



# Annual Report

April 2012 – March 2013

*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 .....    | 1  | Consolidated Statement of Income .....              | 12 |
| To Our Stockholders .....                  | 2  | Consolidated Statement of Changes in Net Assets ... | 13 |
| Topics .....                               | 4  | Consolidated Statement of Cash Flows .....          | 14 |
| At a Glance.....                           | 6  | Notes to Consolidated Financial Statements .....    | 15 |
| Review of Operations .....                 | 7  | Independent Auditors' Report .....                  | 27 |
| Management's Discussion and Analysis ..... | 8  | Corporate Directory .....                           | 28 |
| Consolidated Balance Sheet .....           | 10 |   |    |

# Consolidated Financial Highlights

Nihon Kohden Corporation and Consolidated Subsidiaries  
Years ended March 31, 2013, 2012, 2011, 2010, and 2009

|   | Millions of yen |          |          |          |          | Thousands of U.S. dollars <sup>(1)</sup> |
|---|-----------------|----------|----------|----------|----------|--|
|   | 2013            | 2012     | 2011     | 2010     | 2009     | 2013                                     |
| Net sales   | <b>¥132,538</b> | ¥120,718 | ¥113,380 | ¥107,014 | ¥109,124 | <b>\$1,409,229</b>                       |
| Operating income                                  | <b>13,484</b>   | 12,027   | 10,598   | 9,321    | 8,106    | <b>143,371</b>                           |
| Income before income taxes and minority interests | <b>14,525</b>   | 12,181   | 10,293   | 9,148    | 7,694    | <b>154,439</b>                           |
| Net income  | <b>9,152</b>    | 7,622    | 6,573    | 5,917    | 4,611    | <b>97,310</b>                            |
| Total assets                                      | <b>116,800</b>  | 99,403   | 92,496   | 88,001   | 80,480   | <b>1,241,893</b>                         |
| Net assets  | <b>76,256</b>   | 67,911   | 62,294   | 57,949   | 53,570   | <b>810,803</b>                           |
| Amounts per share <sup>(2)</sup> :                |                 |          |          |          |          |  |
|   | Yen             |          |          |          |          | U.S. dollars                             |
| Net income-basic                                  | <b>¥208.31</b>  | ¥173.49  | ¥149.62  | ¥134.68  | ¥104.94  | <b>\$2.21</b>                            |
| Cash dividends                                    | <b>52.00</b>    | 44.00    | 44.00    | 37.00    | 37.00    | <b>0.55</b>                              |

Notes : (1) U.S. dollars amounts are translated from yen, for convenience only, at the rate of ¥94.05 = 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.





## *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<sub>2</sub> 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 that "The good quality of our product must be maintained to keep our customer satisfied for a long time", 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.

FY2012 was an overall positive year for us. In Japan, sales in the hospital market increased favorably. This was due to stable hospital capital spending following the upward revision of medical service fees in April 2012 and progress in the regional medical care revival plan. Internationally, we enjoyed sales growth in the Americas and Asia, although sales in Europe were weak due to the difficult market conditions. As a result, we recorded the highest revenue and income in the Company's history.

Nihon Kohden carried out its previous mid-term business plan, SPEED UP III, for the fiscal years 2010 to 2012. This was the first stage in realizing the Company's long-term vision of "The CHANGE 2020".

We achieved our FY2012 targets of 130 billion yen in sales and a 10% operating margin. This was due to our efforts to expand and strengthen core business areas.

In April 2013, Nihon Kohden started its new four-year business plan, Strong Growth 2017, to achieve sustained group growth and enhance corporate value.

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



Kazuo Ogino  
Chairman and CEO

A handwritten signature in black ink, reading "Kazuo Ogino".

Fumio Suzuki  
President and COO

A handwritten signature in black ink, reading "Fumio Suzuki".

## New Mid-term Business Plan Strong Growth 2017

The Company's previous mid-term business plan, SPEED UP III, was the first stage in realizing the Company's long-term vision "The CHANGE 2020 – The Global Leader of Medical Solutions –".

Nihon Kohden achieved its previous mid-term business plan targets of 130 billion yen in sales and a 10% operating margin. This was due to the Company's efforts to expand and strengthen core business areas.

Nihon Kohden also established competitive advantages in Japan's acute care hospital market. The Company also commercialized its own parameter measurement technologies which

resulted in increased brand recognition around the world. However, strong growth in emerging markets remains as an issue to be solved.

The Company's next mid-term business plan, Strong Growth 2017, is the second stage in realizing its long-term vision. The coming four-year period is crucial for building a more solid foundation. Nihon Kohden aims to achieve sustainable growth in Japan under the government's future vision to reorganize the medical and nursing care systems by 2025 and achieve strong growth in international markets. The Company will also enhance its operating base to ensure its growth.

Long-term vision (April 2010 to March 2020)

## The CHANGE 2020 – The Global Leader of Medical Solutions –

### Envisioned corporate status for 2020

Lead the world in the development of revolutionary breakthrough technology

Achieve the highest level of quality in the world

Attain top share in applicable global markets

### Target for the year ending March 2020

Sales :  
¥200 billion

Operating income :  
¥25 billion

Overseas sales ratio :  
35%



## Four-year business plan (April 2013 to March 2017)

# Strong Growth 2017

### Key strategies

#### Pursue the highest level of quality in the world

Ensure quality in every activity of every division across the entire Nihon Kohden Group, from development to production, logistics, sales and services

#### Strengthen technological development capabilities

- Strengthen R&D organization to address the needs of clinical practice swiftly and flexibly
- Promote industry-government-academia collaboration as well as collaboration with other companies both inside and outside Japan

#### Strengthen business expansion by region

- Reinforce business expansion in the Americas, Europe and Asia
- Focus on Japan, the U.S. and emerging markets including BRICs

#### Achieve further growth in core businesses

- Achieve further growth in 4 core businesses : Patient Monitors, Diagnostic Equipment, Treatment Equipment, and Consumables and Services in order to expand global market share and establish a stable and consistent revenue base

#### Develop new businesses

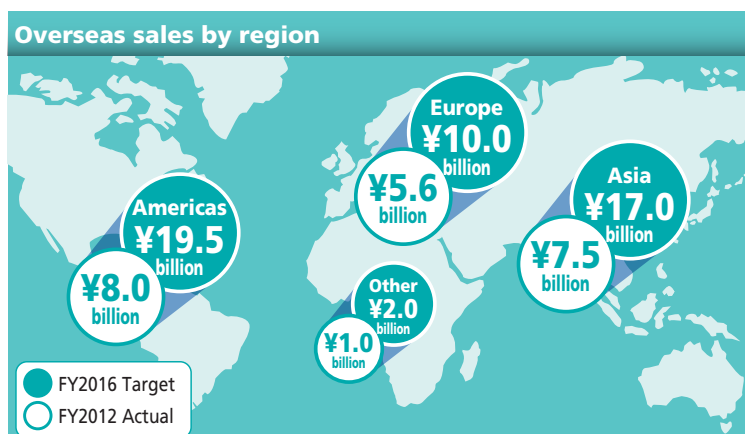
- Develop new core businesses by self-development, alliances and M&A
- Focus on solutions to help improve medical safety, address lifestyle-related diseases, dementia and intractable diseases, and respond to an integrated community care system

#### Consolidate corporate fundamentals

- Foster a more robust business structure that is globalized, efficient and fast-paced
- Implement CSR activities
- Strengthen human resource development initiatives

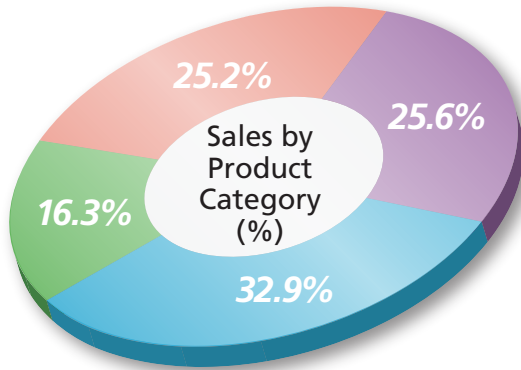
### Strong Growth 2017 Target for FY2016 (ending March 2017)

|                         | FY2012 Actual  | FY2016 Target  |
|-------------------------|----------------|----------------|
| <b>Sales</b>            | ¥132.5 billion | ¥170.0 billion |
| Domestic                | ¥110.2 billion | ¥121.5 billion |
| Overseas                | ¥22.3 billion  | ¥48.5 billion  |
| <b>Operating Income</b> | ¥13.4 billion  | ¥18.0 billion  |
| <b>ROE</b>              | 12.7%          | 13.0%          |



Exchange rate assumptions: ¥90 to the dollar, ¥118 to the euro

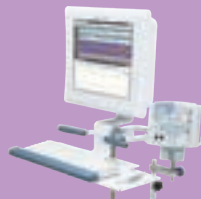
## At a Glance



- Physiological Measuring Equipment
- Patient Monitors
- Treatment Equipment
- Other Medical Equipment

### Physiological Measuring Equipment

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



EEG-1250

**25.6%**

### 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

**32.9%**

### Treatment Equipment

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



AED-2152

**16.3%**

### Other Medical Equipment

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



MEK-6500

**25.2%**

## 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, 2012 to March 31, 2013), Japanese medical treatment fees were revised upward in April 2012 to ensure delivery of emergency and perinatal care 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. Internationally, although demand for medical devices in the U.S. and emerging countries remained solid, financial anxiety created difficult market conditions in Europe.

Under these circumstances, the Company implemented key strategies including expanding and strengthening core business areas and strengthening technological development capacity under its SPEED UP III 3-year Business Plan of which the final year is the term under review.

The Company is continuing to introduce products that support medical safety in neonatal and pediatric intensive care. It launched a new stylish electroencephalograph with aEEG\*, a new ECG electrode for neonates, and an oxygen mask with CO<sub>2</sub> monitoring for infants. The Company also released its first waterproof transmitter and a new

ECG for emerging markets which was developed and manufactured in China.

Nihon Kohden also strengthened its international business structure. In China, the Company consolidated its three research and development, manufacturing, and sales subsidiaries into one subsidiary. It established Nihon Kohden Middle East in Dubai and acquired Defibtech, LLC, a U.S. manufacturer of resuscitation equipment.

As a result, overall sales during the term under review increased 9.8% over FY2011 to ¥132,538 million and operating income increased 12.1% to ¥13,484 million. Income before income taxes and minority interests increased 19.2% to ¥14,525 million with favorable currency effects and net income increased 20.1% over FY2011 to ¥9,152 million.

\*aEEG (amplitude-integrated electroencephalography) is a time-compressed EEG trend graph which is used in data analysis for neonatal convulsion and neonatal hypoxic-ischemic encephalopathy.

### Mid-term Business Plan SPEED UP III

|                      | FY2012 Target  | FY2012 Actual  |
|----------------------|----------------|----------------|
| Sales                | ¥130.0 billion | ¥132.5 billion |
| Overseas Sales Ratio | 25.0%          | 16.8%          |
| Operating Income     | ¥13.0 billion  | ¥13.4 billion  |
| ROE                  | 12.0%          | 12.7%          |

# Management's Discussion and Analysis

## Sales

In the term under review, sales increased ¥11,820 million, or 9.8%, to ¥132,538 million.

### Sales by Product Category

**Physiological Measuring Equipment:** In Japan, sales increased in all products including EEGs, ECGs, polygraphs for cath lab, and diagnostic information systems. Internationally, sales of EEGs increased in all areas, while sales of ECGs were weak. Overall, sales increased 10.4% over the previous fiscal year to ¥33,872 million.

**Patient Monitors:** In Japan, sales of Patient Monitors increased significantly, supported by good sales of bedside monitors and central monitors. Consumable sales such as sensors also increased robustly. Outside Japan, sales in the Americas and Asia showed strong growth, while sales in Europe decreased. In the U.S., strengthening of relationship with major GPOs brought acquisition of new customers. Overall, sales increased 10.9% over the previous fiscal year to ¥43,661 million.

**Treatment Equipment:** In Japan, AED sales showed strong growth as three new models were introduced. Sales of pacemakers and ICDs decreased due to downward revision of reimbursement prices. Sales of vagus nerve stimulation therapy systems and irrigation catheters also increased. Internationally, although sales of defibrillators for hospitals decreased, sales of AEDs in the hospital market and the ambulance market increased. Demand for AEDs also increased in Taiwan as the government plans to allow public access defibrillation. Overall, sales increased 6.5% over the previous fiscal year to ¥21,605 million.

**Other Medical Equipment:** In Japan, sales of hematology analyzers increased as new models were introduced. Sales of locally purchased products also increased. Internationally, sales of hematology analyzers showed strong growth, while sales of locally purchased products decreased. Overall, sales increased 9.9% over the previous fiscal year to ¥33,400 million.

## Sales by Region

**Japan:** Sales in the hospital market remained favorable and AED sales increased in the PAD market. This resulted in increased sales of all product categories. Steady demand in the private hospital market and the public hospital market supported strong sales of Physiological Measuring Equipment and Patient Monitors. As a result, domestic sales increased 10.5% over FY2011 to ¥110,216 million.

**International:** Sales of Patient Monitors and hematology analyzers showed strong growth. Sales of Physiological Measuring Equipment also increased. In the Americas, sales in the U.S. showed strong growth while sales in Latin America decreased slightly. Sales in Europe decreased due to the difficult market conditions and unfavorable foreign currency impacts. In Asia, sales in China, India, and Southeast Asia showed strong growth. As a result, international sales increased 6.2% over FY2011 to ¥22,322 million.

## Cost of Sales, SGA Expenses and Operating Income

In the term under review, sales costs were ¥66,218 million. Gross profit ratio decreased 30 basis points to 50.0%. Gross profit on sales increased ¥5,641 million, or 9.3%, to ¥66,320 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 50 basis points to 39.8%. Research and development costs were ¥6,425 million (4.8% of sales).

As a result, operating income increased ¥1,457 million, or 12.1% to ¥13,484 million.

## Other Income and Expenses, Net Income

Net other income increased ¥887 million to ¥1,041 million, mainly due to exchange gain.

Income before income tax and minority interests increased ¥2,344 million to ¥14,525 million.

Net income increased ¥1,530 million to ¥9,152 million from ¥7,622 million in the previous fiscal year. Net income per share was ¥208.31.

## Cash Flows

Net cash provided by operating activities during the year under review increased ¥5,629 million to ¥13,189 million. It includes ¥14,525 million of income before income taxes and minority interests, ¥2,910 million of depreciation and amortization, and ¥4,368 million of income taxes paid.

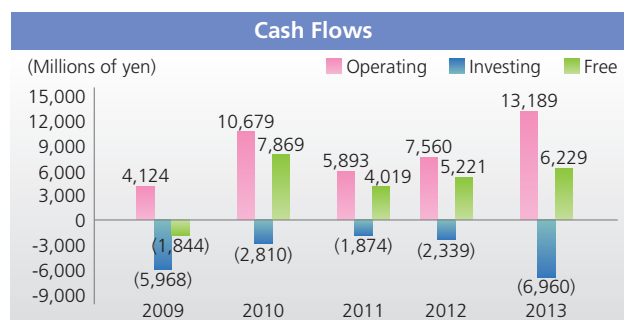
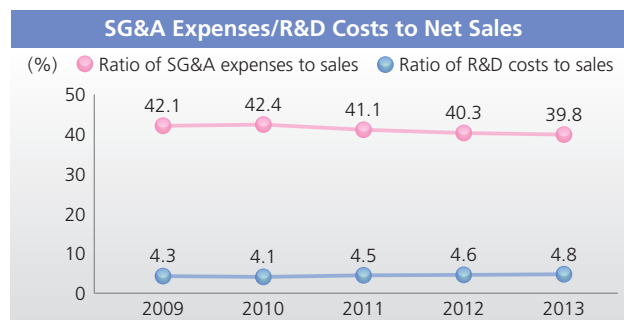
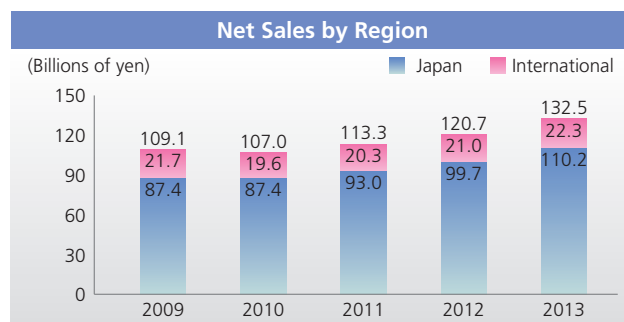
Net cash used in investing activities increased ¥4,621 million to ¥6,960 million. We used ¥2,131 million for capital expenditures and ¥3,981 million for acquisition of subsidiaries.

As a result of these factors, free cash flow amounted to ¥6,229 million.

Net cash used in financing activities decreased ¥1,551 million to ¥1,175 million. We paid ¥1,975 million for stockholders dividends and increased short-term borrowings by ¥841 million.

As a result, cash and cash equivalents as of March 31, 2013 increased ¥5,379 million to ¥26,684 million.

Years ended March 31



*Consolidated Balance Sheet*

March 31, 2013

| Assets  | Millions of yen |         | Thousands of U.S. dollars (note 2) |
|---|-----------------|---------|------------------------------------|
|   | 2013            | 2012    | 2013                               |
| Current assets:   |                 |         |                                    |
| Cash (note 3)   | ¥ 11,743        | ¥ 9,343 | \$ 124,859                         |
| Trade notes and accounts receivable   | 46,044          | 42,250  | 489,569                            |
| Short-term investments (note 4)   | 15,000          | 12,000  | 159,490                            |
| Inventories   | 17,102          | 14,153  | 181,839                            |
| Deferred income taxes (note 7)  | 4,341           | 3,839   | 46,156                             |
| Other current assets  | 1,264           | 1,525   | 13,440                             |
| Less allowance for doubtful receivables   | 313             | 367     | 3,328                              |
| Total current assets  | 95,181          | 82,743  | 1,012,025                          |
| Property, plant and equipment, net of accumulated depreciation; ¥23,109 million (\$245,710 thousand) in 2013 and ¥22,777 million in 2012: |                 |         |                                    |
| Buildings and structures  | 2,996           | 3,118   | 31,855                             |
| Machinery, equipment and vehicles   | 629             | 520     | 6,688                              |
| Tools, furniture and fixtures   | 2,260           | 2,041   | 24,030                             |
| Land  | 2,573           | 2,624   | 27,358                             |
| Leased assets   | 55              | 46      | 585                                |
| Construction in progress  | 367             | 167     | 3,902                              |
| Net property, plant and equipment   | 8,880           | 8,516   | 94,418                             |
| Intangible assets, net:   |                 |         |                                    |
| Goodwill  | 2,251           | 758     | 23,934                             |
| Other intangible assets   | 4,226           | 2,764   | 44,934                             |
| Total intangible assets   | 6,477           | 3,522   | 68,868                             |
| Investments and other assets:   |                 |         |                                    |
| Investments in securities (note 4)  | 3,466           | 2,556   | 36,853                             |
| Deferred income taxes (note 7)  | 1,691           | 998     | 17,980                             |
| Other investments and other assets  | 1,157           | 1,127   | 12,302                             |
| Less allowance for doubtful receivables   | 52              | 59      | 553                                |
| Total investments and other assets  | 6,262           | 4,622   | 66,582                             |
| <br>  |                 |         |                                    |
| Total assets  | ¥116,800        | ¥99,403 | \$1,241,893                        |

See accompanying notes to consolidated financial statements.

| Liabilities and Net Assets  | Millions of yen |         | Thousands of U.S. dollars (note 2) |
|---|-----------------|---------|------------------------------------|
|   | 2013            | 2012    | 2013                               |
| Current liabilities:  |                 |         |                                    |
| Trade notes and accounts payable  | ¥ 24,424        | ¥20,068 | \$ 259,692                         |
| Short-term debt and current installments of long-term debt (note 5)                               | 1,589           | 620     | 16,895                             |
| Other payables  | 2,005           | 1,616   | 21,319                             |
| Accrued income taxes (note 7)   | 3,848           | 2,190   | 40,915                             |
| Accrued expenses  | 2,792           | 2,454   | 29,686                             |
| Accrued bonuses   | 2,822           | 2,461   | 30,005                             |
| Other current liabilities (note 5)  | 1,548           | 1,305   | 16,459                             |
| Total current liabilities   | 39,028          | 30,714  | 414,971                            |
| Non-current liabilities:  |                 |         |                                    |
| Long-term debt (note 5)   | 1               | 4       | 11                                 |
| Liabilities for retirement and severance benefits (note 6)  | 1,122           | 405     | 11,930                             |
| Deferred income taxes (note 7)  | 25              | 15      | 266                                |
| Other non-current liabilities (note 5)  | 368             | 354     | 3,912                              |
| Total non-current liabilities   | 1,516           | 778     | 16,119                             |
| Total liabilities   | 40,544          | 31,492  | 431,090                            |
| Stockholders' equity:   |                 |         |                                    |
| Common stock (note 8):<br>Authorized 98,986,000 shares; issued 45,765,490 shares in 2013 and 2012 | 7,545           | 7,545   | 80,223                             |
| Additional paid-in capital (note 8)   | 10,487          | 10,487  | 111,505                            |
| Retained earnings (note 9)  | 59,944          | 52,769  | 637,363                            |
| Treasury stock, at cost; 1,834,225 shares in 2013 and 1,833,297 shares in 2012                    | (2,023)         | (2,021) | (21,510)                           |
| Total stockholders' equity  | 75,953          | 68,780  | 807,581                            |
| Accumulated other comprehensive income (loss):  |                 |         |                                    |
| Net unrealized gain on other securities (note 4)  | 459             | 45      | 4,880                              |
| Foreign currency translation adjustments  | (203)           | (955)   | (2,158)                            |
| Total accumulated other comprehensive income (loss)   | 256             | (910)   | 2,722                              |
| Minority interests  | 47              | 41      | 500                                |
| Total net assets  | 76,256          | 67,911  | 810,803                            |
| Commitments and contingencies   |                 |         |                                    |
| Total liabilities and net assets  | ¥116,800        | ¥99,403 | \$1,241,893                        |

*Consolidated Statement of Income*

March 31, 2013

|   | Millions of yen |          | Thousands of U.S. dollars (note 2) |
|---|-----------------|----------|------------------------------------|
|   | 2013            | 2012     | 2013                               |
| Net sales   | ¥132,538        | ¥120,718 | \$1,409,229                        |
| Cost of sales (note 11)   | 66,218          | 60,039   | 704,072                            |
| Gross profit  | 66,320          | 60,679   | 705,157                            |
| Selling, general and administrative expenses<br>(notes 10 and 11) | 52,836          | 48,652   | 561,786                            |
| Operating income  | 13,484          | 12,027   | 143,371                            |
| Other income (deductions):  |                 |          |                                    |
| Interest income   | 47              | 34       | 500                                |
| Dividend income   | 88              | 82       | 936                                |
| Interest expenses   | (23)            | (19)     | (245)                              |
| Foreign exchange gains (losses)                                   | 635             | (132)    | 6,752                              |
| Gain on sale of investments in securities (note 4)                | 1               | 1        | 11                                 |
| Loss on devaluation of investments in securities                  | (34)            | –        | (362)                              |
| Loss on sale/disposal of property, plant and equipment            | (39)            | (13)     | (415)                              |
| Impairment loss   | (61)            | –        | (649)                              |
| Other, net  | 427             | 201      | 4,540                              |
|   | 1,041           | 154      | 11,068                             |
| Income before income taxes and minority interests                 | 14,525          | 12,181   | 154,439                            |
| Income taxes (note 7):  |                 |          |                                    |
| Current   | 6,056           | 4,523    | 64,391                             |
| Deferred  | (688)           | 23       | (7,315)                            |
|   | 5,368           | 4,546    | 57,076                             |
| Income before minority interests                                  | 9,157           | 7,635    | 97,363                             |
| Minority interests  | 5               | 13       | 53                                 |
| Net income  | ¥ 9,152         | ¥ 7,622  | \$ 97,310                          |

See accompanying notes to consolidated financial statements.

*Consolidated Statement of Comprehensive Income*

March 31, 2013

|  | Millions of yen |        | Thousands of U.S. dollars (note 2) |
|--|-----------------|--------|------------------------------------|
|  | 2013            | 2012   | 2013                               |
| Income before minority interests                                     | ¥ 9,157         | ¥7,635 | \$ 97,363                          |
| Other comprehensive income (loss) arising during the year (note 12): |                 |        |                                    |
| Net unrealized gain on other securities                              | 413             | 122    | 4,392                              |
| Foreign currency translation adjustments                             | 759             | (119)  | 8,070                              |
| Total other comprehensive income arising during the year             | 1,172           | 3      | 12,462                             |
| Comprehensive income   | ¥10,329         | ¥7,638 | \$109,825                          |
| Comprehensive income attributable to:                                |                 |        |                                    |
| Owners of the parent   | ¥10,318         | ¥7,631 | \$109,708                          |
| Minority interests   | 11              | 7      | 117                                |

See accompanying notes to consolidated financial statements.



## Consolidated Statement of Changes in Net Assets

March 31, 2013

|   | Millions of yen          |   |                                  |                   |         |  |  |        |                       |                     |
|---|--------------------------|---|----------------------------------|-------------------|---------|--|--|--------|-----------------------|---------------------|
|   | Stockholders' equity     |   |                                  |                   |         | Accumulated other comprehensive income (loss)                    |  |        |                       |                     |
|   | Common stock<br>(note 8) | Additional<br>paid-in capital<br>(note 8) | Retained<br>earnings<br>(note 9) | Treasury<br>stock | Total   | Net unrealized<br>gain (loss) on<br>other securities<br>(note 4) | Foreign currency<br>translation<br>adjustments | Total  | Minority<br>interests | Total net<br>assets |
| Balance at March 31, 2011                   | ¥7,545                   | ¥10,487                                   | ¥47,168                          | ¥(2,020)          | ¥63,180 | ¥ (77)   | ¥(843)   | ¥(920) | ¥34                   | ¥62,294             |
| Changes arising during year:                |                          |   |                                  |                   |         |  |  |        |                       |                     |
| Cash dividends                              |                          |   | (2,021)                          |                   | (2,021) |  |  |        |                       | (2,021)             |
| Net income                                  |                          |   | 7,622                            |                   | 7,622   |  |  |        |                       | 7,622               |
| Purchase of treasury stock                  |                          |   |                                  | (1)               | (1)     |  |  |        |                       | (1)                 |
| Disposition of treasury stock               |                          | 0   |                                  | 0                 | 0       |  |  |        |                       | 0                   |
| Net changes other than stockholders' equity |                          |   |                                  |                   |         | 122  | (112)  | 10     | 7                     | 17                  |
| Total changes during the year               | –                        | 0   | 5,601                            | (1)               | 5,600   | 122  | (112)  | 10     | 7                     | 5,617               |
| 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             |

|   | Thousands of U.S. dollars (note 2) |   |                                  |                   |           |  |  |           |                       |                     |
|---|------------------------------------|---|----------------------------------|-------------------|-----------|--|--|-----------|-----------------------|---------------------|
|   | Stockholders' equity               |   |                                  |                   |           | Accumulated other comprehensive income (loss)                    |  |           |                       |                     |
|   | Common stock<br>(note 8)           | Additional<br>paid-in capital<br>(note 8) | Retained<br>earnings<br>(note 9) | Treasury<br>stock | Total     | Net unrealized<br>gain (loss) on<br>other securities<br>(note 4) | Foreign currency<br>translation adjust-<br>ments | Total     | Minority<br>interests | Total net<br>assets |
| Balance at March 31, 2012                   | \$80,223                           | \$111,505                                 | \$561,074                        | \$(21,489)        | \$731,313 | \$ 478   | \$(10,154)                                       | \$(9,676) | \$436                 | \$722,073           |
| Changes arising during year:                |                                    |   |                                  |                   |           |  |  |           |                       |                     |
| Cash dividends                              |                                    |   | (21,021)                         |                   | (21,021)  |  |  |           |                       | (21,021)            |
| Net income                                  |                                    |   | 97,310                           |                   | 97,310    |  |  |           |                       | 97,310              |
| Purchase of treasury stock                  |                                    |   |                                  | (21)              | (21)      |  |  |           |                       | (21)                |
| Disposition of treasury stock               |                                    | 0   |                                  |                   | 0         |  |  |           |                       | 0                   |
| Other                                       |                                    |   | 0                                |                   | 0         |  |  |           |                       | 0                   |
| Net changes other than stockholders' equity |                                    |   |                                  |                   |           | 4,402  | 7,996  | 12,398    | 64                    | 12,462              |
| Total changes during the year               | –                                  | 0   | 76,289                           | (21)              | 76,268    | 4,402  | 7,996  | 12,398    | 64                    | 88,730              |
| Balance at March 31, 2013                   | \$80,223                           | \$111,505                                 | \$637,363                        | \$(21,510)        | \$807,581 | \$4,880  | \$( 2,158)                                       | \$ 2,722  | \$500                 | \$810,803           |

See accompanying notes to consolidated financial statements.

*Consolidated Statement of Cash Flows*

March 31, 2013

|  | Millions of yen |         | Thousands of U.S. dollars (note 2) |
|--|-----------------|---------|------------------------------------|
|  | 2013            | 2012    | 2013                               |
| Cash flows from operating activities:  |                 |         |                                    |
| Income before income taxes and minority interests  | ¥14,525         | ¥12,181 | \$154,439                          |
| Adjustments to reconcile income before income taxes and minority interests to net cash provided by operating activities: |                 |         |                                    |
| Depreciation and amortization  | 2,910           | 2,901   | 30,941                             |
| Impairment loss  | 61              | –       | 649                                |
| Loss on sale/disposal of property, plant and equipment   | 39              | 13      | 415                                |
| (Decrease) increase in allowance for doubtful account  | (63)            | 25      | (670)                              |
| Increase in accrued bonuses  | 362             | 1,004   | 3,849                              |
| Increase in liabilities for retirement and severance benefits  | 716             | 289     | 7,613                              |
| Interest and dividend income   | (135)           | (116)   | (1,436)                            |
| Interest expenses  | 23              | 19      | 245                                |
| Loss on devaluation of investments in securities   | 51              | 13      | 542                                |
| Increase in trade notes and accounts receivable  | (3,269)         | (5,104) | (34,758)                           |
| (Increase) decrease in inventories   | (2,856)         | 132     | (30,367)                           |
| Increase in trade notes and accounts payable   | 4,190           | 1,199   | 44,551                             |
| Other, net   | 885             | (417)   | 9,410                              |
| Sub total  | 17,439          | 12,139  | 185,423                            |
| Interest and dividend received   | 134             | 115     | 1,425                              |
| Interest paid  | (16)            | (19)    | (170)                              |
| Income taxes paid  | (4,368)         | (4,675) | (46,444)                           |
| Net cash provided by operating activities  | 13,189          | 7,560   | 140,234                            |
| Cash flows from investing activities:  |                 |         |                                    |
| Proceeds from sale of investments in securities  | 132             | 38      | 1,404                              |
| Purchase of investments in securities  | (449)           | (43)    | (4,774)                            |
| Capital expenditures   | (2,131)         | (1,888) | (22,658)                           |
| Purchase of intangible assets  | (539)           | (426)   | (5,731)                            |
| Payment for acquisition of subsidiaries resulting in a change in the scope of consolidation                              | (3,981)         | –       | (42,329)                           |
| Other, net   | 8               | (20)    | 85                                 |
| Net cash used in investing activities  | (6,960)         | (2,339) | (74,003)                           |
| Cash flows from financing activities:  |                 |         |                                    |
| Increase (decrease) in short-term debt   | 841             | (659)   | 8,942                              |
| Payments on long-term debt   | (6)             | (4)     | (64)                               |
| Dividends paid to stockholders   | (1,975)         | (2,020) | (20,999)                           |
| Dividends paid to minority stockholders of subsidiaries  | (5)             | –       | (53)                               |
| Purchase of treasury stock   | (3)             | (1)     | (32)                               |
| Other, net   | (27)            | (42)    | (287)                              |
| Net cash used in financing activities  | (1,175)         | (2,726) | (12,493)                           |
| Effect of exchange rate changes on cash and cash equivalents   | 325             | 1       | 3,455                              |
| Net increase in cash and cash equivalents  | 5,379           | 2,496   | 57,193                             |
| Cash and cash equivalents at beginning of year   | 21,305          | 18,809  | 226,528                            |
| Cash and cash equivalents at end of year (note 3)  | ¥26,684         | ¥21,305 | \$283,721                          |

See accompanying notes to consolidated financial statements.

## *Notes to Consolidated Financial Statements*

March 31, 2013

### **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 32 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.

In accordance with the amendment of the Corporation Tax Act, effective from the year ended March 31, 2013, the Company and its domestic consolidated subsidiaries have changed their depreciation method for property and equipment acquired on or after April 1, 2012. As a result of this change, operating income and income before income taxes and minority interests was increased by ¥87 million (\$925 thousand).

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.

Under the Accounting Standards for Retirement and Severance Benefits, provisions 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.

### **(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) 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, 2013.

## **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 29, 2013, which was ¥94.05 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, 2013 and 2012 is follows:

|   | Millions of yen |          | Thousands of U.S. dollars |
|---|-----------------|----------|---------------------------|
|   | 2013            | 2012     | 2013                      |
| Cash  | ¥ 11,743        | ¥ 9,343  | \$ 124,859                |
| Short-term investments that have maturities of three months or less | 15,000          | 12,000   | 159,489                   |
| Time deposits with maturities of over three months                  | (59)            | (38)     | (627)                     |
| Cash and cash equivalents   | ¥ 26,684        | ¥ 21,305 | \$ 283,721                |

### 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, 2013 and 2012 are summarized as follows:

|                   | Millions of yen      |                       |                       |                  |
|-------------------|----------------------|-----------------------|-----------------------|------------------|
|                   | Balance sheet amount | Gross unrealized gain | Gross unrealized loss | Acquisition cost |
| March 31, 2013    |                      |                       |                       |                  |
| Equity securities | ¥ 3,037              | ¥ 661                 | ¥ (20)                | ¥ 2,396          |
| Bond securities   | 10                   | 0                     | —                     | 10               |
|                   | ¥ 3,047              | ¥ 661                 | ¥ (20)                | ¥ 2,406          |
| March 31, 2012    |                      |                       |                       |                  |
| Equity securities | ¥ 2,080              | ¥ 167                 | ¥ (135)               | ¥ 2,048          |
| Bond securities   | 10                   | —                     | —                     | 10               |
| Other             | 12,000               | —                     | —                     | 12,000           |
|                   | ¥ 14,090             | ¥ 167                 | ¥ (135)               | ¥ 14,058         |

|                   | Thousands of U.S. dollars |                       |                       |                  |
|-------------------|---------------------------|-----------------------|-----------------------|------------------|
|                   | Balance sheet amount      | Gross unrealized gain | Gross unrealized loss | Acquisition cost |
| March 31, 2013    |                           |                       |                       |                  |
| Equity securities | \$ 32,291                 | \$ 7,028              | \$ (213)              | \$ 25,476        |
| Bond securities   | 106                       | —                     | —                     | 106              |
|                   | \$ 32,397                 | \$ 7,028              | \$ (213)              | \$ 25,582        |

For the years ended March 31, 2013 and 2012, proceeds from the sale of other securities are ¥30 million (\$319 thousand) and ¥19 million, respectively. For the years ended March 31, 2013 and 2012, gross realized gains are ¥1 million (\$11 thousand) and ¥1 million, respectively. For the years ended March 31, 2013 and 2012, gross realized losses are nil and ¥0 million, respectively.

### 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 2.2% and 1.0% at March 31, 2013 and 2012, respectively.

Long-term borrowings as of March 31, 2013 and 2012 is summarized as follows:

|   | Millions of yen |      | Thousands of U.S. dollars |
|---|-----------------|------|---------------------------|
|   | 2013            | 2012 | 2013                      |
| Loans from banks, unsecured, maturing in installments through 2016; bearing weighted average interest of 0.9 % at March 31, 2013 and 1.5% at March 31, 2012 | ¥ 1             | ¥ 7  | \$ 11                     |
| Less current installments   | 0               | 3    | 0                         |
|   | ¥ 1             | ¥ 4  | \$ 11                     |

Lease liabilities as of March 31, 2013 and 2012 is summarized as follows:

|   | Millions of yen |      | Thousands of U.S. dollars |
|---|-----------------|------|---------------------------|
|   | 2013            | 2012 | 2013                      |
| Lease liabilities maturing in installments through 2018 | ¥ 51            | ¥ 40 | \$ 542                    |
| Less current installments                               | 23              | 22   | 244                       |
|   | ¥ 28            | ¥ 18 | \$ 298                    |

The aggregate annual maturities of long-term borrowings after March 31, 2014 are as follows:

|                       | Millions of yen |   | Thousands of U.S. dollars |    |
|-----------------------|-----------------|---|---------------------------|----|
| Year ending March 31: |                 |   |                           |    |
| 2015                  | ¥               | 1 | \$                        | 11 |
| 2016                  |                 | 0 |                           | 0  |
| 2017                  |                 | – |                           | –  |
| 2018                  |                 | – |                           | –  |

The aggregate annual maturities of lease liabilities after March 31, 2014 are as follows:

|                       | Millions of yen |    | Thousands of U.S. dollars |     |
|-----------------------|-----------------|----|---------------------------|-----|
| Year ending March 31: |                 |    |                           |     |
| 2015                  | ¥               | 14 | \$                        | 149 |
| 2016                  |                 | 6  |                           | 64  |
| 2017                  |                 | 4  |                           | 43  |
| 2018                  |                 | 4  |                           | 43  |

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 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 and 2012 is outlined as follows:

|   | Millions of yen |            | Thousands of U.S. dollars |
|---|-----------------|------------|---------------------------|
|   | 2013            | 2012       | 2013                      |
| Projected benefit obligation                        | ¥ (16,103)      | ¥ (15,231) | \$ (171,217)              |
| Unrecognized actuarial (gain) loss                  | (118)           | 1,599      | (1,255)                   |
| Plan assets at fair value                           | 15,099          | 13,227     | 160,542                   |
| Amount recognized in the consolidated balance sheet | (1,122)         | (405)      | (11,930)                  |
| Accrued retirement and severance benefits           | ¥ (1,122)       | ¥ (405)    | \$ (11,930)               |

Net periodic pension cost for the years ended March 31, 2013 and 2012 consists of the following components:

|                                | Millions of yen |         | Thousands of U.S. dollars |
|--------------------------------|-----------------|---------|---------------------------|
|                                | 2013            | 2012    | 2013                      |
| Service cost                   | ¥ 975           | ¥ 869   | \$ 10,367                 |
| Interest cost                  | 228             | 276     | 2,424                     |
| Expected return on plan assets | (198)           | (260)   | (2,105)                   |
| Amortization of actuarial loss | 590             | 252     | 6,273                     |
| Net periodic pension cost      | ¥ 1,595         | ¥ 1,137 | \$ 16,959                 |

Note: For the years ended March 31, 2013 and 2012, the amount of "Service cost" excludes contributions to the welfare pension fund of ¥753 million (\$8,006 thousand) and ¥685 million, respectively.

Significant assumptions of pension plans used to determine these amounts in fiscal 2013 and 2012 are as follows:

|   | 2013          | 2012          |
|---|---------------|---------------|
| Periodic allocation method for projected benefit              | Straight-line | Straight-line |
| Discount rate   | 1.5%          | 2.0%          |
| Expected rate of return on plan assets                        | 1.5%          | 2.0%          |
| Period for amortization of unrecognized actuarial loss/gain * | 5 years       | 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, 2012 and 2011 is outlined as follows:

|   | Millions of yen |            | Thousands of U.S. dollars |
|---|-----------------|------------|---------------------------|
|   | 2012            | 2011       | 2012                      |
| Plan assets at fair value - (1)                         | ¥ 191,384       | ¥ 186,324  | \$ 2,034,918              |
| Benefit obligation under pension funding programs - (2) | 230,273         | 220,188    | 2,448,411                 |
| (1) - (2)*  | ¥ (38,889)      | ¥ (33,864) | \$ (413,493)              |

The Company's proportion of the salaries to the whole of welfare pension plan at March 31, 2013 and 2012 are 8.1% and 7.4%, 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, 2012 and 2011 is unrecognized prior service cost of the pension program of ¥35,530 million (\$377,778 thousand) and ¥17,266 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% and 40.7% in 2013 and 2012, respectively.

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, 2013 and 2012 is follows:

|  | 2013  | 2012  |
|--|-------|-------|
| Statutory tax rate                                       | 38.0% | 40.7% |
| Change in valuation allowance                            | 0.1   | (0.7) |
| Expenses not deductible for tax purposes                 | 0.6   | 0.9   |
| Income not credited for tax purposes                     | (0.1) | (0.1) |
| Per capita tax   | 0.8   | 0.4   |
| Difference in statutory tax rates of subsidiaries        | 0.3   | (0.2) |
| Tax credits primarily for research and development costs | (3.8) | (6.4) |
| Change in tax rates                                      | —     | 2.0   |
| Other  | 1.1   | 0.7   |
| Effective tax rate                                       | 37.0% | 37.3% |

Significant components of deferred tax assets and liabilities at March 31, 2013 and 2012 are as follows:

|  | Millions of yen |         | Thousands of U.S. dollars |
|--|-----------------|---------|---------------------------|
|  | 2013            | 2012    | 2013                      |
| Deferred tax assets:   |                 |         |                           |
| Valuation loss for inventories   | ¥ 731           | ¥ 654   | \$ 7,772                  |
| Accrued business tax   | 318             | 208     | 3,381                     |
| Accrued bonuses  | 1,067           | 932     | 11,345                    |
| Liabilities for retirement and severance benefits                      | 433             | 195     | 4,604                     |
| Accrued warranty expenses  | 166             | 163     | 1,765                     |
| Allowance for doubtful receivables                                     | 90              | 92      | 957                       |
| Depreciation and amortization  | 1,669           | 1,570   | 17,746                    |
| Intercompany profits on inventories, and property, plant and equipment | 1,182           | 1,201   | 12,568                    |
| Intangible assets  | 1,287           | —       | 13,684                    |
| Other  | 849             | 744     | 9,027                     |
|  | 7,792           | 5,759   | 82,849                    |
| Valuation allowance  | (909)           | (887)   | (9,665)                   |
|  | 6,883           | 4,872   | 73,184                    |
| Deferred tax liabilities:  |                 |         |                           |
| Net unrealized gain on other securities                                | (253)           | (21)    | (2,690)                   |
| Asset retirement obligations   | (20)            | (21)    | (212)                     |
| Valuation difference   | (586)           | —       | (6,231)                   |
| Other  | (17)            | (8)     | (181)                     |
|  | (876)           | (50)    | (9,314)                   |
| Net deferred tax assets  | ¥ 6,007         | ¥ 4,822 | \$ 63,870                 |

Net deferred tax assets and liabilities as of March 31, 2013 and 2012 are reflected in the accompanying consolidated balance sheet under the following captions:

|  | Millions of yen |         | Thousands of U.S. dollars |
|--|-----------------|---------|---------------------------|
|  | 2013            | 2012    | 2013                      |
| Current assets - Deferred income taxes               | ¥ 4,341         | ¥ 3,839 | \$ 46,156                 |
| Investments and other assets - Deferred income taxes | 1,691           | 998     | 17,980                    |
| Non-current liabilities - Deferred income taxes      | (25)            | (15)    | (266)                     |
| Net deferred tax assets                              | ¥ 6,007         | ¥ 4,822 | \$ 63,870                 |

## 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, 2013 and 2012 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, 2012

The following was approved by the general meeting of stockholders held on June 28, 2011.

|                                     |                |
|-------------------------------------|----------------|
| (a) Total dividends                 | ¥1,098 million |
| (b) Cash dividends per common share | ¥25            |
| (c) Record date                     | March 31, 2011 |
| (d) Effective date                  | June 29, 2011  |

The following was approved by the Board of Directors held on November 7, 2011.

|                                     |                    |
|-------------------------------------|--------------------|
| (a) Total dividends                 | ¥923 million       |
| (b) Cash dividends per common share | ¥21                |
| (c) Record date                     | September 30, 2011 |
| (d) Effective date                  | November 30, 2011  |

### (b) 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 (\$10,739 thousand) |
| (b) Cash dividends per common share | ¥23(\$0.24)                        |
| (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 (\$10,282 thousand) |
| (b) Cash dividends per common share | ¥22 (\$0.23)                     |
| (c) Record date                     | September 30, 2012               |
| (d) Effective date                  | November 29, 2012                |

### (c) Dividends to be paid after the balance sheet date but the record date for the payment belongs to the year ended March 31, 2013

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

|                                     |                                    |
|-------------------------------------|------------------------------------|
| (a) Total dividends                 | ¥1,318 million (\$14,014 thousand) |
| (b) Dividend source                 | Retained earnings                  |
| (c) Cash dividends per common share | ¥30 (\$0.32)                       |
| (d) Record date                     | March 31, 2013                     |
| (e) Effective date                  | June 27, 2013                      |

## 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 |
|---------------|-----------------|----------|---------------------------|
|               | 2013            | 2012     | 2013                      |
| Salaries      | ¥ 18,640        | ¥ 18,744 | \$ 198,192                |
| Pension costs | 2,151           | 1,684    | 22,871                    |
| Depreciation  | 2,149           | 2,070    | 22,850                    |
| Legal welfare | 3,068           | 2,823    | 32,621                    |
| Traveling     | 2,503           | 2,218    | 26,614                    |

## 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, 2013 and 2012 are ¥6,425 million (\$68,315 thousand) and ¥5,584 million, respectively.

## 12 Other Comprehensive Income

The reclassification adjustment and the related income tax effects allocated to each component of other comprehensive income (loss) for the years ended March 31, 2013 and 2012 are as follows:

|   | Millions of yen |       | Thousands of U.S. dollars |
|---|-----------------|-------|---------------------------|
|   | 2013            | 2012  | 2013                      |
| Net unrealized gain on other securities:  |                 |       |                           |
| Arising during the year                   | ¥ 611           | ¥ 201 | \$ 6,497                  |
| Reclassification adjustment               | 34              | (1)   | 361                       |
| Before tax amount                         | 645             | 200   | 6,858                     |
| Tax expense                               | (232)           | (78)  | (2,466)                   |
| Net-of-tax amount                         | 413             | 122   | 4,392                     |
| Foreign currency translation adjustments: |                 |       |                           |
| Arising during the year                   | 759             | (119) | 8,070                     |
| Total other comprehensive income          | ¥ 1,172         | ¥ 3   | \$ 12,462                 |

## 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, 2013 and 2012 are as follows:

|                            | Yen      |          | U.S. dollars |
|----------------------------|----------|----------|--------------|
|                            | 2013     | 2012     | 2013         |
| Basic net income per share | ¥ 208.31 | ¥ 173.49 | \$ 2.21      |

|  | Millions of yen |        | Thousands of U.S. dollars |
|--|-----------------|--------|---------------------------|
|  | 2013            | 2012   | 2013                      |
| Net income                                       | ¥9,152          | ¥7,622 | \$97,310                  |
| Net income not applicable to common stockholders | —               | —      | —                         |
| Net income applicable to common stockholders     | ¥9,152          | ¥7,622 | \$97,310                  |

|   | Number of shares (Thousands) |        |
|---|------------------------------|--------|
|   | 2013                         | 2012   |
| Weighted average number of shares outstanding on which basic net income per share is calculated | 43,931                       | 43,932 |

## (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, 2013 and 2012 are as follows:

|                      | Yen        |            | U.S. dollars |
|----------------------|------------|------------|--------------|
|                      | 2013       | 2012       | 2013         |
| Net assets per share | ¥ 1,734.73 | ¥ 1,544.87 | \$ 18.44     |

|  | Millions of yen |          | Thousands of U.S. dollars |
|--|-----------------|----------|---------------------------|
|  | 2013            | 2012     | 2013                      |
| Total net assets                             | ¥ 76,256        | ¥ 67,911 | \$ 810,803                |
| Amount deducted from total net assets:       |                 |          |                           |
| Minority interests                           | 47              | 41       | 500                       |
| Net assets applicable to common stockholders | ¥ 76,209        | ¥ 67,870 | \$ 810,303                |

|   | Number of shares (Thousands) |        |
|---|------------------------------|--------|
|   | 2013                         | 2012   |
| Number of shares outstanding at end of year on which net assets per share is calculated | 43,931                       | 43,932 |

## 14 Leases

A summary of assumed amounts of acquisition cost which includes interest portion, accumulated depreciation and net book value at March 31, 2013 and 2012 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                   |                               |       |
|--------------------------|-----------------------------------|-------------------------------|-------|
|                          | Machinery, equipment and vehicles | Tools, furniture and fixtures | Total |
| March 31, 2013           |                                   |                               |       |
| Acquisition cost         | ¥ —                               | ¥ 5                           | ¥ 5   |
| Accumulated depreciation | —                                 | 4                             | 4     |
| Net book value           | ¥ —                               | ¥ 1                           | ¥ 1   |
| March 31, 2012           |                                   |                               |       |
| Acquisition cost         | ¥ 4                               | ¥ 5                           | ¥ 9   |
| Accumulated depreciation | 4                                 | 3                             | 7     |
| Net book value           | ¥ 0                               | ¥ 2                           | ¥ 2   |

|                          | Thousands of U.S. dollars         |                               |       |
|--------------------------|-----------------------------------|-------------------------------|-------|
|                          | Machinery, equipment and vehicles | Tools, furniture and fixtures | Total |
| March 31, 2013           |                                   |                               |       |
| Acquisition cost         | \$ —                              | \$ 53                         | \$ 53 |
| Accumulated depreciation | —                                 | 42                            | 42    |
| Net book value           | \$ —                              | \$ 11                         | \$ 11 |

Future minimum payments which include interest portion required under finance leases currently accounted for as operating leases at March 31, 2013 and 2012 are as follows:

|                 | Millions of yen |      | Thousands of U.S. dollars |
|-----------------|-----------------|------|---------------------------|
|                 | 2013            | 2012 | 2013                      |
| Within one year | ¥ 1             | ¥ 1  | \$ 11                     |
| Over one year   | 0               | 1    | 0                         |
|                 | ¥ 1             | ¥ 2  | \$ 11                     |

Lease payments for finance leases currently accounted for as operating leases for the years ended March 31, 2013 and 2012 amounted to ¥1 million (\$11 thousand) and ¥4 million, respectively.

Future minimum payments required under noncancellable operating leases at March 31, 2013 and 2012 are as follows:

|                 | Millions of yen |       | Thousands of U.S. dollars |
|-----------------|-----------------|-------|---------------------------|
|                 | 2013            | 2012  | 2013                      |
| Within one year | ¥ 63            | ¥ 121 | \$ 670                    |
| Over one year   | 38              | 107   | 404                       |
|                 | ¥ 101           | ¥ 228 | \$ 1,074                  |

## 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, 2013 and 2012 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 |            |             |
|---|-----------------|------------|-------------|---------------------------|------------|-------------|
|   | Carrying value  | Fair value | Differences | Carrying value            | Fair value | Differences |
| March 31, 2013                          |                 |            |             |                           |            |             |
| (1) Cash                                | ¥ 11,743        | ¥ 11,743   | ¥ —         | \$ 124,859                | \$ 124,859 | \$ —        |
| (2) Trade notes and accounts receivable | 46,043          | 46,043     | —           | 489,559                   | 489,559    | —           |
| (3) Short-term investments              | 15,000          | 15,000     | —           | 159,490                   | 159,490    | —           |
| (4) Investments in securities:          |                 |            |             |                           |            |             |
| Other securities                        | 3,047           | 3,047      | —           | 32,398                    | 32,398     | —           |
| (5) Trade notes and accounts payable    | 24,424          | 24,424     | —           | 259,692                   | 259,692    | —           |
| (6) Short-term debt                     | 1,589           | 1,589      | —           | 16,895                    | 16,895     | —           |

| March 31, 2012                          | Millions of yen |            |             |
|---|-----------------|------------|-------------|
|   | Carrying value  | Fair value | Differences |
| (1) Cash                                | ¥ 9,343         | ¥ 9,343    | ¥ —         |
| (2) Trade notes and accounts receivable | 42,250          | 42,250     | —           |
| (3) Short-term investments              | 12,000          | 12,000     | —           |
| (4) Investments in securities:          |                 |            |             |
| Other securities                        | 2,090           | 2,090      | —           |
| (5) Trade notes and accounts payable    | 20,068          | 20,068     | —           |
| (6) Short-term debt                     | 620             | 620        | —           |

<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 |
|--|-----------------|-------|---------------------------|
|  | 2013            | 2012  | 2013                      |
| Unlisted equity securities                                 | ¥ 239           | ¥ 239 | \$ 2,541                  |
| Investments in limited partnership and similar partnership | 180             | 227   | 1,914                     |

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, 2013

|   | 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                                | ¥ 11,743            | ¥ —                                   | ¥ —                                    | ¥ —                 |
| (2) Trade notes and accounts receivable | 46,043              | —                                     | —                                      | —                   |
| (3) Short-term investments              | 15,000              | —                                     | —                                      | —                   |
| (4) Investments in securities:          |                     |                                       |  |                     |
| Other securities with maturities:       |                     |                                       |  |                     |
| Bond securities                         | —                   | 10                                    | —                                      | —                   |

|   | 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                                | \$ 124,859                | \$ —                                  | \$ —                                   | \$ —                |
| (2) Trade notes and accounts receivable | 489,559                   | —                                     | —                                      | —                   |
| (3) Short-term investments              | 159,490                   | —                                     | —                                      | —                   |
| (4) Investments in securities:          |                           |                                       |  |                     |
| Other securities with maturities:       |                           |                                       |  |                     |
| Bond securities                         | —                         | 106                                   | —                                      | —                   |

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

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



## 16 Business Combinations

### (a) Outline

On November 30, 2012, RESUSCITATION SOLUTION, INC., the consolidated subsidiary of the Company acquired a 100% of the voting rights in Defibtech, LLC, which engages in manufacturing resuscitation equipment. Through this business combination, the Company expects the reinforcement of technological capability in the resuscitation area and expansion its business in the US market.

(b) The results of Defibtech, LLC operations are included in the consolidated financial statements from December 1, 2012 to December 31, 2012.

(c) Details of acquisition cost are as follows:

|   | Millions of yen | Thousands of U.S. dollars |
|---|-----------------|---------------------------|
| Payment for acquisition of stocks                   | ¥ 3,906         | \$ 41,531                 |
| Acquisition related costs such as advisory services | 202             | 2,148                     |
| Acquisition cost of stocks                          | ¥ 4,108         | \$ 43,679                 |

(d) There is the escalation clause that adjusts the acquisition cost based on the results of operations after the acquisition in the business combination agreement. If additional payment is required based on the clause, the acquisition cost will be revised assuming that the additional payment had been made at the time of acquisition and the Company adjusts the goodwill amount and its amortization.

(e) The Company recognized goodwill of ¥1,491 million (\$15,853 thousand) and it is amortized over 20 years. Goodwill is calculated based on the projected future excess earnings through future business development.

(f) Assets and liabilities acquired on the day of the business combination is as follows:

|                     | Millions of yen | Thousands of U.S. dollars |
|---------------------|-----------------|---------------------------|
| Current assets      | ¥ 587           | \$ 6,241                  |
| Non-current assets  | 16              | 170                       |
| Total assets        | ¥ 603           | \$ 6,411                  |
| Current liabilities | ¥ 274           | \$ 2,913                  |
| Total liabilities   | ¥ 274           | \$ 2,913                  |

(g) Detail of amounts allocated to intangible assets other than goodwill and their amortization period is as follows:

|               | Millions of yen | Thousands of U.S. dollars | Amortization |
|---------------|-----------------|---------------------------|--------------|
| Technology    | ¥ 672           | \$ 7,145                  | 20 years     |
| Customer list | 646             | 6,869                     | 10 years     |
| Patent        | 294             | 3,126                     | 10 years     |
| Total         | ¥ 1,612         | \$ 17,140                 | 12 years*    |

\* Weighted-average period

(h) The following table summarizes the estimated impact on the consolidated statement of income for the year ended March 31, 2013, if it is assumed that the business combination was completed on April 1, 2012.

|                  | Millions of yen | Thousands of U.S. dollars |
|------------------|-----------------|---------------------------|
| Net sales        | ¥ 1,962         | \$ 20,861                 |
| Operating income | 116             | 1,233                     |
| Net income       | 98              | 1,042                     |

The estimated impact is calculated as the difference between the net sales and profit and loss that has been calculated under the assumption that the business combination was completed on April 1, 2012, and those reported in the consolidated statement of income. Goodwill amortization amount is also adjusted under the assumption that goodwill recognized on April 1, 2012.

This estimated impact has not being audited.

## 17 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, 2013 and 2012.

### Related Information

#### (a) Information by products and services

Sales by products and services for the years ended March 31, 2013 and 2012 are as follows:

|                                   | Millions of yen |           | Thousands of U.S. dollars |
|-----------------------------------|-----------------|-----------|---------------------------|
|                                   | 2013            | 2012      | 2013                      |
| Physiological measuring equipment | ¥ 33,872        | ¥ 30,676  | \$ 360,149                |
| Patient monitors                  | 43,661          | 39,352    | 464,232                   |
| Treatment equipment               | 21,605          | 20,289    | 229,718                   |
| Other                             | 33,400          | 30,401    | 355,130                   |
|                                   | ¥ 132,538       | ¥ 120,718 | \$ 1,409,229              |

#### (b) Geographic information

(1) Geographical sales for the years ended March 31, 2013 and 2012 are as follows:

|          | Millions of yen |           | Thousands of U.S. dollars |
|----------|-----------------|-----------|---------------------------|
|          | 2013            | 2012      | 2013                      |
| Japan    | ¥ 110,216       | ¥ 99,707  | \$ 1,171,888              |
| Americas | 8,090           | 6,951     | 86,018                    |
| Europe   | 5,612           | 6,384     | 59,670                    |
| Asia     | 7,561           | 6,795     | 80,393                    |
| Other    | 1,059           | 881       | 11,260                    |
|          | ¥ 132,538       | ¥ 120,718 | \$ 1,409,229              |

(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, 2013 and 2012.

#### (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, 2013 and 2012.

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

The information is not applicable for the years ended March 31, 2013 and 2012.

#### Goodwill by reported segments

The information is not applicable for the years ended March 31, 2013 and 2012.

#### Negative goodwill incurred by reported segments

The information is not applicable for the years ended March 31, 2013 and 2012.

## 18 Supplemental Cash Flow Information

Assets and liabilities of Defibtech, LLC, the newly consolidated subsidiary in 2013 by acquisition at the inception of consolidation, and net payment for the acquisition are as follows:

|   | Millions of yen | Thousands of U.S. dollars |
|---|-----------------|---------------------------|
| Current assets  | ¥ 587           | \$ 6,241                  |
| Non-current assets                                    | 2,304           | 24,498                    |
| Goodwill  | 1,491           | 15,853                    |
| Current liabilities                                   | (274)           | (2,913)                   |
| Acquisition cost of stock                             | 4,108           | 43,679                    |
| Cash and cash equivalents held by acquired subsidiary | 127             | 1,350                     |
| Net payment for acquisition                           | ¥ (3,981)       | \$ (42,329)               |

## *Independent Auditors' Report*

March 31, 2013



Tel: +8-3-3295-1040  
Fax: +8-3-3295-1993  
www.bdo-toyo.or.jp

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, 2013, 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, 2013, 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, 2013

# Corporate Directory

As of June 26, 2013

## Board of Directors

### Chairman and CEO

Kazuo Ogino

### President and COO

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

Shinji Yamamori

Shigeru Hirata

Toshihiko Hiraoka

Yasuhiro Yoshitake

Kazuteru Yanagihara

Yoshiaki Uematsu

Makoto Magara

Shuheii Morinaga

Kazuomi Shimoda

## 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\*

4,360 (group)

\*As of March 31, 2013

### 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. (Foothill Ranch, CA, USA)

Nihon Kohden Do Brasil Ltda. (Sao Paulo, Brasil)

##### Europe

Nihon Kohden Europe GmbH (Rosbach, v.d.H., 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 Center, Singapore)

Nihon Kohden India Private 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 Corporation (Shanghai, China)

##### R&D

##### USA

NK US Lab (Irvine, CA, USA)

Neurotronics Inc. (Gainesville, FL, USA)

#### Production

##### Italy

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

##### India

Span Nihon Kohden Diagnostics Private 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)                   | 2,570                     | 5.61%              |
| Saitama Resona Bank, Ltd.  | 2,096                     | 4.58%              |
| The Master Trust Bank of Japan, Ltd. (trust account)               | 2,065                     | 4.51%              |
| Toshiba Medical Systems Corporation                                | 1,990                     | 4.34%              |
| State Street Bank and Trust Company 505223                         | 1,989                     | 4.34%              |
| Fujitsu Ltd.   | 1,063                     | 2.32%              |
| THE CHASE MANHATTAN BANK, N.A. LONDON SECS LENDING OMNIBUS ACCOUNT | 924                       | 2.01%              |
| Morgan Stanley & Co. LLC   | 878                       | 1.91%              |
| RBC IST LONDON - CLIENTS ACCOUNT                                   | 869                       | 1.89%              |
| MELLON BANK N.A. AS AGENT FOR ITS CLIENT MELLON OMNIBUS US PENSION | 730                       | 1.59%              |
| Subtotal   | 15,178                    |                    |
| Total Outstanding Issue  | 45,765                    |                    |

\* As of March 31, 2013



---

**NIHON KOHDEN CORPORATION**

1-31-4 Nishiochiai, Shinjuku-ku, Tokyo 161-8560, Japan

Phone +81(3)5996-8036 Fax +81(3)5996-8100

[www.nihonkohden.com](http://www.nihonkohden.com)

