | (22,675) | (541) | (23,216) |
| Total changes during the year | – | (639) | 57,668 | (48,296) | 8,733 | (2,583) | (4,526) | (15,566) | (22,675) | (541) | (14,483) |
| Balance at March 31, 2016 | $66,960 | $92,430 | $744,001 | $(66,312) | $837,079 | $18,069 | $22,710 | $(11,049) | $29,730 | $ – | $866,809 |

See accompanying notes to consolidated financial statements.

# Consolidated Statement of Cash Flows

March 31, 2016

| | Millions of yen | | Thousands of U.S. dollars (note 2) |
|---|---|---|---|
| | **2016** | 2015 | **2016** |
| Cash flows from operating activities: | | | |
| Income before income taxes and non-controlling interests | **¥15,939** | ¥17,426 | **$141,454** |
| Adjustments to reconcile income before income taxes and non-controlling interests to net cash provided by operating activities: | | | |
| Depreciation and amortization | **3,625** | 3,606 | **32,171** |
| (Gain) loss on sale/disposal of property, plant and equipment | **47** | (1) | **417** |
| Increase in allowance for doubtful receivables | **16** | 82 | **142** |
| Increase (decrease) in accrued bonuses | **(25)** | (194) | **(222)** |
| Increase (decrease) in liabilities for retirement and severance benefits | **(2)** | (65) | **(18)** |
| Interest and dividend income | **(138)** | (146) | **(1,225)** |
| Interest expenses | **58** | 47 | **515** |
| (Gain) loss on devaluation of investments in securities | **25** | 35 | **222** |
| Gain on transfer of business | **–** | (190) | **–** |
| Increase in trade notes and accounts receivable | **(1,115)** | (3,373) | **(9,895)** |
| Increase in inventories | **(920)** | (1,691) | **(8,165)** |
| Increase (decrease) in trade notes and accounts payable | **(454)** | 4,206 | **(4,029)** |
| Other, net | **(586)** | 243 | **(5,201)** |
| Sub total | **16,470** | 19,985 | **146,166** |
| Interest and dividend received | **140** | 144 | **1,243** |
| Interest paid | **(40)** | (52) | **(355)** |
| Income taxes paid | **(5,805)** | (7,572) | **(51,518)** |
| Net cash provided by operating activities | **10,765** | 12,505 | **95,536** |
| Cash flows from investing activities: | | | |
| Proceeds from sale of investments in securities | **127** | – | **1,127** |
| Purchase of investments in securities | **(117)** | (414) | **(1,038)** |
| Capital expenditures | **(6,899)** | (3,175) | **(61,227)** |
| Purchase of intangible assets | **(547)** | (1,170) | **(4,854)** |
| Proceeds from transfer of business | **–** | 248 | **–** |
| Other, net | **(366)** | (179) | **(3,248)** |
| Net cash used in investing activities | **(7,802)** | (4,690) | **(69,240)** |
| Cash flows from financing activities: | | | |
| Increase in short-term debt | **148** | 57 | **1,313** |
| Payments on long-term debt | **(0)** | (0) | **(0)** |
| Dividends paid to stockholders | **(3,028)** | (3,303) | **(26,872)** |
| Purchase of treasury stock | **(6,439)** | (3) | **(57,144)** |
| Purchase of investments in subsidiaries that do not result in change in scope of consolidation | **(152)** | – | **(1,349)** |
| Other, net | **(17)** | (18) | **(151)** |
| Net cash used in financing activities | **(9,488)** | (3,267) | **(84,203)** |
| Effect of exchange rate changes on cash and cash equivalents | **(304)** | 756 | **(2,698)** |
| Net increase (decrease) in cash and cash equivalents | **(6,829)** | 5,304 | **(60,605)** |
| Cash and cash equivalents at beginning of year | **34,113** | 28,809 | **302,742** |
| Cash and cash equivalents at end of year (note 3) | **¥27,284** | ¥34,113 | **$242,137** |

See accompanying notes to consolidated financial statements.

## 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 40 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 or negative 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, which are depreciated based on the straight-line method. Its foreign subsidiaries provided depreciation principally by the straight-line method.

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 (3-5 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 of uncollectible receivables based on historical loss ratios and an amount that takes into consideration the possibility of specific liabilities.

### (i) 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).

### (j) Accrued Warranty Expenses

Accrued warranty expenses are estimated based on the ratio of historical warranty expenses against sales or estimated individually for after-sale repair expenses.

### (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.

### (n) Business Combinations

Effective from the beginning of the year ended March 31, 2016, the Company applied the "Revised Accounting Standard for Business Combinations" (Accounting Standards Board of Japan (ASBJ) Statement No.21, issued September 13, 2013, hereinafter referred to as the "Accounting Standard for Business Combinations"), "Revised Accounting Standard for Consolidated Financial Statements" (ASBJ Statement No. 22, issued September 13, 2013, hereinafter referred to as the "Accounting Standard for Consolidated Financial Statements"), "Revised Accounting Standard for Business Divestitures" (ASBJ Statement No. 7, issued September 13, 2013, hereinafter referred to as the "Accounting Standard for Business Divestitures") and other related standards and implementation guidance.

In applying these revised accounting standards, the Company records any differences arising from changes in ownership interest in a subsidiary when it retains control as capital surplus and the acquisition-related costs are recognized as expenses when incurred. Also, regarding business combinations implemented on or after April 1, 2015, the accounting method was changed to reflect adjustments to the allocation of acquisition cost under provisional accounting treatment on the consolidated financial statements of the fiscal year in which the relevant business combinations became or will become effective. In addition, the presentation of net income was amended and the reference to "minority interests" was changed to "non-controlling interests".

The Company has applied these standards in accordance with the transitional treatment prescribed in Section 58-2 (4) of the Accounting Standard for Business Combinations, Section 44-5 (4) of the Accounting Standard for Consolidated Financial Statements, and Section 57-4 (4) of the Accounting Standard for Business Divestitures, and the Company applied these standards from the beginning of the year.

As a result of these changes, capital surplus decreased by ¥68 million ($603 thousand) at March 31, 2016. The impact on the profit and loss for the year ended March 31, 2016 is immaterial.

For the year ended March 31, 2016, cash flows from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation are recognized under "cash flows from financing activities", whereas cash flows concerning the costs related to the purchase of ownership interests in subsidiaries that result in a change in the scope of consolidation or the expenses incurred in relation to changes in ownership interests in subsidiaries that do not result in change in scope of consolidation are recognized under "cash flows from operating activities".

### (o) Accounting standards issued but not yet applied

Regarding the treatment related to the recoverability of deferred tax assets, "Implementation Guidance on Recoverability of Deferred Tax Assets (ASBJ Guidance No.26)" has been reviewed, basically following the framework of the Audit Committee Report No. 66 "Audit Treatment related to Judgment of the Recoverability of Deferred Tax Assets," namely, a framework that classifies companies into five categories and estimates the recorded amount of deferred tax assets according to each category.

The following treatment has been reviewed.

1) Treatment of companies that do not satisfy any of the category requirements for Category 1 through Category 5
2) Category requirements for Category 2 and Category 3
3) Treatment related to a future deductible temporary difference for which scheduling is not possible, in a company that qualifies as Category 2
4) Treatment related to the reasonable estimable period for taxable income before future additions and deductions such as temporary difference, etc., in a company that qualifies as Category 3
5) Treatment in the case that a company that satisfies the category requirements for Category 4 qualifies as Category 2 or Category 3

The Company is scheduled to apply these accounting standards from the beginning of the year ending March 31, 2017.

The effect of adoption of these revised accounting standards is now under assessment at the time of preparation of the accompanying consolidated financial statements.

### (p) 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, 2016.

## 2 Financial Statement Translation

The translations of the yen amounts into U.S. dollars are included solely for the convenience of the reader, using the prevailing exchange rate at March 31, 2016, which was ¥112.68 to U.S. $1. This translation should not be construed as a representation that the amounts shown could be converted into U.S. dollars at such rate.

## 3 Cash and Cash Equivalents

Reconciliation between "Cash" in the accompanying consolidated balance sheet and "Cash and cash equivalents" in the accompanying consolidated statement of cash flows at March 31, 2016 and 2015 is follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2016** | 2015 | **2016** |
| Cash | **¥ 16,422** | ¥ 13,233 | **$ 145,740** |
| Short-term investments that have maturities of three months or less | **11,000** | 21,000 | **97,622** |
| Time deposits with maturities of over three months | **(138)** | (120) | **(1,225)** |
| Cash and cash equivalents | **¥ 27,284** | ¥ 34,113 | **$ 242,137** |

## 4 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, 2016 and 2015 are summarized as follows:

| | Millions of yen | | | |
|---|---|---|---|---|
| | Balance sheet amount | Gross unrealized gain | Gross unrealized loss | Acquisition cost |
| March 31, 2016 | | | | |
| Equity securities | **¥ 5,112** | **¥ 2,776** | **¥ (64)** | **¥ 2,400** |
| March 31, 2015 | | | | |
| Equity securities | ¥ 5,610 | ¥ 3,211 | ¥ – | ¥ 2,399 |

| | Thousands of U.S. dollars | | | |
|---|---|---|---|---|
| | Balance sheet amount | Gross unrealized gain | Gross unrealized loss | Acquisition cost |
| March 31, 2016 | | | | |
| Equity securities | **$ 45,367** | **$ 24,636** | **$ (568)** | **$ 21,299** |

There is no sale of other securities both for the years ended March 31, 2016 and 2015.

## 5 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 5.3% and 4.7% at March 31, 2016 and 2015, respectively.

Long-term borrowings at March 31, 2015 was summarized as follows:

| | Millions of yen |
|---|---|
| Loans from banks, unsecured, maturing in installments through 2015; bearing weighted average interest of 0.9 % at March 31, 2015 | **¥ 0** |
| Less current installments | **0** |
| | **¥ –** |

Lease liabilities at March 31, 2016 and 2015 is summarized as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2016** | 2015 | **2016** |
| Lease liabilities maturing in installments through 2020 | **¥ 45** | ¥ 47 | **$ 399** |
| Less current installments | **16** | 17 | **142** |
| | **¥ 29** | ¥ 30 | **$ 257** |

The aggregate annual maturities of lease liabilities after March 31, 2017 are as follows:

| | Millions of yen | Thousands of U.S. dollars |
|---|---|---|
| Year ending March 31: | | |
| 2018 | ¥ 16 | $ 142 |
| 2019 | 8 | 71 |
| 2020 | 5 | 44 |
| 2021 | 0 | 0 |

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.

## 6 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 have enrolled in Japanese Welfare Pension Fund as a multi-employer plan. If 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, 2016 and 2015 and for the years then ended.

(1) Reconciliation of changes in retirement benefit obligation

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2016** | 2015 | **2016** |
| Retirement benefit obligation at beginning of year | **¥ 18,881** | ¥ 17,068 | **$ 167,563** |
| Cumulative effects of changes in accounting policies | **–** | 258 | **–** |
| Restated balance at beginning of year | **18,881** | 17,326 | **167,563** |
| Service cost | **1,230** | 1,132 | **10,916** |
| Interest cost | **172** | 215 | **1,526** |
| Actuarial gains or losses | **1,799** | 766 | **15,966** |
| Benefits paid | **(920)** | (558) | **(8,165)** |
| Retirement benefit obligation at end of year | **¥ 21,162** | ¥ 18,881 | **$ 187,806** |

(2) Reconciliation of changes in plan assets

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2016** | 2015 | **2016** |
| Plan assets at beginning of year | **¥ 18,262** | ¥ 16,367 | **$ 162,070** |
| Expected return on plan assets | **174** | 213 | **1,544** |
| Actuarial gains or losses | **(471)** | 1,218 | **(4,180)** |
| Employer contributions | **1,055** | 1,022 | **9,363** |
| Benefits paid | **(920)** | (558) | **(8,165)** |
| Plan assets at end of year | **¥ 18,100** | ¥ 18,262 | **$ 160,632** |

(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 | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2016** | 2015 | **2016** |
| Funded retirement benefit obligation | **¥ 21,162** | ¥ 18,881 | **$ 187,806** |
| Plan assets | **(18,100)** | (18,262) | **(160,632)** |
| | **3,062** | 619 | **27,174** |
| Unfunded retirement benefit obligation | **103** | – | **914** |
| Net liabilities for retirement benefits recognized in consolidated balance sheet | **¥ 3,165** | ¥ 619 | **$ 28,088** |
| Liabilities for retirement benefits | **¥ 3,165** | ¥ 619 | **$ 28,088** |
| Assets for retirement benefits | **–** | – | **–** |
| Net liabilities for retirement benefits recognized in consolidated balance sheet | **¥ 3,165** | ¥ 619 | **$ 28,088** |

(4) The components of retirement benefit expenses

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2016** | 2015 | **2016** |
| Service cost | **¥ 1,230** | ¥ 1,132 | **$ 10,916** |
| Interest cost | **172** | 215 | **1,526** |
| Expected return on plan assets | **(174)** | (213) | **(1,544)** |
| Amortization of actuarial gain or loss | **(278)** | (177) | **(2,467)** |
| Retirement benefit expenses | **¥ 950** | ¥ 957 | **$ 8,431** |

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

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2016** | 2015 | **2016** |
| Actuarial gain or loss | **¥ 2,548** | ¥ (275) | **$ 22,613** |
| Total | **¥ 2,548** | ¥ (275) | **$ 22,613** |

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

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2016** | 2015 | **2016** |
| Unrecognized actuarial gain or loss | **¥ 1,795** | ¥ (753) | **$ 15,930** |
| Total | **¥ 1,795** | ¥ (753) | **$ 15,930** |

(7) Plan assets

(a) Percentage by major category of plan assets

| | **2016** | 2015 |
|---|---|---|
| Debt securities | **24.2%** | 22.5% |
| Equity securities | **27.2** | 30.0 |
| Short-term investments | **20.0** | 19.9 |
| General account | **27.6** | 26.7 |
| Other | **1.0** | 0.9 |
| Total | **100.0%** | 100.0% |

(b) Determination procedure of 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

| | **2016** | 2015 |
|---|---|---|
| Discount rate | **0.3%** | 0.9% |
| Long-term expected rate of return | **0.3** | 1.0 |

### Defined contribution plans

The amount to be paid by the consolidated subsidiaries to the defined contribution plans was ¥91 million ($808 thousand) and ¥78 million for the years ended March 31, 2016 and 2015, respectively.

### Multi-employer pension plan

The amount to be paid by the Company to the Welfare Pension Fund under multi-employer pension plan was ¥860 million ($7,632 thousand) and ¥840 million for the years ended March 31, 2016 and 2015, respectively.

Funded status of the whole Welfare Pension Fund under multi-employer pension plan at March 31, 2015 and 2014 is outlined as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2015** | 2014 | **2015** |
| Plan assets at fair value - (1) | **¥ 261,939** | ¥ 231,951 | **$ 2,324,627** |
| Benefit obligation under pension funding programs - (2) | **295,513** | 255,868 | **2,622,586** |
| (1) - (2)* | **¥ (33,574)** | ¥ (23,917) | **$ (297,959)** |

The Company's proportion of the salaries to the whole of Welfare Pension Fund at March 31, 2016 and 2015 was 8.9% and 8.7%, respectively. This is different from the actual ratio of the Company's contribution to the total.

Main reason of the differences above* at March 31, 2015 and 2014 was unrecognized prior service cost of the pension program of ¥30,399 million ($269,782 thousand) and ¥31,537 million, respectively. The unrecognized prior service cost is amortized over 20 years by the straight-line method.

## 7 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 both for the years ended March 31, 2016 and 2015 is not subject to disclosure because the difference between the rates does not exceed 5% of the statutory tax rate.

Significant components of deferred tax assets and liabilities at March 31, 2016 and 2015 are as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2016** | 2015 | **2016** |
| Deferred tax assets: | | | |
| Valuation loss for inventories | **¥ 793** | ¥ 892 | **$ 7,038** |
| Accrued business tax | **187** | 192 | **1,660** |
| Accrued bonuses | **863** | 943 | **7,659** |
| Liabilities for retirement benefits | **982** | 212 | **8,715** |
| Accrued warranty expenses | **100** | 106 | **887** |
| Allowance for doubtful receivables | **102** | 67 | **905** |
| Depreciation and amortization | **1,870** | 1,981 | **16,596** |
| Intercompany profits on inventories, and property, plant and equipment | **1,362** | 1,274 | **12,087** |
| Intangible assets | **1,526** | 1,672 | **13,543** |
| Other | **1,026** | 901 | **9,105** |
| | **8,811** | 8,240 | **78,195** |
| Valuation allowance | **(557)** | (556) | **(4,943)** |
| | **8,254** | 7,684 | **73,252** |
| Deferred tax liabilities: | | | |
| Net unrealized gain on other securities | **(884)** | (1,096) | **(7,845)** |
| Asset retirement obligations | **(16)** | (17) | **(142)** |
| Valuation difference | **(655)** | (714) | **(5,813)** |
| Other | **(584)** | (611) | **(5,183)** |
| | **(2,139)** | (2,438) | **(18,983)** |
| Net deferred tax assets | **¥ 6,115** | ¥ 5,246 | **$ 54,269** |

Net deferred tax assets and liabilities at March 31, 2016 and 2015 are reflected in the accompanying consolidated balance sheet under the following captions:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2016** | 2015 | **2016** |
| Current assets - Deferred income taxes | **¥ 4,589** | ¥ 4,526 | **$ 40,726** |
| Investments and other assets - Deferred income taxes | **1,594** | 1,299 | **14,146** |
| Non-current liabilities - Deferred income taxes | **(68)** | (579) | **(603)** |
| Net deferred tax assets | **¥ 6,115** | ¥ 5,246 | **$ 54,269** |

Because "Act for Partial Amendment of the Income Tax Act, etc." (Act No. 15 of 2016) and "Act for Partial Amendment of the Local Tax Act, etc." (Act No. 13 of 2016) were enacted by the Diet on March 29, 2016, the effective statutory tax rate used to measure deferred tax assets and liabilities was changed from 32.3% to 30.9% for temporary differences expected to be eliminated in the fiscal two years beginning on April 1, 2016, and to 30.6% for temporary differences expected to be eliminated in the fiscal years beginning on and after April 1, 2018.

As a result, deferred tax assets after offsetting deferred tax liabilities decreased by ¥186 million ($1,651 thousand), income taxes-deferred for the year ended March 31, 2016 increased by ¥204 million ($1,810 thousand), net unrealized gain on other securities increased by ¥47 million ($417 thousand) and remeasurements of defined benefit plans decreased by ¥29 million ($257 thousand).

## 8 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.

## 9 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.

Cash dividends charged to retained earnings for the years ended March 31, 2016 and 2015 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, 2015

The following was approved by the general meeting of stockholders held on June 26, 2014.

| | |
|---|---|
| (a) Total dividends | ¥1,757 million |
| (b) Cash dividends per common share | ¥40 |
| (c) Record date | March 31, 2014 |
| (d) Effective date | June 27, 2014 |

The following was approved by the Board of Directors held on October 31, 2014.

| | |
|---|---|
| (a) Total dividends | ¥1,538 million |
| (b) Cash dividends per common share | ¥35 |
| (c) Record date | September 30, 2014 |
| (d) Effective date | November 27, 2014 |

The Company split shares of common stock on April 1, 2015 at a rate of two to one, and the figures on the above tables are based on the number of shares before the share split.

### (b) Dividends paid during the year ended March 31, 2016

The following was approved by the general meeting of stockholders held on June 25, 2015 and the figures on the following table are based on the number of shares before the share split on April 1, 2015.

| | |
|---|---|
| (a) Total dividends | ¥1,538 million ($13,649 thousand) |
| (b) Cash dividends per common share | ¥35 ($0.31) |
| (c) Record date | March 31, 2015 |
| (d) Effective date | June 26, 2015 |

The following was approved by the Board of Directors held on November 4, 2015 and the figures on the following table are based on the number of shares after the share split on April 1, 2015.

| | |
|---|---|
| (a) Total dividends | ¥1,490 million ($13,223 thousand) |
| (b) Cash dividends per common share | ¥17 ($0.15) |
| (c) Record date | September 30, 2015 |
| (d) Effective date | November 27, 2015 |

### (c) Dividends to be paid after the balance sheet date but the record date for the payment belongs to the year ended March 31, 2016

The following was approved by the general meeting of stockholders held on June 28, 2016.

| | |
|---|---|
| (a) Total dividends | ¥1,542 million ($13,685 thousand) |
| (b) Dividend source | Retained earnings |
| (c) Cash dividends per common share | ¥18 ($0.16) |
| (d) Record date | March 31, 2016 |
| (e) Effective date | June 29, 2016 |

## 10 Selling, General and Administrative Expenses

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

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2016** | 2015 | **2016** |
| Salaries | **¥ 24,764** | ¥ 23,033 | **$ 219,773** |
| Retirement benefit expenses | **1,858** | 1,729 | **16,489** |
| Depreciation | **2,338** | 2,646 | **20,749** |
| Legal welfare | **4,156** | 3,885 | **36,883** |
| Traveling | **2,948** | 3,045 | **26,163** |

## 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, 2016 and 2015 are ¥5,910 million ($52,449 thousand) and ¥5,746 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, 2016 and 2015 are as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2016** | 2015 | **2016** |
| Net unrealized gain (loss) on other securities: | | | |
| Arising during the year | **¥ (503)** | ¥ 2,072 | **$ (4,464)** |
| Reclassification adjustment | **–** | – | **–** |
| Before tax amount | **(503)** | 2,072 | **(4,464)** |
| Tax expense | **212** | (627) | **1,881** |
| Net-of-tax amount | **(291)** | 1,445 | **(2,583)** |
| Foreign currency translation adjustments: | | | |
| Arising during the year | **(512)** | 1,472 | **(4,544)** |
| Remeasurements of defined benefit plans | | | |
| Arising during the year | **(2,270)** | 452 | **(20,146)** |
| Reclassification adjustment | **(278)** | (177) | **(2,467)** |
| Before tax amount | **(2,548)** | 275 | **(22,613)** |
| Tax expense | **793** | (73) | **7,038** |
| Net-of-tax amount | **(1,755)** | 202 | **(15,575)** |
| Total other comprehensive income (loss) | **¥ (2,558)** | ¥ 3,119 | **$ (22,702)** |

## 13 Per Share Information

Net income per share and net assets per share have been calculated by assuming the two for one share split, which became effective on April 1, 2015, was executed at the beginning of the year ended March 31, 2015.

### (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, 2016 and 2015 are as follows:

| | Yen | | U.S. dollars |
|---|---|---|---|
| | **2016** | 2015 | **2016** |
| Basic net income per share | **¥ 120.12** | ¥ 126.83 | **$ 1.07** |

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2016** | 2015 | **2016** |
| Income attributable owners of parent | **¥ 10,517** | ¥ 11,143 | **$ 93,335** |
| Income not applicable to common stockholders | **–** | – | **–** |
| Income attributable owners of parent applicable to common stockholders | **¥ 10,517** | ¥ 11,143 | **$ 93,335** |

| | Number of shares (Thousands) | |
|---|---|---|
| | **2016** | 2015 |
| Weighted average number of shares outstanding on which basic net income per share is calculated | **87,551** | 87,859 |

### (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, 2016 and 2015 are as follows:

| | Yen | | U.S. dollars |
|---|---|---|---|
| | **2016** | 2015 | **2016** |
| Net assets per share | **¥1,140.25** | ¥1,129.57 | **$ 10.12** |

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2016** | 2015 | **2016** |
| Total net assets | **¥ 97,672** | ¥ 99,304 | **$ 866,809** |
| Amount deducted from total net assets: | | | |
| Non-controlling interests | **–** | 61 | **–** |
| Net assets applicable to common stockholders | **¥ 97,672** | ¥ 99,243 | **$ 866,809** |

| | Number of shares (Thousands) | |
|---|---|---|
| | **2016** | 2015 |
| Number of shares outstanding at end of year on which net assets per share is calculated | **85,658** | 87,859 |

## 14 Leases

The Company leases mainly certain vehicles under finance leases.

Future minimum payments required under noncancellable operating leases at March 31, 2016 and 2015 are as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2016** | 2015 | **2016** |
| Within one year | **¥ 49** | ¥ 49 | **$ 435** |
| Over one year | **7** | 24 | **62** |
| | **¥ 56** | ¥ 73 | **$ 497** |

## 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, 2016 and 2015 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 | | | Thousands of U.S. dollars | | |
|---|---|---|---|---|---|---|
| March 31, 2016 | Carrying value | Fair value | Differences | Carrying value | Fair value | Differences |
| (1) Cash | **¥ 16,422** | **¥ 16,422** | **¥ –** | **$ 145,740** | **$ 145,740** | **$ –** |
| (2) Trade notes and accounts receivable | **59,339** | **59,339** | **–** | **526,615** | **526,615** | **–** |
| (3) Short-term investments | **11,000** | **11,000** | **–** | **97,622** | **97,622** | **–** |
| (4) Investments in securities: | | | | | | |
| Other securities | **5,112** | **5,112** | **–** | **45,367** | **45,367** | **–** |
| (5) Trade notes and accounts payable | **29,727** | **29,727** | **–** | **263,818** | **263,818** | **–** |
| (6) Short-term debt | **1,175** | **1,175** | **–** | **10,428** | **10,428** | **–** |

| | Millions of yen | | |
|---|---|---|---|
| March 31, 2015 | Carrying value | Fair value | Differences |
| (1) Cash | ¥ 13,233 | ¥ 13,233 | ¥ – |
| (2) Trade notes and accounts receivable | 58,835 | 58,835 | – |
| (3) Short-term investments | 21,000 | 21,000 | – |
| (4) Investments in securities: | | | |
| Other securities | 5,610 | 5,610 | – |
| (5) Trade notes and accounts payable | 30,816 | 30,816 | – |
| (6) Short-term debt | 1,117 | 1,117 | – |

<1> Fair value measurement of financial instruments

Assets and liabilities:

(1) Cash, (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 | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2016** | 2015 | **2016** |
| Unlisted equity securities | **¥ 530** | ¥ 549 | **$ 4,704** |
| Investments in limited partnership and similar partnership | **507** | 527 | **4,499** |

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, 2016

| | 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 | **¥ 16,422** | ¥ – | ¥ – | ¥ – |
| (2) Trade notes and accounts receivable | **59,339** | – | – | – |
| (3) Short-term investments | **11,000** | – | – | – |

| | Thousands of U.S. dollars | | | |
|---|---|---|---|---|
| | Due within one year | Due after one year through five years | Due after five years through ten years | Due after ten years |
| (1) Cash | **$ 145,740** | $ – | $ – | $ – |
| (2) Trade notes and accounts receivable | **526,615** | – | – | – |
| (3) Short-term investments | **97,622** | – | – | – |

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

Please see note (5) Short-term and Long-term Debt.

## 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, 2016 and 2015.

### Related Information

### (a) Information by products and services

Sales by products and services for the years ended March 31, 2016 and 2015 are as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2016** | 2015 | **2016** |
| Physiological measuring equipment | **¥ 39,219** | ¥ 37,181 | **$ 348,056** |
| Patient monitors | **54,824** | 53,068 | **486,546** |
| Treatment equipment | **30,611** | 29,393 | **271,663** |
| Other | **40,868** | 41,161 | **362,691** |
| | **¥ 165,522** | ¥ 160,803 | **$ 1,468,956** |

### (b) Geographic information

(1) Geographical sales for the years ended March 31, 2016 and 2015 are as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2016** | 2015 | **2016** |
| Japan | **¥ 121,989** | ¥ 122,490 | **$ 1,082,614** |
| Americas | **19,456** | 16,423 | **172,666** |
| Europe | **8,084** | 7,495 | **71,743** |
| Asia | **13,878** | 12,582 | **123,163** |
| Other | **2,115** | 1,813 | **18,770** |
| | **¥ 165,522** | ¥ 160,803 | **$ 1,468,956** |

(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, 2016 and 2015.

### (c) Information by major customers

Because no particular third party whose sales are over 10% of sales in the consolidated statement of income exists, the information by major customers is not disclosed for the years ended March 31, 2016 and 2015.

### Information of impairment loss on fixed assets by reported segments

The information is not applicable for the years ended March 31, 2016 and 2015.

### Goodwill by reported segments

The information is not applicable for the years ended March 31, 2016 and 2015.

### Negative goodwill incurred by reported segments

The information is not applicable for the years ended March 31, 2016 and 2015.

# Independent Auditor's Report

March 31, 2016

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BDO Toyo & Co.
Kandamitoshirocho7,
Chiyoda-ku,Tokyo
101-0053 Japan

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, 2016, 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, 2016, and of its financial performance and its cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

Convenience Translation
Our audits also comprehended the translation of Japanese yen amounts into United States dollar amounts and, in our opinion, such translation has been made in conformity with the basis stated in Note 2 to the consolidated financial statements. Such United States dollar amounts are presented solely for the convenience of readers outside Japan.

BDO Toyo & Co

BDO Toyo & Co.
Tokyo, Japan
June 29, 2016

# Corporate Directory

As of June 25, 2016

## Board of Directors

**Chairman and CEO**
Fumio Suzuki

**President and COO**
Hirokazu Ogino

**Corporate Directors**
Hiroshi Aida
Yoshito Tsukahara
Takashi Tamura
Tadashi Hasegawa
Kazuteru Yanagihara
Fumio Hirose

**Outside Directors**
Masaya Yamauchi
Minoru Obara

**Corporate Director, Audit & Supervisory Committee Member**
Kazuhiko Ikuta

**Outside Directors, Audit & Supervisory Committee Members**
Masahiro Kawamura
Shigeru Kawatsuhara

**Operating Officers**
Eiichi Tanaka
Shigeru Hirata
Toshihiko Hiraoka
Yasuhiro Yoshitake
Yoshiaki Uematsu
Makoto Magara
Shuhei Morinaga
Kazuomi Shimoda
Masato Semba
Takashi Seo
Masahiko Kumakura
Naoyuki Muraki
Syuuichi Kurita

## Corporate Data

**Date of Incorporation**
August 7, 1951

**Paid-in Capital***
¥7,544 million

**Shares of Common Stock Issued***
89,730 thousand

**Number of Employees***
4,776 (group)
*As of March 31, 2016

**Head Office**
Shinjuku-ku, Tokyo 161-8560, Japan
Phone: +81 (3) 5996-8000 Fax: +81 (3) 5996-8085

**International Operations**
Nakano-ku, Tokyo 164-0003, Japan
Phone: +81 (3) 5996-8036 Fax: +81 (3) 5996-8100

**Web Site**
www.nihonkohden.com

## Subsidiaries*

### ● Japan

**Sales**
Nihon Kohden Hokkaido Corporation
Nihon Kohden Tohoku Corporation
Nihon Kohden Higashi Kanto Corporation
Nihon Kohden Kita Kanto Corporation
Nihon Kohden Tokyo Corporation
Nihon Kohden Minami Kanto Corporation
Nihon Kohden Chubu Corporation
Nihon Kohden Kansai Corporation
Nihon Kohden Chushikoku Corporation
Nihon Kohden Shikoku Corporation
Nihon Kohden Kyushu Corporation

**Production**
Nihon Kohden Tomioka Corporation

**Other**
Beneficks Corporation
Nippon Biotest Laboratories inc.
E-Staff Corporation

### ● International

**Sales**

**Americas**
Nihon Kohden America, Inc. (Irvine, CA, USA)
Nihon Kohden Mexico S.A. de C.V. (Mexico City, Mexico)
Nihon Kohden Latin America S.A.S (Bogota D.C., Colombia)
Nihon Kohden Do Brasil Ltda. (Sao Paulo-SP, Brasil)

**Europe**
Nihon Kohden Europe GmbH (Rosbach, Germany)
Nihon Kohden Deutschland GmbH (Rosbach, Germany)
Nihon Kohden France Sarl (Cachan, France)
Nihon Kohden Iberica S.L. (Madrid, Spain)
Nihon Kohden Italia S.r.l. (Bergamo, Italy)
Nihon Kohden UK Ltd. (Surrey, UK)

**Asia**
Nihon Kohden Singapore Pte Ltd (HarbourFront Centre, Singapore)
NKS Bangkok Co., Ltd. (Bangkok, Thailand)
Nihon Kohden Malaysia Sdn. Bhd. (Kuala Lumpur, Malaysia)
Nihon Kohden India Pvt. Ltd. (Gurgaon, Haryana, India)
Nihon Kohden Middle East FZE (Dubai, U.A.E)
Nihon Kohden Korea, Inc. (Seoul, Korea)

**R&D, Production and Sales**

**USA**
Defibtech, LLC (Guilford, CT, USA)

**China**
Shanghai Kohden Medical Electronic Instrument Corp. (Shanghai, China)

**R&D**

**USA**
NKUS Lab (Irvine, CA, USA)
Neurotronics, Inc. (Gainesville, FL, USA)
Nihon Kohden Innovation Center, Inc. (Cambridge, MA, USA)
OrangeMed, Inc. (Irvine, CA, USA)

**Production**

**Italy**
Nihon Kohden Firenze S.r.l. (Florence, Italy)

**India**
Span Nihon Kohden Diagnostics Pvt. Ltd. (Surat, Gujarat, India)

**Other**
RESUSCITATION SOLUTION, INC. (Wilmington, DE, USA)

* As of March 31, 2016

## Major Stockholders*

| Stockholders | No. of Shares (thousands) | Stockholding Ratio |
|---|---|---|
| State Street Bank and Trust Company 505223 | 9,459 | 10.54% |
| The Master Trust Bank of Japan, Ltd. (trust account) | 5,899 | 6.57% |
| STATE STREET BANK AND TRUST, BOSTON AS TRUSTEE FOR MAWER INVESTMENT MANAGEMENT LTD. | 4,476 | 4.98% |
| Saitama Resona Bank, Ltd. | 4,193 | 4.67% |
| Japan Trustee Service Bank, Ltd. (trust account 9) | 2,704 | 3.01% |
| Japan Trustee Service Bank, Ltd. (trust account) | 2,556 | 2.84% |
| THE BANK OF NEW YORK, NON-TREATY JASDEC ACCOUNT | 2,253 | 2.51% |
| Fujitsu Ltd. | 1,857 | 2.07% |
| The Bank of Tokyo-Mitsubishi UFJ, Ltd. | 1,325 | 1.47% |
| Nihon Kohden employee shareholding association | 1,251 | 1.39% |
| Subtotal | 35,977 | |
| Total Outstanding Issue | 89,730 | |

* As of March 31, 2016

Note: The above list excludes Nihon Kohden's treasury stock of 4,073 thousands shares (4.53%).

NIHON KOHDEN


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