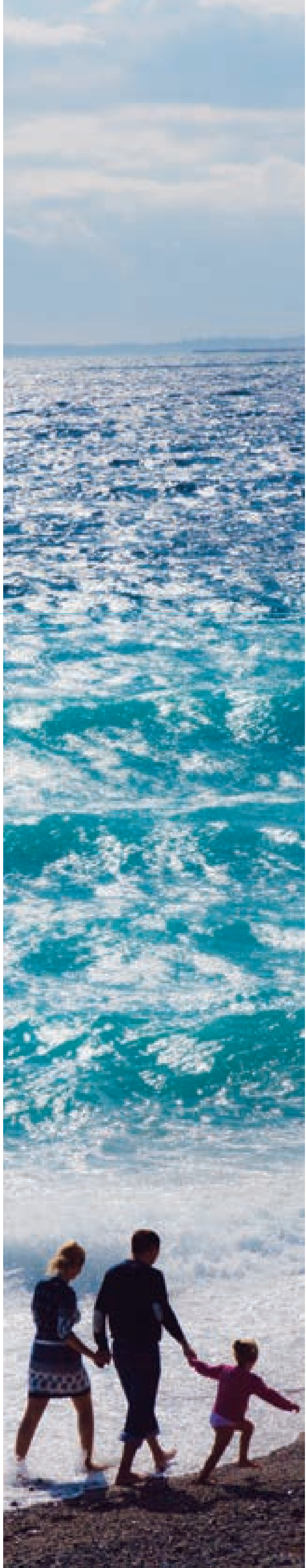


Annual Report

April 2013 – March 2014

Fighting Disease with Electronics

NIHON KOHDEN

Company Profile

Nihon Kohden is Japan's foremost manufacturer and provider of medical electronic equipment. We are the number one supplier to Japan and one of the leaders in the world.

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.

Nihon Kohden intends to continue growing as a global organization. In line with this aim, the Company has subsidiaries in the Americas, Europe and Asia, and distributors around the world. The Company is committed to a policy of building strategic business relationships with foreign manufacturers of high quality medical equipment and incorporating outstanding imported products in our product line.

Because safety and reliability is our top priority, export products are manufactured in ISO9001 and ISO13485 certified factories.

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 have received company-wide integrated ISO14001 certification of environment management system for our offices including our head office and all production factories in Japan.

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.

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

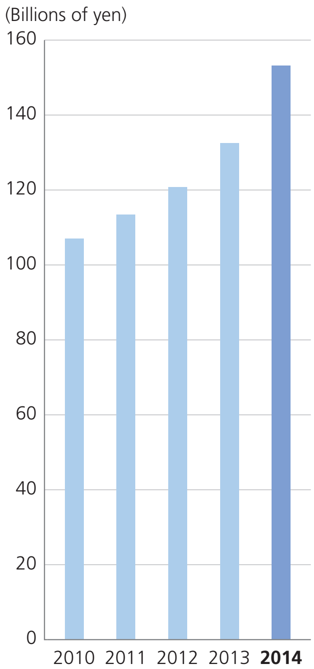
Consolidated Financial Highlights

Nihon Kohden Corporation and Consolidated Subsidiaries
Years ended March 31, 2014, 2013, 2012, 2011, and 2010

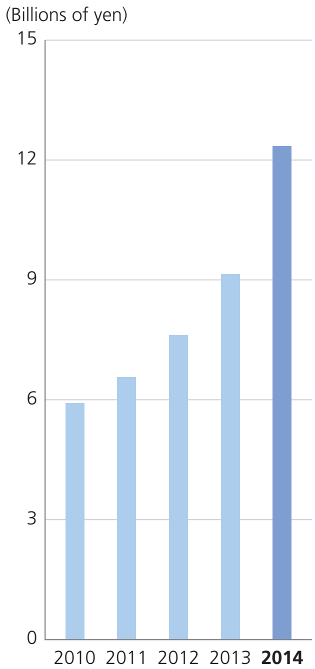
	Millions of yen					Thousands of U.S. dollars[1]
	2014	2013	2012	2011	2010	**2014**
Net sales	**¥153,194**	¥132,538	¥120,718	¥113,380	¥107,014	**$1,488,476**
Operating income	**17,548**	13,484	12,027	10,598	9,321	**170,501**
Income before income taxes and minority interests	**19,022**	14,525	12,181	10,293	9,148	**184,823**
Net income	**12,346**	9,152	7,622	6,573	5,917	**119,957**
Total assets	**130,918**	116,800	99,403	92,496	88,001	**1,272,037**
Net assets	**88,512**	76,256	67,911	62,294	57,949	**860,008**
Amounts per share[2]:	Yen					U.S. dollars
Net income-basic	**¥281.03**	¥208.31	¥173.49	¥149.62	¥134.68	**$2.73**
Cash dividends	**70.00**	52.00	44.00	44.00	37.00	**0.68**

Notes : (1) U.S. dollars amounts are translated from yen, for convenience only, at the rate of ¥102.92 = 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.

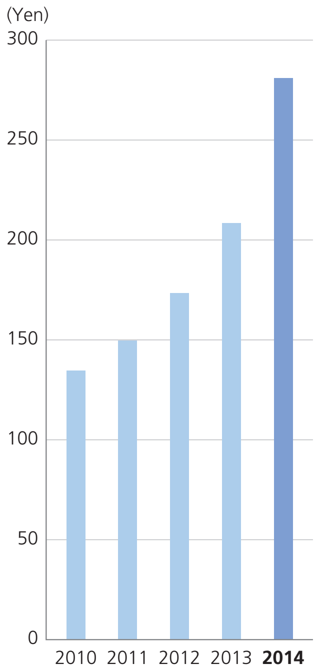
Net sales



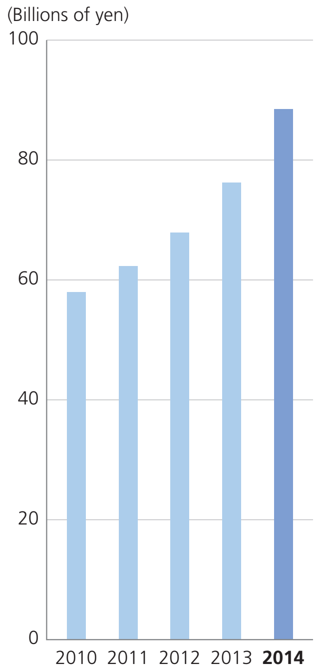
Net income



Net income per share



Net assets



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, we have enthusiastically continued our original mission of "fighting disease with electronics" and Nihon Kohden has continued to move forward as a top manufacturer of medical electronic equipment. In that period, with a particular eye toward the connection between human and machine, we have concentrated our efforts on developing human-machine interface technologies and turned them into practical reality in many excellent medical electronic products. Nihon Kohden developed the basis of SpO_2 which is indispensable in modern medicine. We have become the world's leading manufacturer of electroencephalographs and 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.

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.

As environmental issues are getting widespread international attention, Nihon Kohden aims to implement business operations that are gentle on the earth. To carry this out, we established an environmental policy in October 2000. Our major sites in Japan, including our head office in Tokyo and our main production facility at Tomioka, received ISO 14001 certification.

We have a strong product development capability in human-machine interface technologies such as sensors and biosignal processing. We believe that innovative technology development in this area will enable us to improve our competitive position and strengthen our presence. We are also enhancing our software technology and pursuing development of high quality and user-friendly products.

Product development is also based on our fundamental policy of making value-added products that are well received in the global market. To realize our ideal that everyone in the world can receive the highest level of medical care, we are expanding development, production and marketing of Nihon Kohden products throughout the world.

FY2013 was an overall positive year for us. In Japan, sales in the hospital and clinic market increased favorably, supported by robust demand. Internationally, sales in all areas showed positive growth supported by favorable currency impact and the acquisition of Defibtech. As a result, we recorded the highest revenue and income in the Company's history.

In April 2013, Nihon Kohden started its new 4-year business plan, Strong Growth 2017. This is the second stage in realizing the Company's long-term vision "The CHANGE 2020" which was set out in 2010 for the next ten years through to 2020.

Strong Growth 2017 target for the period ending March 2017 is sales of ¥170 billion, operating income of ¥18 billion, overseas sales ratio 28.5% and ROE of 13.0%. We got off to a good start in the first year of this plan.

We will continue to implement this plan to achieve sustained group growth and enhance our corporate value.

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

Kazuo Ogino
Chairman of the Board

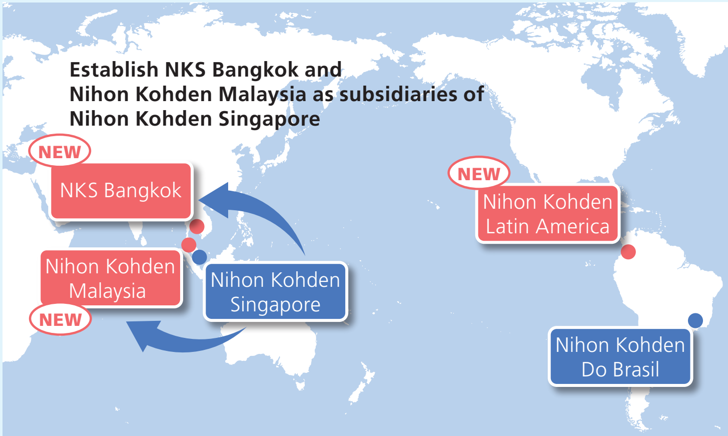
Fumio Suzuki
President and CEO

Topics

Nihon Kohden establishes sales subsidiaries in emerging markets

In the mid-term business plan, Strong Growth 2017, we will strengthen operations in emerging markets in which sustainable growth is expected.

In FY2013, we established new sales subsidiaries, NKS Bangkok Co., Ltd. in Thailand, Nihon Kohden Latin America S.A.S in Colombia, and Nihon Kohden Malaysia Sdn. Bhd. in Malaysia.



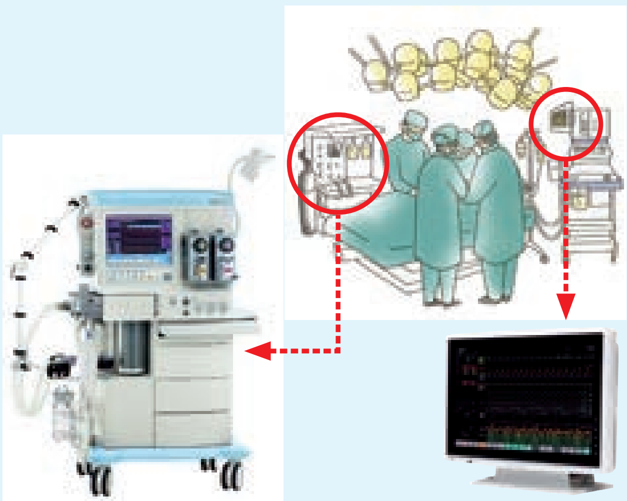
Until then sales activities had been conducted in these countries through local distributors. The new sales subsidiaries will perform sales and service operations with local distributors with the aim of providing tailored customer services.

Nihon Kohden enters business alliances with German and Japanese medical device companies in anesthesia business

In December 2013, Nihon Kohden entered a business alliance with Heinen + Löwenstein GmbH & Co. KG and Acoma Medical Industry Co., Ltd. to develop and distribute anesthesia machines.

It’s predicted that future perioperative systems will require closer linkage between patient monitors and anesthesia machines. To this end Nihon Kohden will introduce Heinen + Löwenstein anesthesia products into Japan. Heinen + Löwenstein products have already established a strong presence in Europe. Nihon Kohden will collaborate with Acoma to build a domestic sales and support system for Heinen + Löwenstein products.

In future, Nihon Kohden and Acoma will jointly develop new widely-used anesthesia machines and distribute them domestically and internationally, mainly in emerging countries.

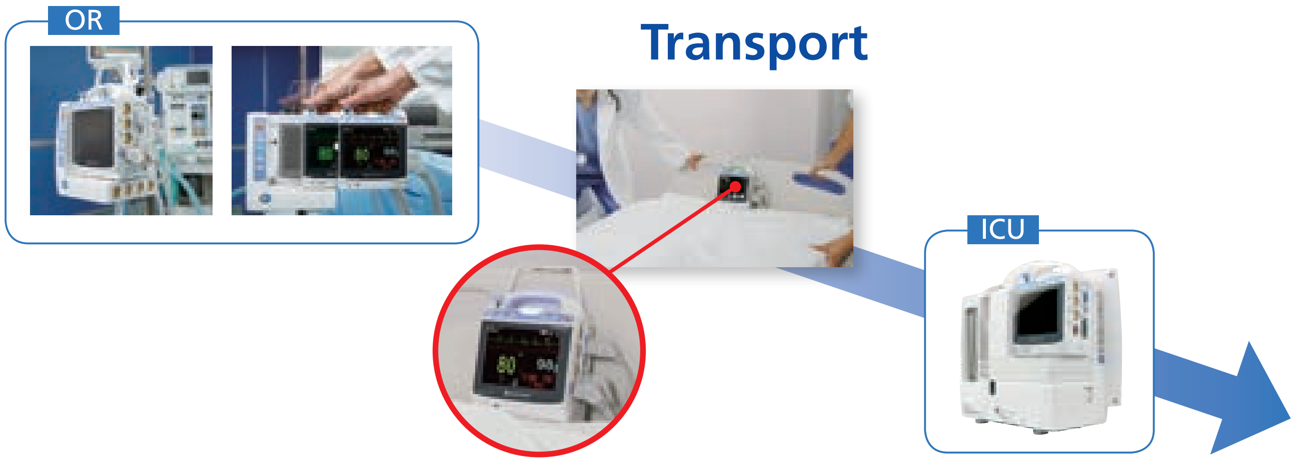


Nihon Kohden introduces new products in patient monitors

We have wide range lineup of products for all medical areas, including the ER, OR, ICU, and general ward. We recently introduced BSM-1700 and CSM-1901, which extend our patient monitors product lineup.

Transport monitor, BSM-1700

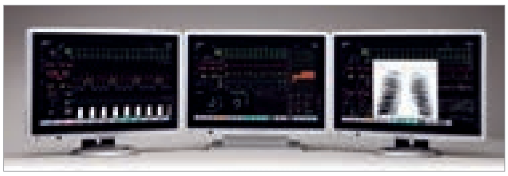
BSM-1700 is a compact and lightweight bedside monitor designed for transporting the patient in the hospital. To transport the patient, the monitor can be removed from the cradle with one action without any loss of data. BSM-1700 is easy to carry and it can be hooked onto a bedrail without a bed rail adapter. The 5.7-inch touchscreen clearly displays various parameters. BSM-1700 provides long time battery operation of 5 hours.



The most advanced bedside monitor, CSM-1901

CSM-1901 is a bedside monitor for critical care. It provides the required functions and the most appropriate information for the OR, ICU, and other sites in order to help diagnosis and treatment. In the OR, while the physician is watching the vital parameters, the anesthesiologist can review anesthetic parameters on the other screen. A heart-lung machine operator can see other vital information on a separate third screen.

Note: This product may not be available in certain countries.



At a Glance

Physiological Measuring Equipment


ECG-2350

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

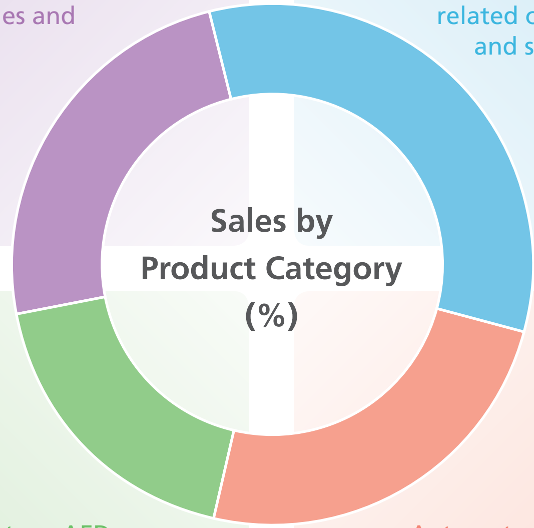
23.9%

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


PVM-2701

33.2%



18.5%


AED-2152

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

Treatment Equipment

24.4%

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


MEK-6500

Other Medical Equipment

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, 2013 to March 31, 2014), the Japanese government discussed revision of medical treatment fees scheduled for April 2014 and revision of Medical Care Law in order to differentiate medical institution functions, promote collaboration, and improve home care. This was in line with the government's 2025 future vision of medical/long-term care services which was presented in the Comprehensive Reform of Social Security and Taxes. The Japanese government also made legislative preparations to promote its growth strategy for the healthcare sector. Internationally, demand for medical equipment remained steady in the United States and emerging countries, while fiscal austerity created difficult market conditions in Europe.

Under these circumstances, the Company started its 4-year business plan, Strong Growth 2017, in April 2013 and implemented key strategies such as further growth in core business and strengthening business expansion by region.

The Company is continuing to introduce products that support medical safety and improve efficiency in Patient Monitors. New competitive products were launched since April 2013: a telemetry transmitter with a color display, a portable receiving terminal, a transport monitor, and the most advanced bedside monitor.

Nihon Kohden also strengthened its business structure in emerging markets. The Company established new sales subsidiaries, NKS Bangkok Co., Ltd. in Thailand, Nihon Kohden Latin America S.A.S in Colombia, and Nihon Kohden Malaysia Sdn. Bhd. in Malaysia.

As a result, overall sales during the term under review increased 15.6% over FY2012 to ¥153,194 million and operating income increased 30.1% to ¥17,548 million. As foreign exchange gains were recorded, net income increased 34.9% to ¥12,346 million.

Strong Growth 2017 Target for FY2016 (ending March 2017)

	FY2012 Actual		FY2016 Target
Sales	¥132.5 billion	▶	**¥170.0 billion**
Domestic	¥110.2 billion	▶	**¥121.5 billion**
Overseas	¥22.3 billion	▶	**¥48.5 billion**
Operating Income	¥13.4 billion	▶	**¥18.0 billion**
ROE	12.7%	▶	**13.0%**

Management's Discussion and Analysis

Sales

In the term under review, sales increased ¥20,656 million, or 15.6%, to ¥153,194 million.

Sales by Product Category

Physiological Measuring Equipment: In Japan, sales of EEGs and ECGs remained at the same level as the previous fiscal year. Sales of polygraphs for cath lab and diagnostic information systems increased. Internationally, sales of EEGs and ECGs increased in all areas. Overall, sales increased 8.2% over the previous fiscal year to ¥36,654 million.

Patient Monitors: In Japan, sales of bedside monitors and transmitters increased, driven by new product introductions. Consumable sales such as sensors also increased robustly. Outside Japan, sales in the Americas and Asia showed strong growth, while sales in Europe decreased. Overall, sales increased 16.5% over the previous fiscal year to ¥50,865 million.

Treatment Equipment: In Japan, AED sales showed strong growth as a wide range of models and the Company's AED Remote Monitoring System, which supports the customers' daily check, have been well received. Sales of pacemakers and ICDs also increased. Internationally, sales of defibrillators and AEDs increased in all areas. Sales of defibrillators increased strongly due to large orders from Iraq. The acquisition of Defibtech contributed to sales growth of AEDs. Overall, sales increased 31.5% over the previous fiscal year to ¥28,402 million.

Other Medical Equipment: In Japan, sales of hematology instruments increased as new models were introduced. Sales of locally purchased products also increased. Internationally, sales of hematology analyzers increased in all areas. Overall, sales increased 11.6% over the previous fiscal year to ¥37,273 million.

Sales by Region

Japan: Sales in the hospital and clinic market remained favorable and AED sales increased in the PAD market. This resulted in increased sales of all product categories. Robust demand in the university and public hospital market supported strong sales of Patient Monitors. New product introductions also contributed. As a result, domestic sales increased 9.3% over FY2012 to ¥120,464 million.

International: Sales in all areas and all product categories showed positive growth supported by favorable currency impact and the acquisition of Defibtech. In the Americas, sales in the U.S. and Latin America showed strong growth. Comparable sales in Europe increased as demands in South Europe recovered gradually, although sales in Russia and Turkey declined. In Asia, sales in India and Middle East showed strong growth as the Company strengthened its local business structure. Comparable sales in China increased as a reflection of cooler Japan-China relations was gradually mitigated. As a result, international sales increased 46.6% over FY2012 to ¥32,730 million.

Cost of Sales, SGA Expenses and Operating Income

In the term under review, sales costs were ¥76,577 million. Gross profit ratio remained at the same level of the previous fiscal year, 50.0%. Gross profit on sales increased ¥10,297 million, or 15.5%, to ¥76,617 million.

Selling, general, and administrative expenses increased due to a planned increase in R&D and sales force. The ratio of SGA expenses to sales declined 130 basis points to 38.5%. Research and development costs were ¥7,109 million (4.6% of sales).

As a result, operating income increased ¥4,064 million, or 30.1% to ¥17,548 million.

Other Income and Expenses, Net Income

Net other income increased ¥433 million to ¥1,474 million, mainly due to foreign exchange gains.

Income before income tax and minority interests increased ¥4,497 million to ¥19,022 million.

Net income increased ¥3,194 million to ¥12,346 million from ¥9,152 million in the previous fiscal year. Net income per share was ¥281.03.

Cash Flows

Net cash provided by operating activities during the year under review decreased ¥3,806 million to ¥9,383 million. It includes ¥19,022 million of income before income taxes and minority interests, ¥8,117 million of increase in trade notes and account receivable, and ¥6,661 million of income taxes paid.

Net cash used in investing activities decreased ¥2,539 million to ¥4,421 million. We used ¥3,778 million for capital expenditures and ¥722 million for purchase of intangible assets.

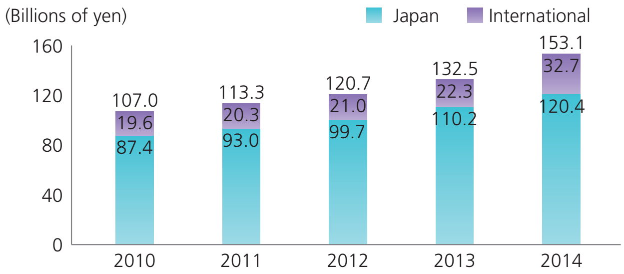
As a result of these factors, free cash flow amounted to ¥4,962 million.

Net cash used in financing activities increased ¥2,261 million to ¥3,436 million. We paid ¥2,628 million for stockholders dividends and decreased short-term borrowings by ¥766 million.

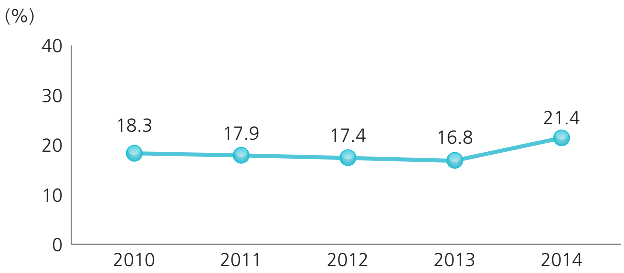
As a result, cash and cash equivalents as of March 31, 2014 increased ¥2,125 million to ¥28,809 million.

Years ended March 31

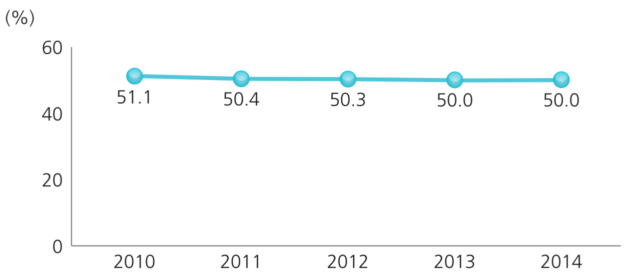
Net Sales by Region



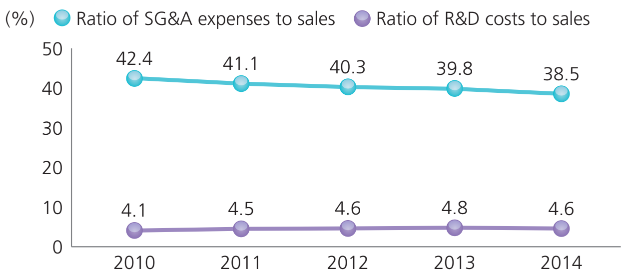
Percentage of International Sales



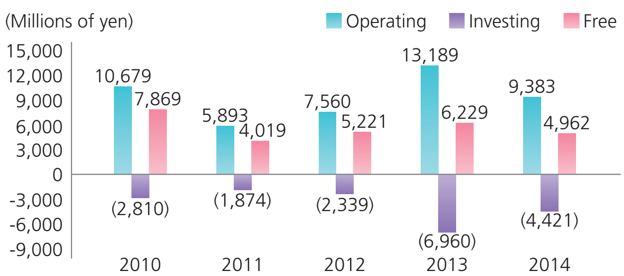
Gross Profit Ratio



SG&A Expenses/R&D Costs to Net Sales



Cash Flows



Nihon Kohden Corporation and Consolidated Subsidiaries

Consolidated Balance Sheet

March 31, 2014

Assets	Millions of yen		Thousands of U.S. dollars (note 2)
	2014	2013	2014
Current assets:			
Cash (note 3)	¥ 13,883	¥ 11,743	$ 134,891
Trade notes and accounts receivable	54,456	46,044	529,110
Short-term investments (note 4)	15,010	15,000	145,841
Inventories	17,265	17,102	167,752
Deferred income taxes (note 7)	4,537	4,341	44,083
Other current assets	1,606	1,264	15,604
Less allowance for doubtful receivables	242	313	2,351
Total current assets	106,515	95,181	1,034,930
Property, plant and equipment, net of accumulated depreciation; ¥24,520 million ($238,243 thousand) in 2014 and ¥23,109 million in 2013:			
Buildings and structures	3,521	2,996	34,211
Machinery, equipment and vehicles	570	629	5,538
Tools, furniture and fixtures	2,739	2,260	26,613
Land	3,222	2,573	31,306
Leased assets	54	55	525
Construction in progress	508	367	4,936
Net property, plant and equipment	10,614	8,880	103,129
Intangible assets, net:			
Goodwill	2,353	2,251	22,862
Other intangible assets	4,301	4,226	41,790
Total intangible assets	6,654	6,477	64,652
Investments and other assets:			
Investments in securities (note 4)	4,526	3,466	43,976
Deferred income taxes (note 7)	1,448	1,691	14,069
Other investments and other assets	1,213	1,157	11,786
Less allowance for doubtful receivables	52	52	505
Total investments and other assets	7,135	6,262	69,326
Total assets	¥130,918	¥116,800	$1,272,037

See accompanying notes to consolidated financial statements.

Liabilities and Net Assets	Millions of yen		Thousands of U.S. dollars (note 2)
	2014	2013	**2014**
Current liabilities:			
Trade notes and accounts payable	**¥ 25,996**	¥ 24,424	**$ 252,584**
Short-term debt and current installments of long-term debt (note 5)	**992**	1,589	**9,639**
Other payables	**2,430**	2,005	**23,611**
Accrued income taxes (note 7)	**3,975**	3,848	**38,622**
Accrued expenses	**2,936**	2,792	**28,527**
Accrued bonuses	**3,079**	2,822	**29,916**
Other current liabilities (note 5)	**1,841**	1,548	**17,888**
Total current liabilities	**41,249**	39,028	**400,787**
Non-current liabilities:			
Long-term debt (note 5)	**0**	1	**0**
Liabilities for retirement benefits (note 6)	**701**	1,122	**6,811**
Deferred income taxes (note 7)	**61**	25	**593**
Other non-current liabilities (note 5)	**395**	368	**3,838**
Total non-current liabilities	**1,157**	1,516	**11,242**
Total liabilities	**42,406**	40,544	**412,029**
Stockholders' equity:			
Common stock (note 8): Authorized 98,986,000 shares; issued 45,765,490 shares in 2014 and 2013	**7,545**	7,545	**73,309**
Additional paid-in capital (note 8)	**10,487**	10,487	**101,895**
Retained earnings (note 9)	**69,654**	59,944	**676,778**
Treasury stock, at cost; 1,835,266 shares in 2014 and 1,834,225 shares in 2013	**(2,027)**	(2,023)	**(19,695)**
Total stockholders' equity	**85,659**	75,953	**832,287**
Accumulated other comprehensive income (loss):			
Net unrealized gain on other securities (note 4)	**882**	459	**8,570**
Foreign currency translation adjustments	**1,603**	(203)	**15,575**
Remeasurements of defined benefit plans	**308**	–	**2,993**
Total accumulated other comprehensive income (loss)	**2,793**	256	**27,138**
Minority interests	**60**	47	**583**
Total net assets	**88,512**	76,256	**860,008**
Commitments and contingencies			
Total liabilities and net assets	**¥130,918**	¥116,800	**$1,272,037**

Consolidated Statement of Income

March 31, 2014

	Millions of yen		Thousands of U.S. dollars (note 2)
	2014	2013	2014
Net sales	¥153,194	¥132,538	$1,488,476
Cost of sales (note 11)	76,577	66,218	744,044
Gross profit	76,617	66,320	744,432
Selling, general and administrative expenses (notes 10 and 11)	59,069	52,836	573,931
Operating income	17,548	13,484	170,501
Other income (deductions):			
Interest income	45	47	437
Dividend income	96	88	933
Interest expenses	(48)	(23)	(466)
Foreign exchange gains	782	635	7,598
Subsidy income	228	88	2,215
Gain on sale of investments in securities (note 4)	36	1	350
Loss on devaluation of investments in securities	–	(34)	–
Loss on sale/disposal of property, plant and equipment	(12)	(39)	(117)
Impairment loss	–	(61)	–
Other, net	347	339	3,372
	1,474	1,041	14,322
Income before income taxes and minority interests	19,022	14,525	184,823
Income taxes (note 7):			
Current	6,732	6,056	65,410
Deferred	(78)	(688)	(758)
	6,654	5,368	64,652
Income before minority interests	12,368	9,157	120,171
Minority interests	22	5	214
Net income	¥ 12,346	¥ 9,152	$ 119,957

See accompanying notes to consolidated financial statements.

Consolidated Statement of Comprehensive Income

March 31, 2014

	Millions of yen		Thousands of U.S. dollars (note 2)
	2014	2013	2014
Income before minority interests	¥12,368	¥ 9,157	$120,171
Other comprehensive income arising during the year (note 12):			
Net unrealized gain on other securities	423	413	4,110
Foreign currency translation adjustments	1,803	759	17,518
Total other comprehensive income arising during the year	2,226	1,172	21,628
Comprehensive income	¥14,594	¥10,329	$141,799
Comprehensive income attributable to:			
Owners of the parent	¥14,575	¥10,318	$141,615
Minority interests	19	11	184

See accompanying notes to consolidated financial statements.

Consolidated Statement of Changes in Net Assets

March 31, 2014

	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	Remeasurement of defined benefit plans	Total	Minority interests	Total net assets
Balance at March 31, 2012	¥7,545	¥10,487	¥52,769	¥(2,021)	¥68,780	¥ 45	¥ (955)	¥ –	¥ (910)	¥41	¥67,911
Changes arising during year:											
Cash dividends			(1,977)		(1,977)						(1,977)
Net income			9,152		9,152						9,152
Purchase of treasury stock				(2)	(2)						(2)
Disposition of treasury stock		0		0	0						0
Other			0		0						0
Net changes other than stockholders' equity						414	752		1,166	6	1,172
Total changes during the year	–	0	7,175	(2)	7,173	414	752	–	1,166	6	8,345
Balance at March 31, 2013	7,545	10,487	59,944	(2,023)	75,953	459	(203)	–	256	47	76,256
Changes arising during year:											
Cash dividends			(2,636)		(2,636)						(2,636)
Net income			12,346		12,346						12,346
Purchase of treasury stock				(4)	(4)						(4)
Disposition of treasury stock		0		0	0						0
Net changes other than stockholders' equity						423	1,806	308	2,537	13	2,550
Total changes during the year	–	0	9,710	(4)	9,706	423	1,806	308	2,537	13	12,256
Balance at March 31, 2014	¥7,545	¥10,487	¥69,654	¥(2,027)	¥85,659	¥882	¥1,603	¥308	¥2,793	¥60	¥88,512

	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	Remeasurement of defined benefit plans	Total	Minority interests	Total net assets
Balance at March 31, 2013	$73,309	$101,895	$582,433	$(19,656)	$737,981	$4,460	$ (1,973)	$ –	$ 2,487	$457	$740,925
Changes arising during year:											
Cash dividends			(25,612)		(25,612)						(25,612)
Net income			119,957		119,957						119,957
Purchase of treasury stock				(39)	(39)						(39)
Disposition of treasury stock		0		0	0						0
Net changes other than stockholders' equity						4,110	17,548	2,993	24,651	126	24,777
Total changes during the year	–	0	94,345	(39)	94,306	4,110	17,548	2,993	24,651	126	119,083
Balance at March 31, 2014	$73,309	$101,895	$676,778	$(19,695)	$832,287	$8,570	$15,575	$2,993	$27,138	$583	$860,008

See accompanying notes to consolidated financial statements.

Nihon Kohden Corporation and Consolidated Subsidiaries

Consolidated Statement of Cash Flows

March 31, 2014

	Millions of yen		Thousands of U.S. dollars (note 2)
	2014	2013	**2014**
Cash flows from operating activities:			
Income before income taxes and minority interests	**¥19,022**	¥14,525	**$184,823**
Adjustments to reconcile income before income taxes and minority interests to net cash provided by operating activities:			
Depreciation and amortization	**3,241**	2,910	**31,490**
Impairment loss	**–**	61	**–**
Loss on sale/disposal of property, plant and equipment	**12**	39	**117**
Decrease in allowance for doubtful account	**(71)**	(63)	**(690)**
Increase in accrued bonuses	**257**	362	**2,497**
Increase in liabilities for retirement and severance benefits	**57**	716	**554**
Interest and dividend income	**(142)**	(135)	**(1,380)**
Interest expenses	**48**	23	**466**
(Gain) loss on valuation of investments in securities	**(114)**	51	**(1,108)**
Increase in trade notes and accounts receivable	**(8,117)**	(3,269)	**(78,867)**
Increase in inventories	**(162)**	(2,856)	**(1,574)**
Increase in trade notes and accounts payable	**1,572**	4,190	**15,274**
Other, net	**347**	885	**3,372**
Sub total	**15,950**	17,439	**154,974**
Interest and dividend received	**142**	134	**1,380**
Interest paid	**(48)**	(16)	**(466)**
Income taxes paid	**(6,661)**	(4,368)	**(64,720)**
Net cash provided by operating activities	**9,383**	13,189	**91,168**
Cash flows from investing activities:			
Proceeds from sale of investments in securities	**118**	132	**1,147**
Purchase of investments in securities	**(108)**	(449)	**(1,050)**
Capital expenditures	**(3,778)**	(2,131)	**(36,708)**
Purchase of intangible assets	**(722)**	(539)	**(7,015)**
Payment for acquisition of subsidiaries resulting in a change in the scope of consolidation	**–**	(3,981)	**–**
Other, net	**69**	8	**670**
Net cash used in investing activities	**(4,421)**	(6,960)	**(42,956)**
Cash flows from financing activities:			
Increase (decrease) in short-term debt	**(766)**	841	**(7,443)**
Payments on long-term debt	**(0)**	(6)	**(0)**
Dividends paid to stockholders	**(2,628)**	(1,975)	**(25,534)**
Dividends paid to minority stockholders of subsidiaries	**(6)**	(5)	**(58)**
Purchase of treasury stock	**(4)**	(3)	**(39)**
Other, net	**(32)**	(27)	**(311)**
Net cash used in financing activities	**(3,436)**	(1,175)	**(33,385)**
Effect of exchange rate changes on cash and cash equivalents	**599**	325	**5,820**
Net increase in cash and cash equivalents	**2,125**	5,379	**20,647**
Cash and cash equivalents at beginning of year	**26,684**	21,305	**259,269**
Cash and cash equivalents at end of year (note 3)	**¥28,809**	¥26,684	**$279,916**

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

March 31, 2014

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 35 subsidiaries.

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

Investments in affiliates are accounted for by the equity method.

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 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	4-50 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.

Liability 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 Company applied "Accounting Standard for Retirement Benefits" (ASBJ Standard No. 26 on May 17, 2012) and "Guidance on Accounting Standard for Retirement Benefits" (ASBJ Guidance No. 25 on May 17, 2012) (except for certain provisions described in Section 35 of the standard and in Section 67 of the guidance) from this current fiscal year. The Company has recorded the amount of retirement benefit obligations after deducting pension plan assets as liabilities for retirement benefits, and unrecognized actuarial differences are recorded as liabilities for retirement benefits.

Concerning the application of the Accounting Standard for Retirement Benefit, based on the provisional treatment set out Section 37 of the accounting standards, the effects of such changes in the current fiscal year have been adjusted in remeasurements of defined benefit plans through accumulated other comprehensive income.

As a result, the Company recorded liability for retirement benefits of ¥701 million ($6,811 thousand) at March 31, 2014. And accumulated other comprehensive income increased by ¥308 million ($2,993 thousand). The impact on the net income per share is shown in note (13) Per Share Information.

(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.

Finance leases transactions without title transfer which commenced prior to April 1, 2008 continue to be accounted for as operating leases with disclosure of certain "as if capitalized" information.

(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 as of 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 as of the balance sheet date and revenues and expenses into yen at the 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 loss and "Minority interests".

(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) Accounting standards issued but not yet applied

Accounting standard for retirement benefits

On May 17, 2012, the ASBJ issued ASBJ Statement No. 26, "Accounting Standard for Retirement Benefits" and ASBJ Guidance No. 25, "Guidance on Accounting Standard for Retirement Benefits" which replaced the Accounting Standard for Retirement Benefits that had been issued by the Business Accounting Council in 1998 and the other related guidance.

The Company expects to apply the revised accounting standard regarding the amendment of the calculation method for present value of defined benefit obligations and current service costs from the beginning of the fiscal year ending March 31, 2015.

The Company is in the process of measuring the effects of applying the accounting standards.

(o) 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, 2014.

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, 2014, which was ¥102.92 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, 2014 and 2013 is follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Cash	¥ 13,883	¥ 11,743	$ 134,891
Short-term investments that have maturities of three months or less	15,010	15,000	145,841
Time deposits with maturities of over three months	(74)	(59)	(719)
Short-term investments other than certificate of deposit	(10)	–	(97)
Cash and cash equivalents	¥ 28,809	¥ 26,684	$ 279,916

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 as of March 31, 2014 and 2013 are summarized as follows:

	Millions of yen			
	Balance sheet amount	Gross unrealized gain	Gross unrealized loss	Acquisition cost
March 31, 2014				
Equity securities	¥ 3,619	¥ 1,235	¥ (14)	¥ 2,398
Bond securities	10	0	–	10
	¥ 3,629	¥ 1,235	¥ (14)	¥ 2,408
March 31, 2013				
Equity securities	¥ 3,037	¥ 661	¥ (20)	¥ 2,396
Bond securities	10	0	–	10
	¥ 3,047	¥ 661	¥ (20)	¥ 2,406

	Thousands of U.S. dollars			
	Balance sheet amount	Gross unrealized gain	Gross unrealized loss	Acquisition cost
March 31, 2014				
Equity securities	$ 35,163	$ 11,999	$ (136)	$ 23,300
Bond securities	97	0	–	97
	$ 35,260	$ 11,999	$ (136)	$ 23,397

For the years ended March 31, 2014 and 2013, proceeds from the sale of other securities are ¥36 million ($350 thousand) and ¥30 million, respectively. For the years ended March 31, 2014 and 2013, gross realized gains are ¥36 million ($350 thousand) and ¥1 million, respectively. For the both years ended March 31, 2014 and 2013, gross realized losses are nil.

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 3.9% and 2.2% at March 31, 2014 and 2013, respectively.

Long-term borrowings as of March 31, 2014 and 2013 is summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Loans from banks, unsecured, maturing in installments through 2015; bearing weighted average interest of 1.0 % at March 31, 2014 and 0.9% at March 31, 2013	¥ 1	¥ 1	$ 10
Less current installments	1	0	10
	¥ 0	¥ 1	$ 0

Lease liabilities as of March 31, 2014 and 2013 is summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Lease liabilities maturing in installments through 2019	¥ 50	¥ 51	$ 486
Less current installments	18	23	175
	¥ 32	¥ 28	$ 311

The aggregate annual maturities of long-term borrowings after March 31, 2015 are as follows:

	Millions of yen	Thousands of U.S. dollars
Year ending March 31:		
2016	¥ 0	$ 0
2017	–	–
2018	–	–
2019	–	–

The aggregate annual maturities of lease liabilities after March 31, 2015 are as follows:

	Millions of yen	Thousands of U.S. dollars
Year ending March 31:		
2016	¥ 16	$ 156
2017	9	87
2018	7	68
2019	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

March 31, 2014

The Company and consolidated subsidiaries have defined benefit and defined contribution retirement and pension plans.

Under the defined benefit corporate pension plans (all of them are funded), 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.

Followings are the information for the Company's and the consolidated subsidiaries' defined benefit plans at March 31, 2014 and for the year then ended.

(1) Reconciliation of changes in retirement benefit obligation

	Millions of yen	Thousands of U.S. dollars
Retirement benefit obligation at beginning of year	¥ 16,103	$ 156,461
Service cost	999	9,707
Interest cost	242	2,351
Actuarial gains and losses	466	4,528
Benefits paid	(742)	(7,209)
Retirement benefit obligation at end of year	¥ 17,068	$ 165,838

(2) Reconciliation of changes in plan assets

	Millions of yen	Thousands of U.S. dollars
Plan assets at beginning of year	¥ 15,099	$ 146,706
Expected return on plan assets	226	2,196
Actuarial gains and losses	870	8,453
Employer contributions	914	8,881
Benefits paid	(742)	(7,209)
Plan assets at end of year	¥ 16,367	$ 159,027

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

	Millions of yen	Thousands of U.S. dollars
Funded retirement benefit obligation	¥ 17,068	$ 165,838
Plan assets	(16,367)	(159,027)
	701	6,811
Unfunded retirement benefit obligation	–	–
Net liability for retirement benefits recognized in consolidated balance sheet	¥ 701	$ 6,811

	Millions of yen	Thousands of U.S. dollars
Liability for retirement benefits	¥ 701	$ 6,811
Asset for retirement benefits	–	–
Net liability for retirement benefits recognized in consolidated balance sheet	¥ 701	$ 6,811

(4) The components of retirement benefit expenses

	Millions of yen	Thousands of U.S. dollars
Service cost	¥ 999	$ 9,707
Interest cost	242	2,351
Expected return on plan assets	(226)	(2,196)
Amortization of actuarial gain or loss	(44)	(427)
Retirement benefit expenses	¥ 971	$ 9,435

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

	Millions of yen	Thousands of U.S. dollars
Unrecognized actuarial loss	¥ (478)	$ (4,644)
Total	¥ (478)	$ (4,644)

(6) Plan assets

(a) Percentage by major category of plan assets

Debt securities	21.2%
Equity securities	28.8
Short-term investments	20.2
General account	28.6
Other	1.2
Total	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.

(7) Basis for calculation of actuarial assumptions

The assumptions used in accounting for the above plans at March 31, 2014 are as follows:

(a) Discount rate 1.5%

(b) Long-term expected rate of return 1.5%

The amount to be paid by the consolidated subsidiaries to the defined contribution plans was ¥67 million ($651 thousand) for the year ended March 31, 2014.

March 31, 2013

The Company and its domestic subsidiaries have defined benefit retirement and pension plans, which consist of a contributory benefit plan provided under the Welfare Pension Insurance Law of Japan and a defined benefit corporation pension plan. The welfare pension plan consisted of two tiers, the substitution portion of Japanese Welfare Pension Insurance and the corporate portion which was established at the discretion of the Pension Fund of Japan Electronics Information Technology Industry as an industry-wide multi-employer noncontributory plan. Certain foreign subsidiaries have defined contribution pension plans.

The funded status of the pension plans at March 31, 2013 was outlined as follows:

	Millions of yen
Projected benefit obligation	¥ (16,103)
Unrecognized actuarial gain	(118)
Plan assets at fair value	15,099
Amount recognized in the consolidated balance sheet	(1,122)
Liability for retirement benefits	¥ (1,122)

Net periodic pension cost for the year ended March 31, 2013 consisted of the following components:

	Millions of yen
Service cost	¥ 975
Interest cost	228
Expected return on plan assets	(198)
Amortization of actuarial loss	590
Net periodic pension cost	¥ 1,595

Note: For the year ended March 31, 2013, the amount of "Service cost" excludes contributions to the welfare pension fund of ¥753 million.

Significant assumptions of pension plans used to determine these amounts in fiscal 2013 were as follows:

Periodic allocation method for projected benefit	Straight-line
Discount rate	1.5%
Expected rate of return on plan assets	1.5%
Period for amortization of unrecognized actuarial loss/gain *	5 years

* Amortized on a declining-balance method over certain period within the average remaining period of employees

Funded status of the whole welfare pension plan under multi-employer pension plan at March 31, 2013 and 2012 is outlined as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Plan assets at fair value - (1)	¥ 213,152	¥ 191,384	**$ 2,071,046**
Benefit obligation under pension funding programs - (2)	248,261	230,273	**2,412,175**
(1) - (2)*	¥ (35,109)	¥ (38,889)	**$ (341,129)**

The Company's proportion of the salaries to the whole of welfare pension plan at March 31, 2014 and 2013 was 8.4% and 8.1%, 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, 2013 and 2012 was unrecognized prior service cost of the pension program of ¥33,124 million (321,842 thousand) and ¥35,530 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 which, in the aggregate, result in a statutory tax rate of approximately 38.0% in both 2014 and 2013.

A reconciliation of the statutory tax rate and the effective tax rate as a percentage of income before income taxes and minority interests for the years ended March 31, 2014 and 2013 is follows:

	2014	2013
Statutory tax rate	38.0%	38.0%
Change in valuation allowance	(1.7)	0.1
Expenses not deductible for tax purposes	0.5	0.6
Income not credited for tax purposes	(0.1)	(0.1)
Per capita tax	0.5	0.8
Difference in statutory tax rates of subsidiaries	(0.8)	0.3
Tax credits primarily for research and development costs	(3.8)	(3.8)
Change in tax rates	1.0	–
Other	1.4	1.1
Effective tax rate	35.0%	37.0%

Significant components of deferred tax assets and liabilities at March 31, 2014 and 2013 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Deferred tax assets:			
Valuation loss for inventories	¥ 905	¥ 731	$ 8,793
Accrued business tax	318	318	3,090
Accrued bonuses	1,087	1,067	10,562
Liabilities for retirement benefits	261	433	2,536
Accrued warranty expenses	129	166	1,253
Allowance for doubtful receivables	76	90	738
Depreciation and amortization	1,908	1,669	18,539
Intercompany profits on inventories, and property, plant and equipment	1,223	1,182	11,883
Intangible assets	1,461	1,287	14,196
Other	867	849	8,424
	8,235	7,792	80,014
Valuation allowance	(572)	(909)	(5,558)
	7,663	6,883	74,456
Deferred tax liabilities:			
Net unrealized gain on other securities	(470)	(253)	(4,567)
Asset retirement obligations	(20)	(20)	(194)
Valuation difference	(669)	(586)	(6,500)
Other	(580)	(17)	(5,636)
	(1,739)	(876)	(16,897)
Net deferred tax assets	¥ 5,924	¥ 6,007	$ 57,559

Net deferred tax assets and liabilities as of March 31, 2014 and 2013 are reflected in the accompanying consolidated balance sheet under the following captions:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Current assets - Deferred income taxes	¥ 4,537	¥ 4,341	$ 44,083
Investments and other assets - Deferred income taxes	1,448	1,691	14,069
Non-current liabilities - Deferred income taxes	(61)	(25)	(593)
Net deferred tax assets	¥ 5,924	¥ 6,007	$ 57,559

Following the promulgation of the law "Partial Amendment of the Income Tax Act, etc." (Act No. 10 of 2014) on March 31, 2014, special reconstruction corporation tax will not be imposed from the consolidated fiscal years beginning on or after April 1, 2014. Accordingly, the effective tax rate applied to the calculation of deferred tax assets and liabilities for temporary differences expected to be resolved in the consolidated fiscal year beginning on or after April 1, 2014, were lowered from 38.0% in the prior fiscal year to 35.6%.

As a result, the amount of deferred tax assets (the amount after offsetting deferred tax liabilities) decreased by ¥191 million ($1,856 thousand) and income tax-deferred for the current year increased by same amount.

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, 2014 and 2013 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, 2013

The following was approved by the general meeting of stockholders held on June 27, 2012.

(a) Total dividends	¥1,010 million
(b) Cash dividends per common share	¥23
(c) Record date	March 31, 2012
(d) Effective date	June 28, 2012

The following was approved by the Board of Directors held on November 2, 2012.

(a) Total dividends	¥967 million
(b) Cash dividends per common share	¥22
(c) Record date	September 30, 2012
(d) Effective date	November 29, 2012

(b) Dividends paid during the year ended March 31, 2014

The following was approved by the general meeting of stockholders held on June 26, 2013.

(a) Total dividends	¥1,318 million ($12,806 thousand)
(b) Cash dividends per common share	¥30 ($0.29)
(c) Record date	March 31, 2013
(d) Effective date	June 27, 2013

The following was approved by the Board of Directors held on November 1, 2013.

(a) Total dividends	¥1,318 million ($12,806 thousand)
(b) Cash dividends per common share	¥30 ($0.29)
(c) Record date	September 30, 2013
(d) Effective date	November 28, 2013

(c) Dividends to be paid after the balance sheet date but the record date for the payment belongs to the year ended March 31, 2014

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

(a) Total dividends	¥1,757 million ($17,072 thousand)
(b) Dividend source	Retained earnings
(c) Cash dividends per common share	¥40 ($0.39)
(d) Record date	March 31, 2014
(e) Effective date	June 27, 2014

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
	2014	2013	**2014**
Salaries	**¥ 20,752**	¥ 18,640	**$ 201,632**
Retirement benefit expenses	**1,693**	2,151	**16,450**
Depreciation	**2,424**	2,149	**23,552**
Legal welfare	**3,565**	3,068	**34,639**
Traveling	**2,886**	2,503	**28,041**

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, 2014 and 2013 are ¥7,109 million ($69,073 thousand) and ¥6,425 million, respectively.

12 Other Comprehensive Income

The reclassification adjustment and the related income tax effects allocated to each component of other comprehensive income for the years ended March 31, 2014 and 2013 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	**2014**
Net unrealized gain on other securities:			
Arising during the year	**¥ 639**	¥ 611	**$ 6,209**
Reclassification adjustment	**–**	34	**–**
Before tax amount	**639**	645	**6,209**
Tax expense	**(216)**	(232)	**(2,099)**
Net-of-tax amount	**423**	413	**4,110**
Foreign currency translation adjustments:			
Arising during the year	**1,803**	759	**17,518**
Total other comprehensive income	**¥ 2,226**	¥ 1,172	**$ 21,628**

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, 2014 and 2013 are as follows:

	Yen		U.S. dollars
	2014	2013	**2014**
Basic net income per share	**¥ 281.03**	¥ 208.31	**$ 2.73**

	Millions of yen		Thousands of U.S. dollars
	2014	2013	**2014**
Net income	**¥ 12,346**	¥ 9,152	**$ 119,957**
Net income not applicable to common stockholders	**–**	–	**–**
Net income applicable to common stockholders	**¥ 12,346**	¥ 9,152	**$ 119,957**

	Number of shares (Thousands)	
	2014	2013
Weighted average number of shares outstanding on which basic net income per share is calculated	**43,930**	43,931

(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, 2014 and 2013 are as follows:

	Yen		U.S. dollars
	2014	2013	**2014**
Net assets per share	**¥2,013.45**	¥1,734.73	**$ 19.56**

	Millions of yen		Thousands of U.S. dollars
	2014	2013	**2014**
Total net assets	**¥ 88,512**	¥ 76,256	**$ 860,008**
Amount deducted from total net assets:			
Minority interests	**60**	47	**583**
Net assets applicable to common stockholders	**¥ 88,452**	¥ 76,209	**$ 859,425**

	Number of shares (Thousands)	
	2014	2013
Number of shares outstanding at end of year on which net assets per share is calculated	**43,930**	43,931

As described in note (1) (i), the Company applied revised accounting standards for retirement benefits for the year ended March 31, 2014. As a result, the net assets per share increased by ¥7.0 ($0.07).

14 Leases

A summary of assumed amounts of acquisition cost which includes interest portion, accumulated depreciation and net book value of tools, furniture and fixtures at March 31, 2014 and 2013 are as follows, which would have been reflected in the consolidated balance sheet if finance lease accounting had been applied to the finance leases currently accounted for as operating leases:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Acquisition cost	¥ 5	¥ 5	$ 49
Accumulated depreciation	5	4	49
Net book value	¥ 0	¥ 1	$ 0

Future minimum payments which include interest portion required under finance leases currently accounted for as operating leases at March 31, 2014 and 2013 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Within one year	¥ 0	¥ 1	$ 0
Over one year	–	0	–
	¥ 0	¥ 1	$ 0

Lease payments for finance leases currently accounted for as operating leases for the years ended March 31, 2014 and 2013 amounted to ¥1 million ($10 thousand) and ¥1 million, respectively.

Future minimum payments required under noncancellable operating leases at March 31, 2014 and 2013 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Within one year	¥ 62	¥ 63	$ 603
Over one year	38	38	369
	¥ 100	¥ 101	$ 972

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 receivables 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 mostly 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 contract for hedging the cash flow fluctuation risk associated with an operating receivable and payable and loan denominated in foreign currencies. Foreign exchange contracts entered into by the Group are limited to the extent of an existing foreign operating receivable and payable and loan 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 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 as of March 31, 2014 and 2013 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, 2014	Carrying value	Fair value	Differences	Carrying value	Fair value	Differences
(1) Cash	¥ 13,882	¥ 13,882	¥ –	$ 134,881	$ 134,881	$ –
(2) Trade notes and accounts receivable	54,456	54,456	–	529,110	529,110	–
(3) Short-term investments	15,010	15,010	–	145,841	145,841	–
(4) Investments in securities:						
Other securities	3,619	3,619	–	35,163	35,163	–
(5) Trade notes and accounts payable	25,996	25,996	–	252,585	252,585	–
(6) Short-term debt	992	992	–	9,639	9,639	–

	Millions of yen		
March 31, 2013	Carrying value	Fair value	Differences
(1) Cash	¥ 11,743	¥ 11,743	¥ –
(2) Trade notes and accounts receivable	46,043	46,043	–
(3) Short-term investments	15,000	15,000	–
(4) Investments in securities:			
Other securities	3,047	3,047	–
(5) Trade notes and accounts payable	24,424	24,424	–
(6) Short-term debt	1,589	1,589	–

<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

The fair value of equity securities is calculated by quoted market price and the fair value of bond securities is based on the present value of future cash flows discounted using the rates considering credit risk and the remaining terms to maturity.

(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
	2014	2013	2014
Unlisted equity securities	¥ 529	¥ 239	$ 5,140
Investments in limited partnership and similar partnership	378	180	3,673

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 as of March 31, 2014

	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	¥ 13,882	¥ –	¥ –	¥ –
(2) Trade notes and accounts receivable	54,456	–	–	–
(3) Short-term investments	15,010	–	–	–

	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	$ 134,881	$ –	$ –	$ –
(2) Trade notes and accounts receivable	529,110	–	–	–
(3) Short-term investments	145,841	–	–	–

<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 equipments business, the segment information is not disclosed for the years ended March 31, 2014 and 2013.

Related Information

(a) Information by products and services

Sales by products and services for the years ended March 31, 2014 and 2013 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Physiological measuring equipment	¥ 36,654	¥ 33,872	$ 356,140
Patient monitors	50,865	43,661	494,219
Treatment equipment	28,402	21,605	275,962
Other	37,273	33,400	362,155
	¥ 153,194	¥ 132,538	$ 1,488,476

(b) Geographic information

(1) Geographical sales for the years ended March 31, 2014 and 2013 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Japan	¥ 120,464	¥ 110,216	$ 1,170,463
Americas	13,125	8,090	127,526
Europe	7,020	5,612	68,208
Asia	11,038	7,561	107,248
Other	1,547	1,059	15,031
	¥ 153,194	¥ 132,538	$ 1,488,476

(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, 2014 and 2013.

(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, 2014 and 2013.

Information of impairment loss on fixed assets by reported segments

The information is not applicable for the years ended March 31, 2014 and 2013.

Goodwill by reported segments

The information is not applicable for the years ended March 31, 2014 and 2013.

Negative goodwill incurred by reported segments

The information is not applicable for the years ended March 31, 2014 and 2013.

17 Subsequent Event

The Board of Directors resolved that the Company will establish an R&D facility in order to accelerate the development of new products, enhance competitiveness and improve the operational efficiency by putting R&D departments and related department together. Total capital investment amount is estimated to ¥6,300 million ($61,213 thousand), and the completion of the relocation is expected in 2016 spring.

Independent Auditors' Report

March 31, 2014

BDO

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101-0053 Japan

To the Board of Directors of
Nihon Kohden Corporation

We have audited the accompanying financial statements of Nihon Kohden Corporation, which comprise the consolidated balance sheet as of March 31, 2014, 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 Financial Statements
Management is responsible for the preparation and fair presentation of these 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 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 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 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 financial statements present fairly, in all material respects, the financial position of Nihon Kohden Corporation as of March 31, 2014, 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 27, 2014

Corporate Directory

As of June 26, 2014

Board of Directors

Chairman of the Board
Kazuo Ogino

President and CEO
Fumio Suzuki

Corporate Directors
Kenji Hakuta
Toshitsugu Izawa
Yoshito Tsukahara
Hirokazu Ogino
Takashi Tamura
Hiroshi Aida

Outside Corporate Directors
Masaya Yamauchi
Minoru Obara

Audit & Supervisory Board Members
Toshinobu Mayuzumi
Masami Sugiyama

Outside Audit & Supervisory Board Members
Osamu Kato
Masahiro Kawamura

Operating Officers
Tatsuya Nakagawa
Eiichi Tanaka
Fumio Hirose
Kazuhiko Ikuta
Kazuteru Yanagihara
Tadashi Hasegawa
Shinji Yamamori
Shigeru Hirata
Toshihiko Hiraoka
Yasuhiro Yoshitake
Yoshiaki Uematsu
Makoto Magara
Shuhei Morinaga
Kazuomi Shimoda
Masato Semba
Takashi Seo
Masahiko Kumakura

Corporate Data

Date of Incorporation
August 7, 1951

Paid-in Capital*
¥7,544 million

Shares of Common Stock Issued*
45,765 thousand

Number of Employees*
4,495 (group)
*As of March 31, 2014

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 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 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 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 (Harbour Front 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)

Production

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

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

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

Major Stockholders*

Stockholders	No. of Shares (thousands)	Stockholding Ratio
Japan Trustee Service Bank, Ltd. (trust account)	2,623	5.73%
The Master Trust Bank of Japan, Ltd. (trust account)	2,332	5.09%
State Street Bank and Trust Company 505223	2,128	4.65%
Saitama Resona Bank, Ltd.	2,096	4.58%
Toshiba Medical Systems Corporation	1,990	4.34%
State Street Bank and Trust Company	1,784	3.89%
RBC IST 15 PCT NON LENDING ACCOUNT	1,495	3.26%
RBC IST 15 PCT LENDING ACCOUNT	971	2.12%
Fujitsu Ltd.	948	2.07%
Japan Trustee Service Bank, Ltd. (trust account 9)	686	1.49%
Subtotal	17,056	
Total Outstanding Issue	45,765	

* As of March 31, 2014

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