

Fighting Disease with Electronics



ANNUAL REPORT 2018

April 2017 – March 2018



Profile

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

Management Philosophy

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

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

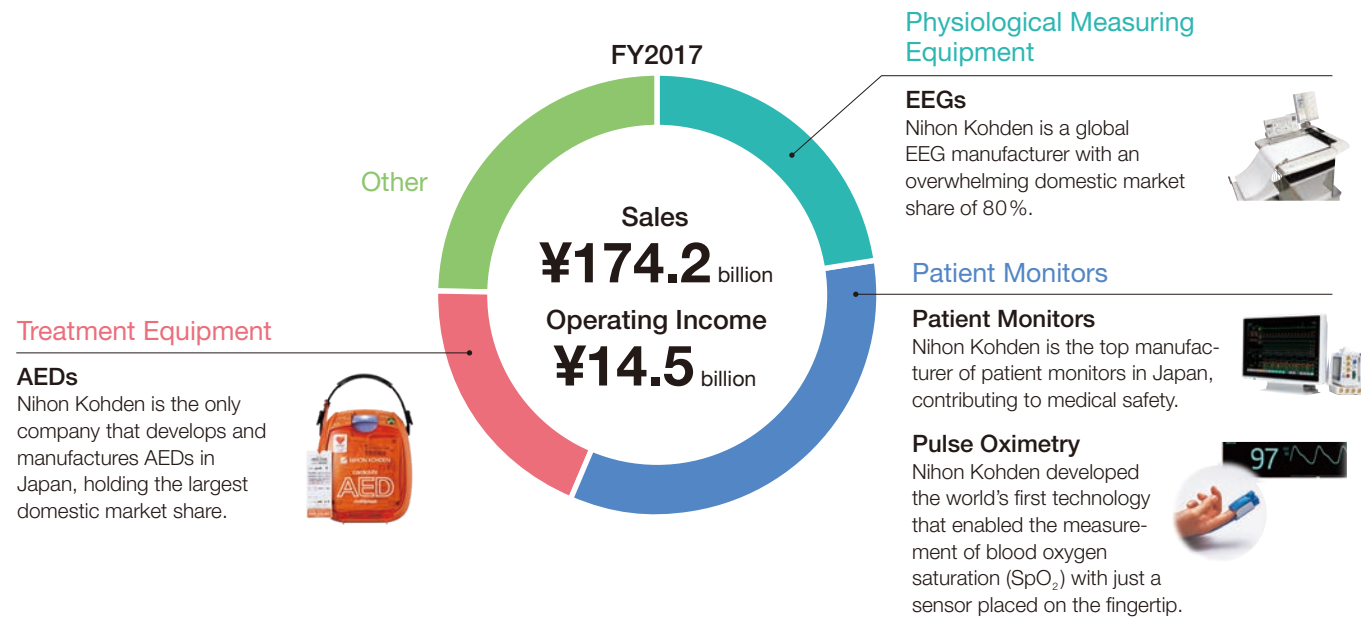
Our medical devices developed so far have been used in medical practice in more than 120 countries around the world to save many patients.

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

Core Strengths of Nihon Kohden

Nihon Kohden has many products with the top domestic market share.

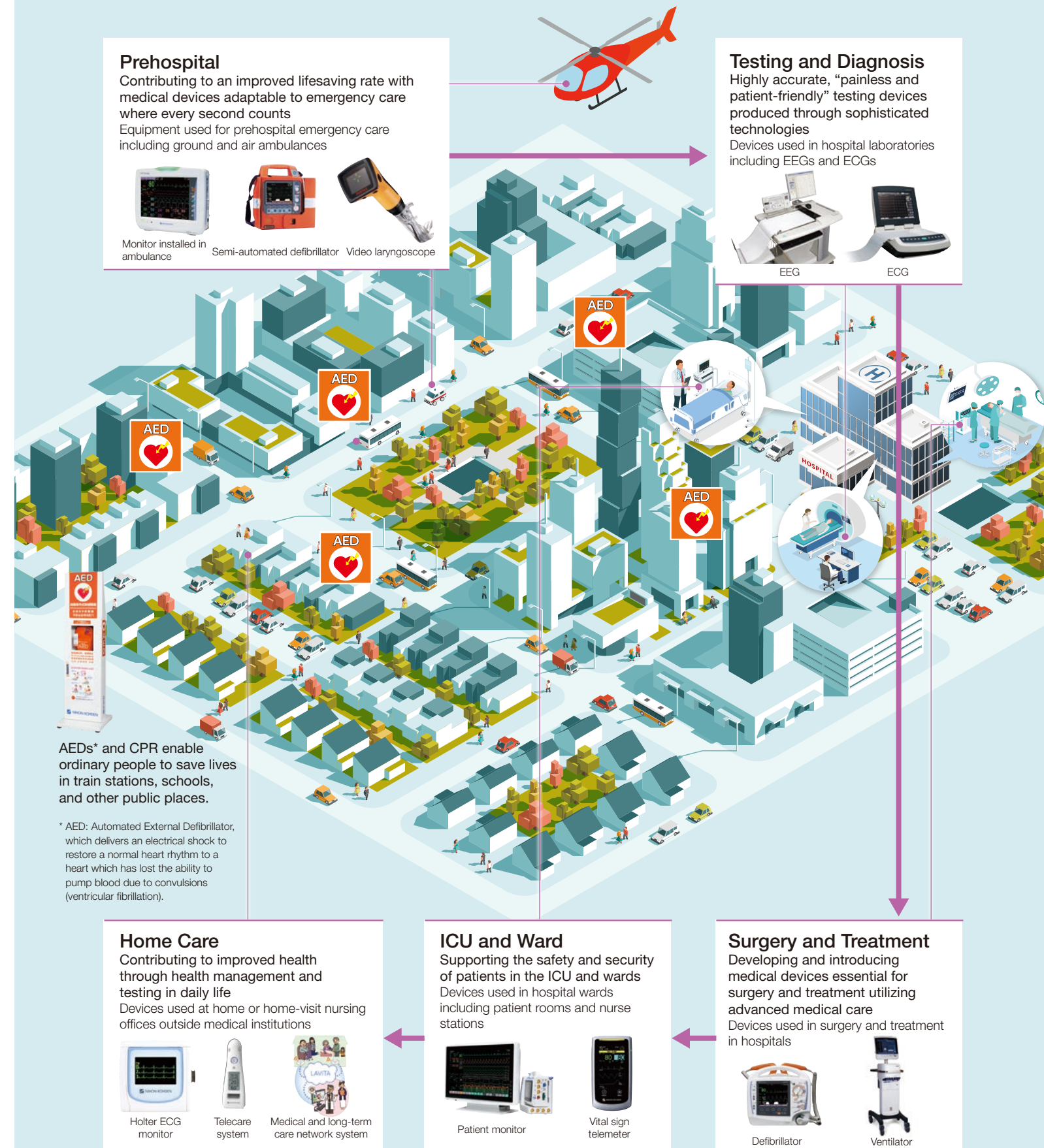
Nihon Kohden has produced a number of innovative medical devices and technologies with its technological development capabilities rooted in medical practice. In part because of the strength of the Nihon Kohden brand, which we have built up over many years, Nihon Kohden has many products with the top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



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



Financial Summary

April 2010 to March 2020

Long-term Vision

The CHANGE 2020

Mid-term Business Plan

April 2007

SPEED UP II

April 2010

SPEED UP III

April 2013

Strong Growth 2017

April 2017

TRANSFORM 2020

Millions of yen unless otherwise stated

| Fiscal year | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 |
|--------------------------------------------------------------------------------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| Business results | | | | | | | | | | | |
| Net sales | 104,825 | 109,123 | 107,013 | 113,380 | 120,718 | 132,538 | 153,194 | 160,803 | 165,522 | 166,285 | 174,249 |
| Operating income | 9,817 | 8,106 | 9,321 | 10,598 | 12,027 | 13,484 | 17,547 | 15,921 | 16,438 | 13,585 | 14,517 |
| Income attributable to owners of parent ¹ | 5,631 | 4,610 | 5,917 | 6,573 | 7,621 | 9,151 | 12,346 | 11,142 | 10,516 | 9,149 | 9,154 |
| Financial position | | | | | | | | | | | |
| Current assets | 63,718 | 61,470 | 69,685 | 75,366 | 82,742 | 95,181 | 106,515 | 118,389 | 112,929 | 119,235 | 124,601 |
| Current liabilities | 28,242 | 26,277 | 29,722 | 29,673 | 30,714 | 39,028 | 41,248 | 45,654 | 42,901 | 45,006 | 44,605 |
| Total assets | 80,630 | 80,479 | 88,000 | 92,495 | 99,403 | 116,800 | 130,917 | 146,755 | 144,270 | 152,806 | 157,941 |
| Net assets | 51,814 | 53,569 | 57,949 | 62,294 | 67,911 | 76,256 | 88,512 | 99,304 | 97,671 | 103,887 | 109,355 |
| Cash flows | | | | | | | | | | | |
| Cash flows from operating activities | 8,621 | 4,123 | 10,679 | 5,892 | 7,559 | 13,189 | 9,383 | 12,505 | 10,765 | 11,356 | 10,843 |
| Cash flows from investing activities | (2,857) | (5,968) | (2,810) | (1,874) | (2,338) | (6,959) | (4,421) | (4,689) | (7,802) | (6,344) | (3,346) |
| Free cash flow | 5,764 | (1,844) | 7,869 | 4,018 | 5,220 | 6,229 | 4,962 | 7,815 | 2,962 | 5,011 | 7,497 |
| Cash flow from financing activities | (2,887) | (601) | (2,850) | (1,536) | (2,726) | (1,174) | (3,436) | (3,267) | (9,488) | (3,517) | (4,628) |
| Cash and cash equivalents | 13,797 | 11,197 | 16,331 | 18,808 | 21,304 | 26,683 | 28,808 | 34,113 | 27,283 | 28,560 | 31,285 |
| Per share information | | | | | | | | | | | |
| Net income (Yen) ² | 128.01 | 104.94 | 134.68 | 149.62 | 173.49 | 208.31 | 281.03 | 126.83 | 120.12 | 106.81 | 106.92 |
| Dividends (Yen) ³ | 37.0 | 37.0 | 37.0 | 44.0 | 44.0 | 52.0 | 70.0 | 70.0 | 35.0 | 35.0 | 35.0 |
| Other | | | | | | | | | | | |
| R&D costs | 4,662 | 4,656 | 4,418 | 5,105 | 5,583 | 6,424 | 7,108 | 5,745 | 5,910 | 6,466 | 7,226 |
| Number of employees (Persons) | 3,367 | 3,552 | 3,588 | 3,776 | 4,057 | 4,360 | 4,495 | 4,616 | 4,776 | 4,934 | 5,031 |
| Number of shares outstanding at end of year (Thousands of shares) ⁴ | 45,765 | 45,765 | 45,765 | 45,765 | 45,765 | 45,765 | 45,765 | 45,765 | 89,730 | 89,730 | 89,730 |
| Key performance indicators | | | | | | | | | | | |
| ROE (%) | 11.3 | 8.8 | 10.6 | 10.9 | 11.7 | 12.7 | 15.0 | 11.9 | 10.7 | 9.1 | 8.6 |
| Operating income margin (%) | 9.4 | 7.4 | 8.7 | 9.3 | 10.0 | 10.2 | 11.5 | 9.9 | 9.9 | 8.2 | 8.3 |
| Dividend payout ratio (%) | 28.9 | 35.3 | 27.5 | 29.4 | 25.4 | 25.0 | 24.9 | 27.6 | 29.1 | 32.8 | 32.7 |

¹ The figures for FY2014 or earlier periods represent net income.

² Effective April 1, 2015, each share of common stock was split into two shares. The Company calculates net income per share on the assumption that the stock split was conducted at the beginning of FY2014.

³ Effective April 1, 2015, each share of common stock was split into two shares. The figures for FY2014 or earlier periods represent dividends per share based on the number of shares before the said stock split.

⁴ Effective April 1, 2015, each share of common stock was split into two shares.

Interview with the President



By strengthening initiatives in the Mid-term Business Plan, TRANSFORM 2020, we will transform operations to achieve a highly profitable structure

Hirokazu Ogino
Representative Director, President and CEO

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

In Japan, to cope with the 2025 problem where the Japanese baby-boomer generation will be over 75 years old, the government is promoting integrated reform of medical care and nursing care. In each prefectural and city government, the work is already under way to determine how to allocate beds for each hospitalization phase—acute, rehabilitation, and long-term care. In acute-care hospitals, advanced medical facilities are required for efficiency, and the replacement of equipment, which had been introduced through the Regional Medical Care Revival Fund, has begun. Also, in small to medium-sized hospitals responsible for the rehabilitation and long-term care phases of hospitalization, demand is expected to increase for devices such as patient monitors as a direct result of increasing the number of beds.

Overseas demand for medical equipment is expected to remain steady overall due to an increase in population. Market centers are shifting from developed countries to emerging economies, especially with the growth of emerging markets such as China, India, and Africa. We will strengthen our sales and R&D functions in the United States, the world's largest and most-advanced medical equipment market, to further enhance our overall presence. We will also, taking a global perspective, facilitate a necessary strengthening of our strategy for emerging markets in areas such as development, production, and logistics.

Q How is the Mid-term Business Plan, TRANSFORM 2020, progressing?

In our three-year Mid-term Business Plan, TRANSFORM 2020, beginning from April 2017, we are focusing on achieving a transformation to a highly profitable business structure toward 2020 or soon thereafter, through creating high customer value and improving productivity within the organization.

First, to create high customer value, we consider it essential to develop high-value-added products by maximizing our core Human Machine Interface* technologies.

In March 2018, we launched a key product, the medium-sized model of the bedside monitor CSM-1500 series. We are also working on strengthening our consumables and maintenance service business as recurring business, leading to secure and stable revenue.

Second, to improve productivity within the organization, we are promoting the reform of the global production and distribution system. We are working on improving production efficiency and greater cost reductions by making the maximum use of the Tomioka Production Center as well as strengthening the global supply chain. Moreover, to introduce highly competitive products to the market in a timely manner, the further enhancement of our development efficiency is necessary. The Advanced Technology Center was established in 2016 and our development bases that had formerly been dispersed have now been brought together in one place with a world-class test facility. Now, we cannot only centralize all of our development processes, but also promote collaboration between technology departments, and the development of new products that integrate core technologies.

■ Mid-term Business Plan

TRANSFORM 2020

Transform its operations to achieve a highly profitable structure

Basic Policies

1 Create high customer value

2 Improve productivity within the organization

Targets for FY2019
ending March 2020 (consolidated)

| | Targets |
|------------------|--------------|
| Sales | ¥190 billion |
| Domestic sales | ¥135 billion |
| Overseas sales | ¥55 billion |
| Operating income | ¥20 billion |
| ROE | 12.0 % |

Six Key Strategies

Strengthen business expansion by region

Achieve further growth in core businesses

Develop new businesses

↑

Strengthen technological development capabilities
 Pursue the highest level of quality in the world
 Consolidate corporate fundamentals

↑

Human Resource Development and Corporate Culture Reform

Furthermore, in order to improve our operational efficiency across the entire organization, we are initiating a process of business reform using ICTs such as ERP and CRM. Since we integrated our domestic sales subsidiaries into our headquarters in April 2017, we are promoting consolidation and standardization of operations, and are enhancing operational efficiency.

* Human Machine Interface is the user interface that connects human and machine. For Nihon Kohden, this refers to sensor technology, signal processing technology, and data analysis technology.

Q Can you please elaborate on the next phase of implementation for the Mid-term Business Plan, TRANSFORM 2020?

In 2018, we enter the second year of the Mid-term Business Plan, TRANSFORM 2020, and we will further strengthen our efforts toward transformation to a highly profitable business structure and gain a strong foothold for growth after 2020. Specifically, we will focus on improving the gross margin, which is the source of earnings. First, we will expand the lineup of medium-sized and general-purpose bedside monitor models to drive growth. Furthermore, we plan to launch our first ventilator and anesthesia machine to the market. Also, as a means to strengthen our consumables business in

overseas markets, we are reducing costs by automating production, improving the price competitiveness of those consumables. For the strategic sales expansion of these new products, we will also strengthen our sales structure. In Japan, we put more sales resources into the Tokyo metropolitan area where demand for medical care is increasing. And, finally, to enhance sales development in emerging markets, we have the newly formed International Sales Management Operations Department, which has jurisdiction over Latin America, Asia, the Middle East, and Africa.

Interview with the President

Q How is Nihon Kohden addressing social issues through CSR?

Over recent years, Nihon Kohden's business environment has been undergoing a drastic change. We have been called upon to respond to change across a range of areas, including serious environmental issues, an aging society and a declining birthrate in advanced countries, and intensifying global competition. In such an age of upheaval, we have taken a wide range of initiatives across three key fields, Healthcare, Environment, and Corporate Activities, as outlined in our Mid-term CSR Plan, Sustainable Growth 2020, to ensure sustainable growth and enhanced corporate value.

Through our healthcare initiatives, we not only offer quality products and services that contribute to improving quality of medical care and ensuring safe and secure medical care throughout the care cycle, but also are involved in activities to widely disseminate Basic Life Support using AEDs (automated external defibrillators) both domestically and overseas. For example, at the Tokyo Marathon 2018, held in February, we acted as an official supporting partner for life-saving by making available 96 AEDs and 73 employee volunteers. On the day of the event, two AEDs were called on to administer aid, and, in one of these cases, our employee volunteers performed CPR (cardiopulmonary resuscitation) to assist in saving a life.

Our environmental initiatives target long-term environmental goals to reduce carbon dioxide emissions in line with the

Paris Agreement. To achieve this, we are targeting reductions from FY2013 levels of 12% by FY2020, 26% by FY2030, and 80% by FY2050, which we will achieve by offering environmentally friendly products and promoting cooperation across our supply chain.

In the area of corporate activities, Nihon Kohden has adopted a Company with an Audit & Supervisory Committee structure and newly created a Nomination and Remuneration Committee in 2016 to further enhance corporate governance. From June 2018, one-third of the Board of Directors are independent outside directors. Along with moves to expand our business globally, we are placing increasing importance on compliance initiatives. In 2017, in tandem with establishing our Anti-corruption Rules across the entire Nihon Kohden Group, we also introduced a global compliance program. Furthermore, to improve the work-life balance of our employees and enhance productivity, we are aggressively implementing Work Style Reforms. For example, we are introducing a flextime system and a work at home system to enable greater efficiency and flexibility in work styles.

In July 2015, we signed the United Nations Global Compact to cement our commitment to a sustainable society through the promotion of initiatives in accordance with the Ten Principles of the United Nations Global Compact in the areas of human rights, labor, the environment, and anti-corruption.

Q Do you have any final words for your stakeholders?

Since Nihon Kohden was established in 1951, we have contributed to medical practices throughout the world, offering a large number of cutting-edge, high-quality medical devices, and, as a manufacturer of medical electronic equipment, we have worked toward realizing our Management Philosophy of "We contribute to the world by fighting disease and improving health with advanced technology, and create a fulfilling life for our employees."

To enable us to assist in saving the lives of as many patients as possible, we are targeting improved corporate governance and enhancing the soundness and transparency of our management to secure trust and growth as a company

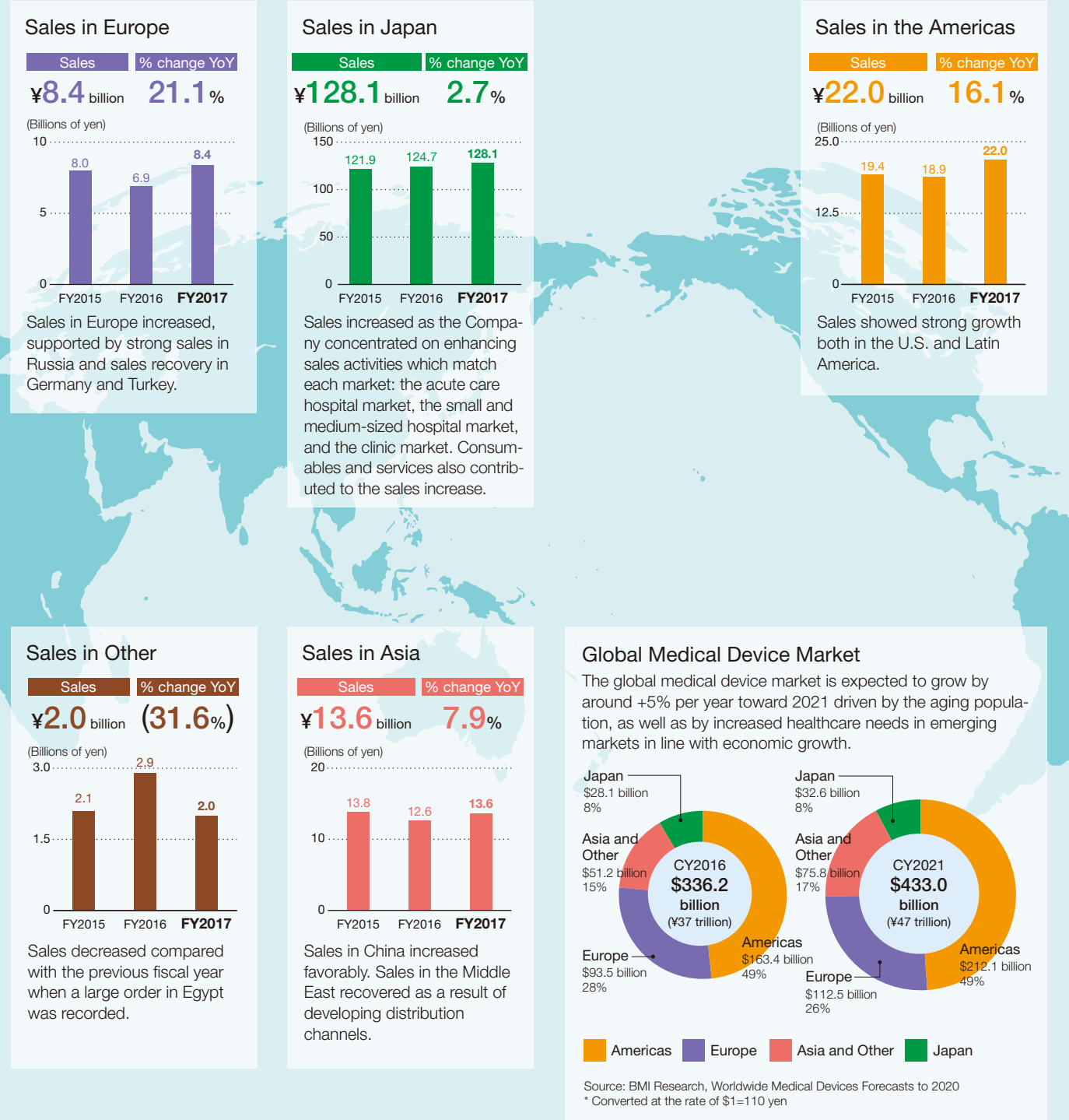
recognized by all our stakeholders: customers, shareholders, business partners, and society.

Currently, our operating environment is reaching a significant turning point. As a means of facing the challenge of this new age, we are working even harder to enhance sustainable growth and maximize Nihon Kohden's potential.

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

Global Business Strategy

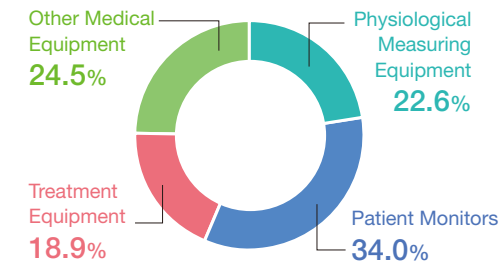
The products Nihon Kohden has developed so far are exported to more than 120 countries and used in medical practice all over the world. Under its Mid-term Business Plan, TRANSFORM 2020, Nihon Kohden works on strengthening business expansion by region: Japan, the United States, and emerging markets. Our patient monitoring systems have been introduced in the top university hospitals in the U.S. which has contributed to strengthening Nihon Kohden's overall presence in the U.S., the largest healthcare market in the world.



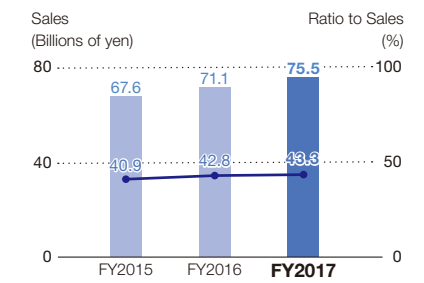
Product Strategy

Under its Mid-term Business Plan, TRANSFORM 2020, Nihon Kohden aims to transform its operations to achieve a highly profitable structure by creating high customer value. We focus on developing high-value-added medical equipment by utilizing our Human Machine Interface technologies. We also continue to expand consumables and services business as a stable source of earnings.

Sales by Product Category FY2017



Sales of Consumables and Maintenance Services

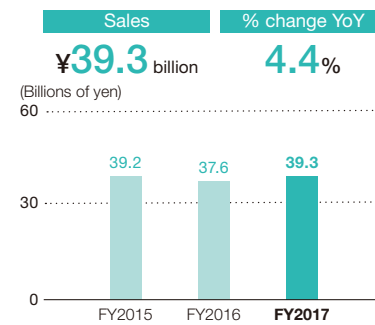


Physiological Measuring Equipment



ECG-2400 series Electrocardiograph

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



Review of FY2017

| | |
|---------------|------------------------------------------------------------------------------------------------------------------------------------------------------|
| Japan | Sales of polygraphs for cath lab and diagnostic information systems increased favorably. Sales of ECGs increased, while sales of EEGs remained flat. |
| International | Sales of ECGs increased favorably, while sales of EEGs decreased. |

New Products

In FY2017, a clinical assistant service, a medical and long-term care network system, and a Holter ECG monitor were launched for the clinic market.



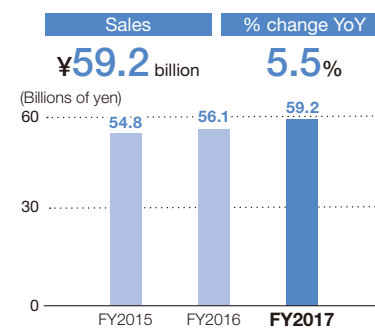
RAC-5000 series Holter ECG monitor

Patient Monitors



CSM-1901 Bedside monitor

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



| | |
|---------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Japan | Sales of clinical information systems increased favorably. Consumables such as sensors also contributed to increased sales. |
| International | Sales in the Americas, Europe, and Asia increased, especially led by strong sales in the U.S. Sales in Other decreased due to a reaction to a large-scale order in the previous fiscal year. |

In FY2017, a mid-end bedside monitor for the acute care hospital market was launched. In FY2018, we will introduce a bedside monitor for emerging markets.



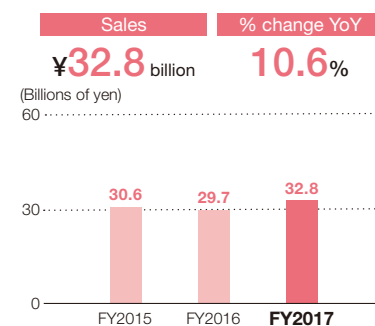
CSM-1500 series Bedside monitor

Treatment Equipment



AED-3100 Automated external defibrillator

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



| | |
|---------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Japan | Sales of AEDs increased due to recovery of replacement demand and the increased sales of consumables. Sales of defibrillators and ventilators also increased favorably. |
| International | Sales of defibrillators showed strong growth in all areas. Sales of AEDs increased favorably in the Americas and Europe. |

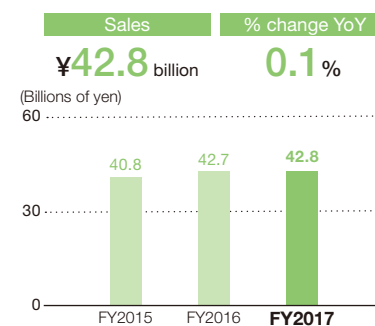
In FY2018, the Company's first ventilator and anesthesia machine will be launched. Both products are expected to generate synergy with our patient monitors because these are used together in intensive care units (ICUs) and operating rooms (ORs).

Other Medical Equipment



MEK-9100 Automated hematology analyzer

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



| | |
|---------------|----------------------------------------------------------------------|
| Japan | Sales of hematology instruments decreased. |
| International | Sales of hematology analyzers increased in Latin America and Europe. |

In June 2018, the Company's first automated hematology analyzer and clinical chemistry analyzer was launched for the clinic market.



MEK-1303 Automated hematology analyzer and clinical chemistry analyzer

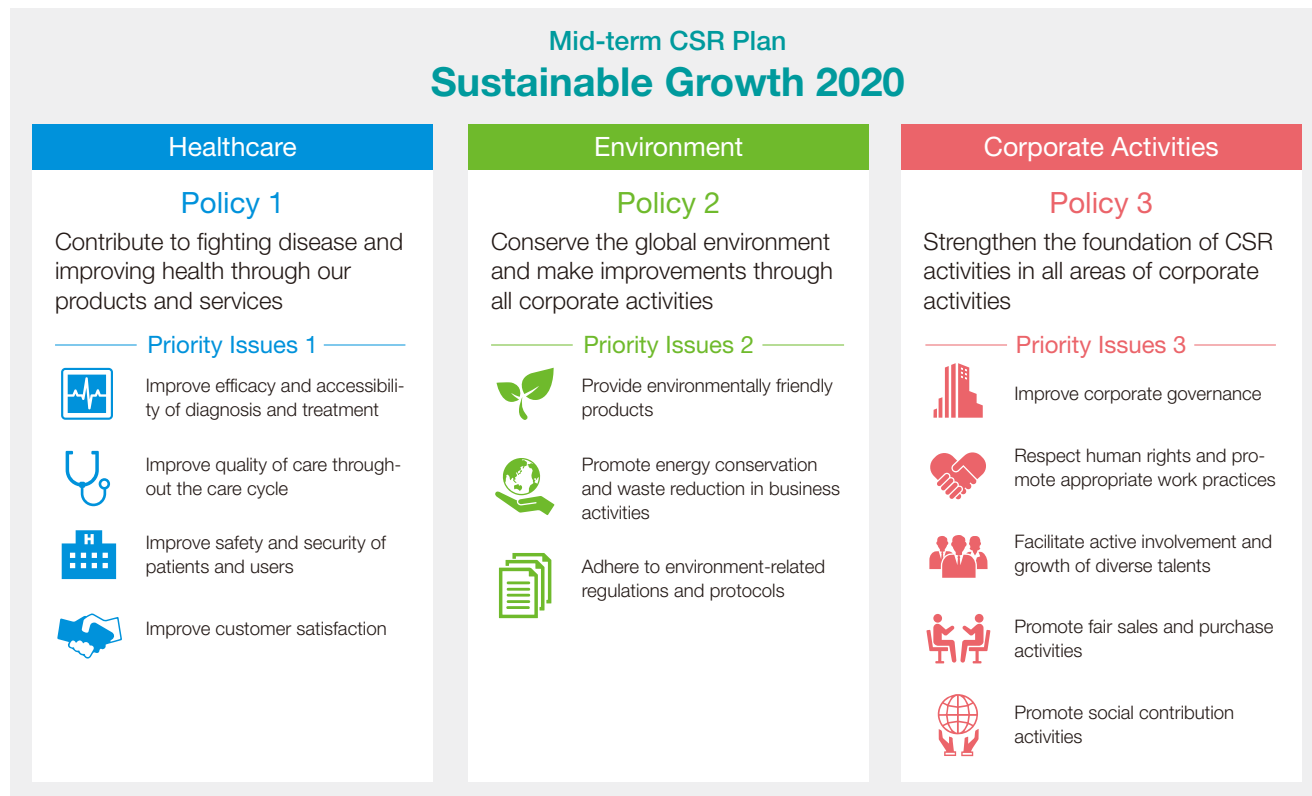
ESG Summary

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

Mid-term CSR Plan

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

runs through FY2019. In three areas of Healthcare, Environment, and Corporate Activities, Nihon Kohden establishes targets and solutions to address priority issues. The Company aims to solve these issues through its daily business activities by establishing prescribed activities based on clear goals.



External Evaluation

UN Global Compact

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



FTSE4Good Index Series

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



Enhancing Corporate Governance

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

Basic Views on Corporate Governance

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

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

Corporate Governance Structure

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

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

The Board of Directors

The Board consists of nine directors excluding Audit & Supervisory Committee members (including two outside directors)

and three Audit & Supervisory Committee members (including two outside directors). The Board has monthly meetings in order to resolve the matters pursuant to the Companies Act and makes decisions on the execution of important business for the Nihon Kohden Group as well as supervises directors' performance of their duties.

Audit & Supervisory Committee

The Audit & Supervisory Committee consists of three directors, including two outside directors and 1 full-time member. Each Audit & Supervisory Committee member attends the important meetings such as the Management Council. Audit & Supervisory Committee members audit the performance of the directors' duties through auditing main offices and subsidiaries. Those activities shall be in accordance with the audit policy and plan for the term which is decided at the Audit & Supervisory Committee.

The full-time member of the Audit & Supervisory Committee has many years of experience in finance and accounting departments and possesses a considerable degree of knowledge about finance and accounting.

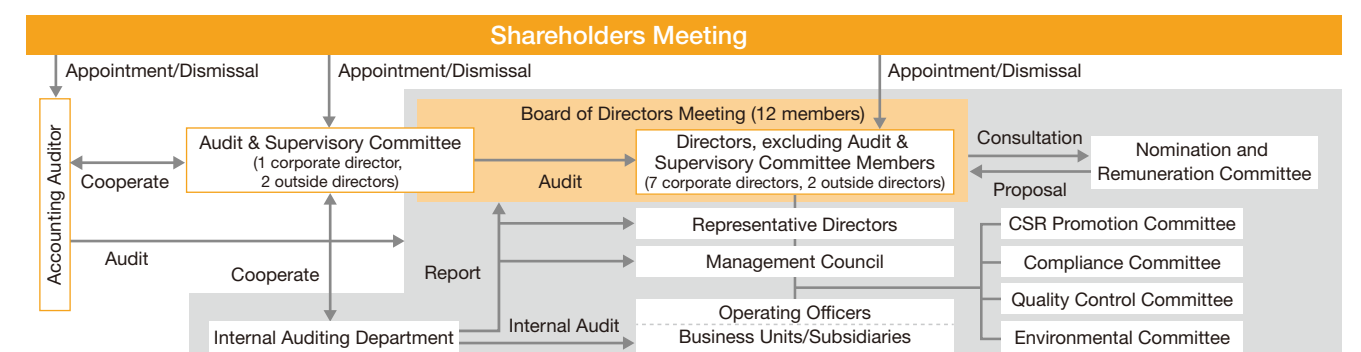
Management Council

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

Nomination and Remuneration Committee

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

Corporate Organization and Internal Control System



Enhancing Corporate Governance

■ Nomination of Director Candidates

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

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

■ Remuneration of Directors

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

Remuneration of directors (excluding Audit & Supervisory Committee members and outside directors) consists of monthly compensations and bonuses. Monthly compensations are determined based on the size of the role and range of responsibilities of each position. Bonuses are determined taking into consideration their contribution and the Company's business performance every fiscal year. A certain percentage of monthly compensation is allotted to purchasing shares of the Company for reflecting mid- to long-term business results. Directors shall hold the shares during the period served as directors. Remuneration of outside directors excluding Audit & Supervisory Committee members consists of monthly compensations. Remuneration of directors excluding Audit & Supervisory Committee members is reviewed at the Nomination and Remuneration Committee and is proposed to the Board. Remuneration of Audit & Supervisory Committee members consists of monthly compensations only and is determined after the consultation between Audit & Supervisory Committee members.

The Total Amount of Remuneration of Directors in FY2017 Ended March 31, 2018

| | Number of Members | Total Amount |
|-------------------------------------------------------------------------------|-------------------|-------------------------------|
| Directors excluding Audit & Supervisory Committee members (Outside Directors) | 12 (2) | ¥293 million (¥18 million) |
| Audit & Supervisory Committee members (Outside Directors) | 3 (2) | ¥40 million (¥19 million) |
| Total | 15 persons | ¥334 million |

As approved at the general shareholders meeting held in June 2016, the total amount of remuneration to directors of the Company excluding directors serving as Audit & Supervisory Committee members shall be within the limit of ¥400 million (including the amount of remuneration to outside directors which shall be within the limit of ¥30 million) and the total amount of remuneration to Audit & Supervisory Committee members shall be within the limit of ¥80 million.

■ Cooperation with the Accounting Auditor and the Internal Auditing Department

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

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

■ Board Evaluation

Nihon Kohden analyzed and evaluated the effectiveness of the Board for FY2017 to clarify issues and improvement of the Board and further improve the functions of the Board. The Company conducted self-evaluations of all directors including Audit & Supervisory Committee members in an anonymous survey related to (1) the size and constitution of the Board, (2) the operation of the Board, (3) the supporting system for outside directors including Audit & Supervisory Committee members, (4) the decision-making process of the Board, and (5) the communication with shareholders and stakeholders.

In FY2017, based on the FY2016 evaluation results, the Company adjusted the number of matters on the agenda and meeting time in order to ensure the time necessary for discussion. The Company also enhanced its supervisory function by establishing rules for monitoring execution of matters resolved by the Board. On the other hand, the Board Members shared the following concern: the range of matters, which require a resolution by the Board or a report to the Board, needs to be reviewed as both the number of meetings and meeting time increased along with increasing matters brought up for discussion at the Board.

The Company will continue existing improvement initiatives and review the range of matters on the agenda of the Board in accordance with the FY2017 evaluation results to further accelerate decision making.

Message from Outside Directors

Masaya Yamauchi **Outside Director** Hibiki-Sogo Law Office



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

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

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

Minoru Obara **Outside Director** Professor Emeritus at Keio University



The role of outside directors is becoming recognized as significantly important. I would like to make a contribution to the sustainable growth of Nihon Kohden while the management team and outside directors maintain a moderate degree of tension without confrontation.

Nihon Kohden, as a leading company in the medical device industry, contributes to society by always providing medical devices and services of the finest quality to customers in the medical industry. For the further enhancement of corporate value and business development, it is important to take a view of "constancy and change." In other words, while further strengthening the core business as a strong foundation, is it not still necessary to be courageous and provide new products and services to the global market? Humanity is experiencing for the first time a world of fast-paced chaotic change that is connected globally via the Internet. We can expect a future with fast and accurate analysis and synthesis of Big Data. In this world, it will be necessary to act quickly to formulate management strategy. It is essential for this process to have human resources that are highly aspirational and global, human resources that can identify the crux of difficult situations and find solutions, human resources with diverse skills with ICT literacy, and human resources that are autonomous.

I would like to proactively contribute to the further enhancement of corporate value as an outside director by making ceaseless efforts and constructive dialogue continuously, and also by fulfilling the supervisory function with a strong sense of responsibility.

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



Most major companies have appointed outside directors following the introduction of the Corporate Governance Codes. It sometimes seems like most companies are just trying to meet the set number of directors, whereas Nihon Kohden had already appointed 1 outside director and 3 outside Audit & Supervisory Board members as early as seven years ago, when I was appointed as an outside Audit & Supervisory Board member. One could say, in that sense, that the Company has been focused on the necessity and effective utilization of outside officers ahead of other companies.

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

Shigeru Kawatsuhara **Outside Director (Audit & Supervisory Committee Member)**



I believe what audit & supervisory committee members, independent officers, and outside directors are required to do is to provide advice, etc., concerning management policies or issues for improvement based on our knowledge, fulfill our roles and duties for contributing to a company's sustainable growth and the mid- to long-term enhancement of corporate value, and reflect stakeholders' opinions on the Board, rather than making a decision on individual business execution.

Directors of the Company have a number of opportunities to receive detailed reporting on business execution, and also actively exchange opinions with each other. I think my role here is to capture issues objectively, consider the balance between risk-taking and safety, and provide advice reflecting my experience. I am committed to be engaged in activities to contribute to the further enhancement of corporate value going forward.

Management Team



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

Hirokazu Ogino **Representative Director** President and CEO

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

Takashi Tamura **Representative Director** Executive Operating Officer, Responsible for Customer Service, General Manager of Sales Operations

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

Tadashi Hasegawa **Director** Senior Operating Officer, Responsible for Finance, Legal Affairs, Compliance, Human Resources, and Information Systems

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

Kazuteru Yanagihara **Director** Senior Operating Officer, General Manager of Strategic Technology Operations

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

Fumio Hirose **Director** Senior Operating Officer, Responsible for Marketing Strategy, General Manager of Ventilator & Anesthesia Device Business Operations and IVD Business Operations

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

Eiichi Tanaka **Director** Operating Officer, General Manager of Import Business Operations

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

Yasuhiro Yoshitake **Director** Operating Officer, General Manager of International Operations

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

Masaya Yamauchi **Outside Director** Independent Director

| | | | | | |
|-------------------------------------|---------------------------------------------------|-------------|-----------------------------------------------------------|--|------------------------------------|
| Date of birth March 20, 1960 | | | | | |
| April 1988 | Registered as an attorney (Tokyo Bar Association) | August 2001 | Integrated into Hibiki-Sogo Law Office (current position) | | Years served as Director 8 years |
| September 1993 | Established Nakagawa & Yamauchi Law Office | June 2010 | Outside Director of the Company (current position) | | Attendance at Board Meetings 28/28 |

Minoru Obara **Outside Director** Independent Director

| | | | | | |
|-----------------------------------------|------------------------------------------------------------------------------------------------------------|------------|------------------------------------------------------------------------------------------------------------------------------------------------------------|------------|----------------------------------------------------------|
| Date of birth September 29, 1947 | | | | | |
| April 1986 | Associate Professor at Dept. of Electrical Engineering, Faculty of Science and Technology, Keio University | April 1993 | Professor at Dept. of Electrical Engineering (current Dept. of Electronics and Electrical Engineering), Faculty of Science and Technology, Keio University | April 2013 | Professor Emeritus at Keio University (current position) |
| | | June 2012 | Outside Director of the Company (current position) | | Years served as Director 6 years |
| | | | | | Attendance at Board Meetings 28/28 |

Kazuhiro Ikuta **Director (Full-time Audit & Supervisory Committee Member)**

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

Masahiro Kawamura **Outside Director (Audit & Supervisory Committee Member)** Independent Director

| | | | | | |
|--------------------------------------|----------------------------------------------------------|-----------|-------------------------------------------------------------------------------------------|--|------------------------------------------------------------|
| Date of birth August 19, 1949 | | | | | |
| June 1977 | Registered as a Tax Accountant | June 2016 | Outside Director (Audit & Supervisory Committee Member) of the Company (current position) | | Years served as Director 2 years |
| March 1979 | Registered as a Certified Public Accountant | | | | Attendance at Board Meetings 27/28 |
| August 1979 | Joined Kawamura Tax Accounting Office (current position) | | | | Attendance at Audit & Supervisory Committee Meetings 30/31 |
| June 2010 | Outside Audit & Supervisory Board Member of the Company | | | | |

* Mr. Masahiro Kawamura had been in office as Outside Audit & Supervisory Board Member of the Company for 6 years before he assumed office as Outside Director serving as an Audit & Supervisory Committee Member of the Company.

Shigeru Kawatsuhara **Outside Director (Audit & Supervisory Committee Member)** Independent Director

| | | | | | |
|----------------------------------------|--------------------------------------------------------------------|------------|-------------------------------------------------------------------------------------------|--|------------------------------------------------------------|
| Date of birth February 14, 1952 | | | | | |
| April 1975 | Joined Toko, Inc. | April 2008 | President of Toko, Inc. | | Years served as Director 2 years |
| April 2002 | Senior Manager of Sales Department 1, Sales Operations, Toko, Inc. | May 2014 | Chairman of Toko, Inc. | | Attendance at Board Meetings 28/28 |
| April 2004 | General Manager of Sales Center, Toko, Inc. | March 2015 | Senior Advisor of Toko, Inc. | | Attendance at Audit & Supervisory Committee Meetings 31/31 |
| June 2005 | Corporate Director and General Manager of Sales Center, Toko, Inc. | April 2016 | Part-time Advisor of Toko, Inc. | | |
| | | June 2016 | Outside Director (Audit & Supervisory Committee Member) of the Company (current position) | | |

Management's Discussion and Analysis

Market Environment

In Japan, the Japanese government worked on healthcare system reform under its 2025 future vision of medical/long-term care services. The medical equipment companies were required to provide solutions that contribute to improving the quality and efficiency of medical care and supporting the establishment of integrated community care systems. Internationally, overall demand for medical equipment has remained steady, although there was uncertainty regarding policy trends in the U.S. and Europe.

Review of Operations

Under these circumstances, Nihon Kohden started its three-year Mid-term Business Plan, TRANSFORM 2020, with the aim of transforming its operations to achieve a highly profitable structure by creating high customer value and improving productivity within the organization. Under this plan, the Company implemented key strategies such as strengthening business expansion by region and achieving further growth in its core businesses.

The Company introduced new products to expand its product portfolio for the clinic market. A mid-end bedside monitor for the acute care hospital market was also launched. Nihon Kohden also strengthened its business structure by absorbing its domestic sales subsidiaries and acquiring a video laryngoscope business.

As a result, overall sales during the term under review increased 4.8% over FY2016 to ¥174,249 million.

Sales by Region

Japan: Sales in the university hospital market increased favorably as the Company received orders related to the replacement of diagnostic information systems and clinical information systems. Sales of AEDs increased favorably in the PAD (public access defibrillation) market, and sales in the private hospital market showed stable growth. Sales in the public hospital market remained flat, while sales in the clinic market decreased. As a result, domestic sales increased 2.7% over FY2016 to ¥128,144 million.

International: Sales in the Americas, Europe, and Asia increased favorably, supported by strong sales of patient monitors, defibrillators, and AEDs. Sales in Other decreased compared with the previous fiscal year when a large order in Egypt was recorded. As a result, international sales increased 11.0% over FY2016 to ¥46,105 million.

Cost of Sales, SGA Expenses, and Operating Income

Cost of sales was ¥91,489 million. The gross profit margin decreased 10 basis points to 47.5%. This was due to reduced pricing in selected deals, although the sales ratio of in-house products increased. Another reason was to reduce pricing of some specific products in order to increase sales of consumables. Gross profit on sales increased 4.5% over FY2016 to ¥82,759 million.

Selling, general and administrative expenses increased mainly due to the enhancement of human resources and R&D investments. The ratio of SGA expenses to sales decreased 20 basis points, to 39.2%. Research and development costs were ¥7,226 million (4.1% of sales).

As a result, operating income increased 6.9% to ¥14,517 million.

Income Attributable to Owners of Parent

Income attributable to owners of parent increased 0.1% to ¥9,154 million as there was an impact from an increase in foreign exchange losses and the Company posted expenses associated with the transfer to a defined contribution pension plan and surcharges. There was also an impact from the increase of income taxes due to the tax reform in the U.S.

Assets, Liabilities and Equity

Assets

At the end of FY2017, total assets increased ¥5,134 million from the previous fiscal year-end. Current assets were up ¥5,366 million from the previous year-end because of an increase in short-term investments, and trade notes and accounts receivable. Non-current assets decreased ¥231 million from the previous fiscal year-end due to a decrease in intangible assets.

Liabilities and Equity

Total liabilities at the end of FY2017 decreased ¥333 million from the end of the previous fiscal year because of a decrease in trade notes and accounts payable. Net assets increased ¥5,468 million from the previous fiscal year-end because of the recording of income attributable to owners of parent. The shareholders' equity ratio increased to 69.2%, from 68.0% at the end of the previous fiscal year.

Cash Flows

Net cash provided by operating activities during the year under review decreased ¥512 million to ¥10,843 million. This includes ¥13,954 million of income before income taxes and non-controlling interests, ¥3,486 million of depreciation and amortization, and ¥3,983 million of income taxes paid.

Net cash used in investing activities decreased ¥2,998 million to ¥3,346 million. We used ¥2,901 million for capital expenditures.

Net cash used in financing activities increased ¥1,110 million to ¥4,628 million. We paid ¥2,996 million for stockholders dividends and ¥1,471 million for purchasing treasury stock.

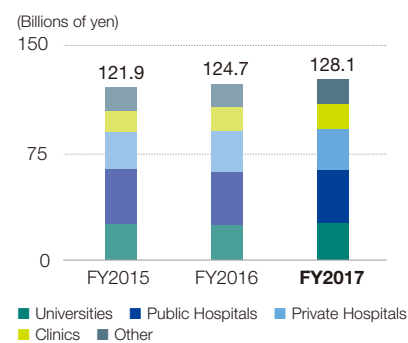
As a result, cash and cash equivalents as of March 31, 2018 increased ¥2,724 million to ¥31,285 million.

ROE

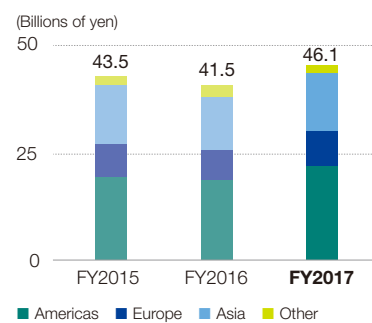
ROE decreased to 8.6% in FY2017, from 9.1% in FY2016 because the ratio of net income to sales decreased as a result of the increase in income taxes due to the tax reform in the U.S.

In order to achieve an ROE of 12.0%, Nihon Kohden will focus on increasing sales and profits by implementing its TRANSFORM 2020 plan. We will also improve efficiency of assets by measures such as reduction of inventories. In order to enhance the shareholder return and improve capital efficiency, we repurchased 500 thousand of our own shares in March 2018 and cancelled one million shares of treasury stock in May 2018.

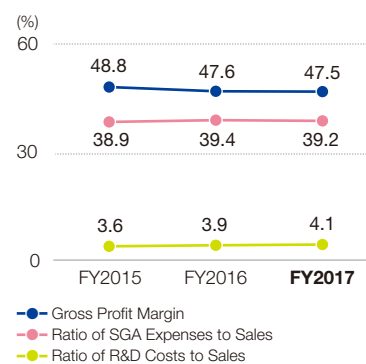
Domestic Sales by Market



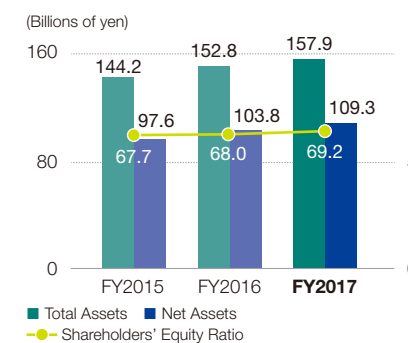
International Sales by Region



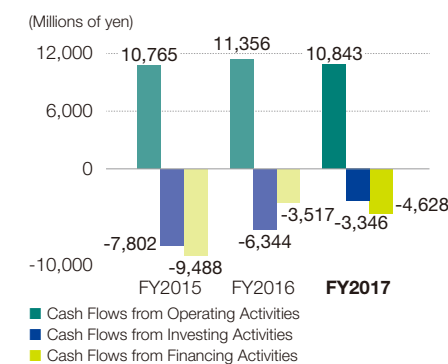
Percentage of Total Sales



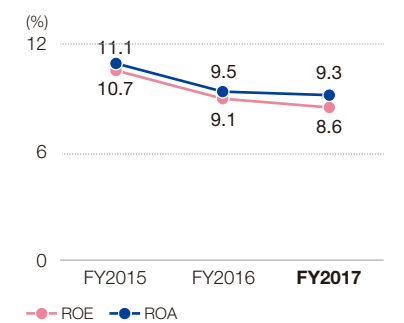
Total Assets/Net Assets



Cash Flows



ROE/ROA



Consolidated Balance Sheet

Nihon Kohden Corporation and Consolidated Subsidiaries
March 31, 2018

Millions of yen

| Assets | 2018 | 2017 |
|---------------------------------------------------------------------------------------------------------------------------------|----------|----------|
| Current assets: | | |
| Cash (note 2) | ¥ 16,589 | ¥ 18,753 |
| Trade notes and accounts receivable | 64,151 | 60,993 |
| Short-term investments (note 3) | 15,000 | 10,000 |
| Inventories | 23,098 | 22,638 |
| Deferred income taxes (note 6) | 3,914 | 4,497 |
| Other current assets | 1,973 | 2,517 |
| Less allowance for doubtful receivables | 126 | 165 |
| Total current assets | 124,601 | 119,235 |
| Property, plant and equipment, net of accumulated depreciation; ¥27,493 million in 2018 and ¥26,151 million in 2017: | | |
| Buildings and structures | 12,123 | 11,792 |
| Machinery, equipment and vehicles | 837 | 744 |
| Tools, furniture and fixtures | 2,817 | 3,006 |
| Land | 3,514 | 3,644 |
| Leased assets | 28 | 31 |
| Construction in progress | 1,003 | 929 |
| Net property, plant and equipment | 20,324 | 20,148 |
| Intangible assets, net: | | |
| Goodwill | 2,112 | 2,187 |
| Other intangible assets | 2,967 | 3,410 |
| Total intangible assets | 5,079 | 5,597 |
| Investments and other assets: | | |
| Investments in securities (note 3) | 5,729 | 5,050 |
| Deferred income taxes (note 6) | 441 | 1,242 |
| Other investments and other assets | 1,953 | 1,707 |
| Less allowance for doubtful receivables | 189 | 174 |
| Total investments and other assets | 7,935 | 7,825 |
| Total non-current assets | 33,339 | 33,571 |
| Total assets | ¥157,941 | ¥152,806 |

See accompanying notes to consolidated financial statements.

Millions of yen

| Liabilities and Net Assets | 2018 | 2017 |
|--------------------------------------------------------------------------------|----------|----------|
| Current liabilities: | | |
| Trade notes and accounts payable | ¥ 29,846 | ¥ 32,539 |
| Short-term debt (note 4) | 488 | 628 |
| Other payables | 3,178 | 2,168 |
| Accrued income taxes (note 6) | 2,067 | 2,194 |
| Accrued expenses | 3,682 | 2,804 |
| Accrued bonuses | 2,942 | 2,671 |
| Other current liabilities (note 4) | 2,400 | 1,999 |
| Total current liabilities | 44,605 | 45,006 |
| Non-current liabilities: | | |
| Liabilities for retirement benefits (note 5) | 2,565 | 2,532 |
| Deferred income taxes (note 6) | 32 | 95 |
| Other non-current liabilities (note 4) | 1,382 | 1,285 |
| Total non-current liabilities | 3,980 | 3,913 |
| Total liabilities | 48,586 | 48,919 |
| Stockholders' equity: | | |
| Common stock (note 7): | 7,544 | 7,544 |
| Authorized 197,972,000 shares; issued 89,730,980 shares in 2018 and 2017 | | |
| Additional paid-in capital (note 7) | 10,414 | 10,414 |
| Retained earnings (note 8) | 96,141 | 89,984 |
| Treasury stock, at cost; 4,574,383 shares in 2018 and 4,073,763 shares in 2017 | (8,945) | (7,473) |
| Total stockholders' equity | 105,155 | 100,470 |
| Accumulated other comprehensive income (loss): | | |
| Net unrealized gain on other securities (note 3) | 2,082 | 1,604 |
| Foreign currency translation adjustments | 1,875 | 1,959 |
| Remeasurements of defined benefit plans (note 5) | 241 | (147) |
| Total accumulated other comprehensive income | 4,199 | 3,416 |
| Total net assets | 109,355 | 103,887 |
| Commitments and contingencies | | |
| Total liabilities and net assets | ¥157,941 | ¥152,806 |

Consolidated Statement of Income

Nihon Kohden Corporation and Consolidated Subsidiaries
March 31, 2018

| | Millions of yen | |
|----------------------------------------------------------------------|-----------------|----------|
| | 2018 | 2017 |
| Net sales | ¥174,249 | ¥166,285 |
| Cost of sales (note 10) | 91,489 | 87,058 |
| Gross profit | 82,759 | 79,226 |
| Selling, general and administrative expenses (notes 9 and 10) | 68,241 | 65,641 |
| Operating income | 14,517 | 13,585 |
| Other income (deductions): | | |
| Interest income | 47 | 37 |
| Dividend income | 101 | 102 |
| Interest expenses | (27) | (56) |
| Foreign exchange loss | (733) | (254) |
| Subsidy income | 322 | 312 |
| Gain on sale of investments in securities (note 3) | 27 | 416 |
| Loss on sale/disposal of property, plant and equipment | (77) | (89) |
| Gain (loss) on devaluation of investments in securities (note 3) | 36 | (198) |
| Office/plant relocation expenses | (43) | (271) |
| Retirement benefit expenses | (225) | — |
| Surcharges | (195) | — |
| Other, net | 203 | 266 |
| | (563) | 266 |
| Income before income taxes and non-controlling interests | 13,954 | 13,851 |
| Income taxes (note 6): | | |
| Current | 3,931 | 4,523 |
| Deferred | 868 | 179 |
| | 4,799 | 4,702 |
| Net income | 9,154 | 9,149 |
| Income attributable to owners of parent | ¥ 9,154 | ¥ 9,149 |

See accompanying notes to consolidated financial statements.

Consolidated Statement of Comprehensive Income

Nihon Kohden Corporation and Consolidated Subsidiaries
March 31, 2018

| | Millions of yen | |
|-----------------------------------------------------------------------------|-----------------|--------|
| | 2018 | 2017 |
| Net income | ¥9,154 | ¥9,149 |
| Other comprehensive income (loss) arising during the year (note 11): | | |
| Net unrealized gain (loss) on other securities (note 3) | 477 | (431) |
| Foreign currency translation adjustments | (83) | (599) |
| Remeasurements of defined benefit plans (note 5) | 389 | 1,097 |
| Total other comprehensive income arising during the year | 783 | 66 |
| Comprehensive income | ¥9,937 | ¥9,215 |
| Comprehensive income attributable to: | | |
| Owners of parent | ¥9,937 | ¥9,215 |
| Non-controlling interests | — | — |

See accompanying notes to consolidated financial statements.

Consolidated Statement of Changes in Net Assets

Nihon Kohden Corporation and Consolidated Subsidiaries
March 31, 2018

| | Millions of yen | | | | | | | | | |
|---------------------------------------------|-----------------------|-------------------------------------|----------------------------|-----------------|-----------------|--------------------------------------------------|------------------------------------------|--------------------------------------------------|---------------|------------------|
| | Stockholders' equity | | | | | Accumulated other comprehensive income (loss) | | | | |
| | Common stock (note 7) | Additional paid-in capital (note 7) | Retained earnings (note 8) | Treasury stock | Total | Net unrealized gain on other securities (note 3) | Foreign currency translation adjustments | Remeasurements of defined benefit plans (note 5) | Total | Total net assets |
| Balance at March 31, 2016 | ¥7,544 | ¥10,414 | ¥83,833 | ¥(7,472) | ¥ 94,321 | ¥2,036 | ¥2,559 | ¥(1,245) | ¥3,350 | ¥ 97,671 |
| Changes arising during year: | | | | | | | | | | |
| Cash dividends | | | (2,998) | | (2,998) | | | | | (2,998) |
| Income attributable to owners of parent | | | 9,149 | | 9,149 | | | | | 9,149 |
| Purchase of treasury stock | | | | (1) | (1) | | | | | (1) |
| Net changes other than stockholders' equity | | | | | | (431) | (599) | 1,097 | 66 | 66 |
| Total changes during the year | — | — | 6,151 | (1) | 6,149 | (431) | (599) | 1,097 | 66 | 6,215 |
| Balance at March 31, 2017 | 7,544 | 10,414 | 89,984 | (7,473) | 100,470 | 1,604 | 1,959 | (147) | 3,416 | 103,887 |
| Changes arising during year: | | | | | | | | | | |
| Cash dividends | | | (2,997) | | (2,997) | | | | | (2,997) |
| Income attributable to owners of parent | | | 9,154 | | 9,154 | | | | | 9,154 |
| Purchase of treasury stock | | | | (1,471) | (1,471) | | | | | (1,471) |
| Net changes other than stockholders' equity | | | | | | 477 | (83) | 389 | 783 | 783 |
| Total changes during the year | — | — | 6,156 | (1,471) | 4,684 | 477 | (83) | 389 | 783 | 5,468 |
| Balance at March 31, 2018 | ¥7,544 | ¥10,414 | ¥96,141 | ¥(8,945) | ¥105,155 | ¥2,082 | ¥1,875 | ¥ 241 | ¥4,199 | ¥109,355 |

See accompanying notes to consolidated financial statements.

Consolidated Statement of Cash Flows

Nihon Kohden Corporation and Consolidated Subsidiaries
March 31, 2018

| | Millions of yen | |
|---------------------------------------------------------------------------------------------------------------------------------|-----------------|---------|
| | 2018 | 2017 |
| Cash flows from operating activities: | | |
| Income before income taxes and non-controlling interests | ¥13,954 | ¥13,851 |
| Adjustments to reconcile income before income taxes and non-controlling interests to net cash provided by operating activities: | | |
| Depreciation and amortization | 3,486 | 3,565 |
| Loss on sale/disposal of property, plant and equipment | 77 | 88 |
| Decrease in allowance for doubtful receivables | (24) | (44) |
| Increase (decrease) in accrued bonuses | 275 | (189) |
| Decrease in liabilities for retirement and severance benefits | 594 | 949 |
| Interest and dividend income | (149) | (140) |
| Interest expenses | 27 | 56 |
| Gain (loss) on devaluation of investments in securities | (36) | 198 |
| Gain on sale of investments in securities | (27) | (416) |
| Increase in trade notes and accounts receivable | (3,017) | (1,985) |
| Increase in inventories | (496) | (3,170) |
| Increase (decrease) in trade notes and accounts payable | (2,487) | 2,826 |
| Other, net | 2,526 | 261 |
| Sub-total | 14,702 | 15,850 |
| Interest and dividends received | 148 | 135 |
| Interest paid | (24) | (57) |
| Income taxes paid | (3,983) | (4,572) |
| Net cash provided by operating activities | 10,843 | 11,356 |
| Cash flows from investing activities: | | |
| Proceeds from sale of investments in securities | 143 | 759 |
| Purchase of investments in securities | (70) | (64) |
| Capital expenditures | (2,901) | (6,304) |
| Purchase of intangible assets | (414) | (502) |
| Other, net | (104) | (232) |
| Net cash used in investing activities | (3,346) | (6,344) |
| Cash flows from financing activities: | | |
| Decrease in short-term debt | (142) | (501) |
| Dividends paid to stockholders | (2,996) | (2,997) |
| Purchase of treasury stock | (1,471) | (1) |
| Other, net | (17) | (16) |
| Net cash used in financing activities | (4,628) | (3,517) |
| Effect of exchange rate changes on cash and cash equivalents | (144) | (217) |
| Net increase in cash and cash equivalents | 2,724 | 1,277 |
| Cash and cash equivalents at beginning of year | 28,560 | 27,283 |
| Cash and cash equivalents at end of year (note 2) | ¥31,285 | ¥28,560 |

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Nihon Kohden Corporation and Consolidated Subsidiaries
March 31, 2018

Amounts are rounded down to the nearest million yen.

1. Summary of Significant Accounting Policies

(a) Basis of Presenting Consolidated Financial Statements

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

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

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

(b) Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Company and its 29 subsidiaries. The Company absorbed its 11 consolidated sales subsidiaries (Nihon Kohden Tokyo Corporation and 10 other subsidiaries) with the Company, and Span Nihon Kohden Diagnostics Pvt. Ltd. was absorbed and merged into Nihon Kohden India Pvt. Ltd. during the year ended March 31, 2018; therefore, the number of consolidated subsidiaries has decreased.

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

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

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

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

(c) Cash and Cash Equivalents

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

(d) Short-term Investments and Investments in Securities

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

(e) Inventories

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

(f) Property, Plant and Equipment

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

Notes to Consolidated Financial Statements

The estimated useful lives are as follows:

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

(g) Intangible Assets

Intangible assets are carried at cost less amortization. The expenses for internal use computer software are deferred and amortized by the straight-line method over the estimated useful lives (3-5 years). Intangible assets other than software are deferred and amortized by the straight-line method at rates based on the estimated useful lives of the respective assets.

(h) Allowance for Doubtful Receivables

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

(i) Retirement and Severance Benefits

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

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

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

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

(j) Accrued Warranty Expenses

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

(k) Leases

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

(l) Foreign Currency Translation

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

(m) Income Taxes

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

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

(n) Reclassifications

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

(o) New Accounting Pronouncements not yet Adopted

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

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

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

2. Cash and Cash Equivalents

Reconciliation between "Cash" in the accompanying consolidated balance sheet and "Cash and cash equivalents" in the accompanying consolidated statement of cash flows at March 31, 2018 and 2017 is follows:

| | Millions of yen | |
|---------------------------------------------------------------------|-----------------|---------|
| | 2018 | 2017 |
| Cash | ¥16,589 | ¥18,753 |
| Short-term investments that have maturities of three months or less | 15,000 | 10,000 |
| Time deposits with maturities of over three months | (304) | (192) |
| Cash and cash equivalents | ¥31,285 | ¥28,560 |

3. Short-term Investments and Investments in Securities

Balance sheet amount, acquisition cost, gross unrealized gain and gross unrealized loss of other securities with fair value at March 31, 2018 and 2017 are summarized as follows:

| | Millions of yen | | | |
|-----------------------|----------------------|-----------------------|-----------------------|------------------|
| | Balance sheet amount | Gross unrealized gain | Gross unrealized loss | Acquisition cost |
| March 31, 2018 | | | | |
| Equity securities | ¥4,991 | ¥2,901 | ¥(1) | ¥2,092 |
| March 31, 2017 | | | | |
| Equity securities | ¥4,294 | ¥2,137 | ¥(7) | ¥2,163 |

For the year ended March 31, 2018, proceeds from the sale of other securities are ¥143 million, gross realized gains are ¥39 million and gross realized losses are ¥12 million. There was no sale of other securities for the year ended March 31, 2017.

The Company recognized impairment loss on other securities of ¥32 million and ¥257 million for the years ended March 31, 2018 and 2017, respectively.

4. Short-term and Long-term Debt

Short-term debt is represented by bank loans which are due within one year. The weighted average interest rates of short-term debt are 1.2% and 3.7% at March 31, 2018 and 2017, respectively.

Lease liabilities at March 31, 2018 and 2017 are summarized as follows:

| | Millions of yen | |
|---------------------------------------------------------|-----------------|------|
| | 2018 | 2017 |
| Lease liabilities maturing in installments through 2022 | ¥30 | ¥33 |
| Less current installments | 12 | 16 |
| | ¥17 | ¥16 |

Notes to Consolidated Financial Statements

The aggregate annual maturities of lease liabilities after March 31, 2019 are as follows:

| | Millions of yen |
|-----------------------|-----------------|
| Year ending March 31: | |
| 2020 | ¥10 |
| 2021 | 4 |
| 2022 | 2 |
| 2023 | 0 |

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

5. Retirement and Severance Benefits

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

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

The Company and certain consolidated subsidiaries had enrolled in the Japanese Welfare Pension Fund as a multi-employer plan. Because the Company's proportion of plan assets corresponding to the Company's contribution cannot be reasonably estimated, the contribution is accounted for as defined contribution plans. At March 31, 2018, the Minister of Health, Labor and Welfare approved the termination of the above Japanese Welfare Pension Fund. No additional payment is expected for the termination.

The Company introduced the corporate defined contribution pension plan partly, and the Company recorded the future adjustment for the introduction of ¥225 million as retirement benefit expenses.

Defined benefit plans

The following items are the information for the Company's and the consolidated subsidiaries' defined benefit plans at March 31, 2018 and 2017 and for the years then ended.

(1) Reconciliation of changes in retirement benefit obligation

| | Millions of yen | |
|----------------------------------------------------|-----------------|---------|
| | 2018 | 2017 |
| Retirement benefit obligation at beginning of year | ¥21,429 | ¥21,162 |
| Service cost | 1,368 | 1,380 |
| Interest cost | 96 | 59 |
| Actuarial gains or losses | 195 | (390) |
| Benefits paid | (839) | (781) |
| Other | 225 | — |
| Retirement benefit obligation at end of year | ¥22,475 | ¥21,429 |

(2) Reconciliation of changes in plan assets

| | Millions of yen | |
|----------------------------------|-----------------|---------|
| | 2018 | 2017 |
| Plan assets at beginning of year | ¥18,994 | ¥18,100 |
| Expected return on plan assets | 94 | 58 |
| Actuarial gains or losses | 678 | 528 |
| Employer contributions | 1,076 | 1,088 |
| Benefits paid | (839) | (781) |
| Plan assets at end of year | ¥20,004 | ¥18,994 |

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

| | Millions of yen | |
|----------------------------------------------------------------------------------|-----------------|----------|
| | 2018 | 2017 |
| Funded retirement benefit obligation | ¥22,475 | ¥21,429 |
| Plan assets | (20,004) | (18,994) |
| | 2,471 | 2,435 |
| Unfunded retirement benefit obligation | 93 | 97 |
| Net liabilities for retirement benefits recognized in consolidated balance sheet | ¥ 2,565 | ¥ 2,532 |
| | ¥ 2,565 | ¥ 2,532 |
| Liabilities for retirement benefits | ¥ 2,565 | ¥ 2,532 |
| Net liabilities for retirement benefits recognized in consolidated balance sheet | ¥ 2,565 | ¥ 2,532 |

(4) The components of retirement benefit expenses

| | Millions of yen | |
|----------------------------------------|-----------------|--------|
| | 2018 | 2017 |
| Service cost | ¥1,368 | ¥1,380 |
| Interest cost | 96 | 59 |
| Expected return on plan assets | (94) | (58) |
| Amortization of actuarial gain or loss | 78 | 662 |
| Retirement benefit expenses | ¥1,449 | ¥2,043 |

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

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

| | Millions of yen | |
|------------------------|-----------------|----------|
| | 2018 | 2017 |
| Actuarial gain or loss | ¥(561) | ¥(1,581) |
| Total | ¥(561) | ¥(1,581) |

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

| | Millions of yen | |
|-------------------------------------|-----------------|------|
| | 2018 | 2017 |
| Unrecognized actuarial gain or loss | ¥(348) | ¥213 |
| Total | ¥(348) | ¥213 |

(7) Plan assets

(a) Percentage by major category of plan assets

| | 2018 | 2017 |
|------------------------|--------|--------|
| Debt securities | 26.3% | 25.6% |
| Equity securities | 27.0 | 26.5 |
| Short-term investments | 19.7 | 19.9 |
| General account | 26.2 | 27.0 |
| Other | 0.8 | 1.0 |
| Total | 100.0% | 100.0% |

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

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

(8) Basis for calculation of actuarial assumptions

| | 2018 | 2017 |
|-----------------------------------|------|------|
| Discount rate | 0.4% | 0.5% |
| Long-term expected rate of return | 0.4 | 0.5 |

Notes to Consolidated Financial Statements

Defined contribution plans

The amount to be paid by the consolidated subsidiaries to the defined contribution plans was ¥87 million and ¥102 million for the years ended March 31, 2018 and 2017, respectively.

Multi-employer pension plan

The amount to be paid by the Company to the Welfare Pension Fund under the multi-employer pension plan was ¥399 million and ¥422 million for the years ended March 31, 2018 and 2017, respectively.

Because the Welfare Pension Fund was terminated in accordance with the approval by the Minister of Health, Labor and Welfare at March 31, 2018, the following information for the year ended March 31, 2018 is not disclosed.

The funded status of the whole Welfare Pension Fund under the multi-employer pension plan at March 31, 2016 was outlined as follows:

| | Millions of yen |
|---------------------------------------------------------|-----------------|
| Plan assets at fair value - (1) | ¥256,615 |
| Benefit obligation under pension funding programs - (2) | 287,427 |
| (1) - (2)* | ¥ (30,812) |

The Company's proportion of the salaries to the whole of the Welfare Pension Fund at March 31, 2017 was 9.0%. This is different from the actual ratio of the Company's contribution to the total.

The main reason of the differences above* at March 31, 2016 was unrecognized prior service cost of the pension program of ¥28,989 million. The unrecognized prior service cost is amortized over 20 years by the straight-line method.

6. Income Taxes

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

The reconciliation of the statutory tax rate and the effective tax rate as a percentage of income before income taxes and non-controlling interests for the years ended March 31, 2018 and 2017 was follows:

| | 2018 | 2017 |
|----------------------------------------------------------|-------|-------|
| Statutory tax rate | 30.9% | 30.9% |
| Change in valuation allowance | 0.6 | 4.6 |
| Expenses not deductible for tax purposes | 0.7 | 0.3 |
| Income not credited for tax purposes | (0.0) | (0.1) |
| Per capita tax | 0.8 | 0.8 |
| Difference in statutory tax rates of subsidiaries | (0.6) | 0.4 |
| Tax credits primarily for research and development costs | (4.1) | (3.6) |
| Change in tax rates | 4.2 | — |
| Other | 1.9 | 0.6 |
| Effective tax rate | 34.4% | 33.9% |

Significant components of deferred tax assets and liabilities at March 31, 2018 and 2017 are as follows:

| | Millions of yen | |
|------------------------------------------------------------------------|-----------------|---------|
| | 2018 | 2017 |
| Deferred tax assets: | | |
| Valuation loss for inventories | ¥ 880 | ¥ 903 |
| Accrued business tax | 132 | 148 |
| Accrued bonuses | 847 | 805 |
| Liabilities for retirement benefits | 787 | 785 |
| Accrued warranty expenses | 118 | 156 |
| Allowance for doubtful receivables | 47 | 64 |
| Depreciation and amortization | 1,577 | 1,708 |
| Intercompany profits on inventories, and property, plant and equipment | 879 | 1,264 |
| Intangible assets | 683 | 1,442 |
| Asset retirement obligations | 253 | 250 |
| Other | 1,509 | 1,505 |
| | 7,714 | 9,036 |
| Valuation allowance | (1,219) | (1,200) |
| | 6,495 | 7,835 |
| Deferred tax liabilities: | | |
| Asset retirement obligations | (224) | (237) |
| Net unrealized gain on other securities | (903) | (693) |
| Valuation difference | (302) | (576) |
| Other | (741) | (684) |
| | (2,171) | (2,191) |
| Net deferred tax assets | ¥4,323 | ¥5,644 |

Net deferred tax assets and liabilities at March 31, 2018 and 2017 are reflected in the accompanying consolidated balance sheet under the following captions:

| | Millions of yen | |
|------------------------------------------------------|-----------------|--------|
| | 2018 | 2017 |
| Current assets - Deferred income taxes | ¥3,914 | ¥4,497 |
| Investments and other assets - Deferred income taxes | 441 | 1,242 |
| Non-current liabilities - Deferred income taxes | (32) | (95) |
| Net deferred tax assets | ¥4,323 | ¥5,644 |

The Tax Cuts and Jobs Act was enacted in the U.S. on December 22, 2017 and the federal corporate income tax rate applicable to the Company's U.S. consolidated subsidiaries was reduced from 35% to 21%. The impact of this change in tax rates on the consolidated financial statements is insignificant.

7. Common Stock

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

8. Retained Earnings and Dividends

The Companies Act provides that an amount equal to 10% of distributions from retained earnings paid by the Company and its Japanese subsidiaries be appropriated as a legal reserve. No further appropriations are required when the total amount of the additional paid-in capital and the legal reserve equals 25% of their respective stated capital. The Companies Act also provides that additional paid-in capital and the 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, 2018 and 2017 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.

Notes to Consolidated Financial Statements

(a) Dividends Paid during the Year Ended March 31, 2017

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

| | |
|-------------------------------------|----------------|
| (a) Total dividends | ¥1,541 million |
| (b) Cash dividends per common share | ¥18 |
| (c) Record date | March 31, 2016 |
| (d) Effective date | June 29, 2016 |

The following was approved by the Board of Directors held on November 4, 2016.

| | |
|-------------------------------------|--------------------|
| (a) Total dividends | ¥1,456 million |
| (b) Cash dividends per common share | ¥17 |
| (c) Record date | September 30, 2016 |
| (d) Effective date | November 28, 2016 |

(b) Dividends Paid during the Year Ended March 31, 2018

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

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

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

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

(c) Dividends to be Paid after the Balance Sheet Date but the Record Date for the Payment Belongs to the Year Ended March 31, 2018

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

| | |
|-------------------------------------|-------------------|
| (a) Total dividends | ¥1,532 million |
| (b) Dividend source | Retained earnings |
| (c) Cash dividends per common share | ¥18 |
| (d) Record date | March 31, 2018 |
| (e) Effective date | June 28, 2018 |

9. Selling, General and Administrative Expenses

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

| | Millions of yen | |
|-----------------------------|-----------------|---------|
| | 2018 | 2017 |
| Salaries | ¥26,446 | ¥25,500 |
| Retirement benefit expenses | 1,831 | 2,414 |
| Depreciation | 2,430 | 2,335 |
| Legal welfare | 5,023 | 4,564 |
| Traveling | 2,956 | 2,879 |

10. Research and Development Costs

Research and development costs charged to manufacturing costs and selling, general and administrative expenses for the years ended March 31, 2018 and 2017 are ¥7,226 million and ¥6,466 million, respectively.

11. Other Comprehensive Income (Loss)

The reclassification adjustment and the related income tax effects allocated to each component of other comprehensive income (loss) for the years ended March 31, 2018 and 2017 are as follows:

| | Millions of yen | |
|-------------------------------------------------|-----------------|---------|
| | 2018 | 2017 |
| Net unrealized gain (loss) on other securities: | | |
| Arising during the year | ¥715 | ¥ (205) |
| Reclassification adjustment | (27) | (416) |
| Before tax amount | 688 | (621) |
| Tax benefit (expense) | (210) | 190 |
| Net-of-tax amount | 477 | (431) |
| Foreign currency translation adjustments: | | |
| Arising during the year | (83) | (599) |
| Remeasurements of defined benefit plans: | | |
| Arising during the year | 482 | 919 |
| Reclassification adjustment | 78 | 662 |
| Before tax amount | 561 | 1,581 |
| Tax expense | (171) | (484) |
| Net-of-tax amount | 389 | 1,097 |
| Total other comprehensive income | ¥783 | ¥ 66 |

12. 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, 2018 and 2017 are as follows:

| | Yen | |
|----------------------------|---------|---------|
| | 2018 | 2017 |
| Basic net income per share | ¥106.92 | ¥106.81 |

| | Millions of yen | |
|---------------------------------------------------------------------------|-----------------|--------|
| | 2018 | 2017 |
| Income attributable to owners of parent | ¥9,154 | ¥9,149 |
| Income not applicable to common stockholders | — | — |
| Income attributable to owners of parent applicable to common stockholders | ¥9,154 | ¥9,149 |

| | Number of shares (Thousands) | |
|-------------------------------------------------------------------------------------------------|------------------------------|--------|
| | 2018 | 2017 |
| Weighted average number of shares outstanding on which basic net income per share is calculated | 85,618 | 85,657 |

(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, 2018 and 2017 are as follows:

| | Yen | |
|----------------------|-----------|-----------|
| | 2018 | 2017 |
| Net assets per share | ¥1,284.17 | ¥1,212.82 |

| | Millions of yen | |
|----------------------------------------------|-----------------|----------|
| | 2018 | 2017 |
| Total net assets | ¥109,335 | ¥103,887 |
| Amount deducted from total net assets | — | — |
| Net assets applicable to common stockholders | ¥109,335 | ¥103,887 |

| | Number of shares (Thousands) | |
|-----------------------------------------------------------------------------------------|------------------------------|--------|
| | 2018 | 2017 |
| Number of shares outstanding at end of year on which net assets per share is calculated | 85,156 | 85,657 |

Notes to Consolidated Financial Statements

13. Leases

The Company leases mainly certain vehicles under finance leases.

Future minimum payments required under noncancellable operating leases at March 31, 2018 and 2017 are as follows:

| | Millions of yen | |
|-----------------|-----------------|------|
| | 2018 | 2017 |
| Within one year | ¥18 | ¥16 |
| Over one year | 11 | 10 |
| | ¥29 | ¥26 |

14. 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 customers' credit risk. Trade receivables and loans receivable denominated in foreign currencies are exposed to fluctuation risk of foreign exchange rates. Investment securities are exposed to market fluctuation risk.

Maturities of trade notes and accounts payable are within one year. Trade payables denominated in foreign currencies 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 collectibility issues to mitigate customers' credit risk of notes and accounts receivable.

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

2) Market risk

To mitigate the foreign currency fluctuation risk categorized by currency, the Group uses a foreign exchange forward contract for hedging the cash flow fluctuation risk associated with trade receivables and payables and loans receivable denominated in foreign currencies. Foreign exchange forward contracts entered into by the Group are limited to the extent of existing foreign trade receivables and payables and loans receivable or a highly probable 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 is measured based on the quoted market price, if available, or reasonably assessed value if a quoted market price is not available. Fair value of financial instruments for which quoted market price is not available is calculated based on certain assumptions, and the fair value might differ if different assumptions are used.

Fair value of financial instruments

The carrying amounts on the consolidated balance sheet, fair value, and differences at March 31, 2018 and 2017 are as follows.

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

| | Millions of yen | | | | | |
|-------------------------------------------------|-----------------|------------|-------------|----------------|------------|-------------|
| | March 31, 2018 | | | March 31, 2017 | | |
| | Carrying value | Fair value | Differences | Carrying value | Fair value | Differences |
| (1) Cash | ¥16,589 | ¥16,589 | ¥— | ¥18,753 | ¥18,753 | ¥— |
| (2) Trade notes and accounts receivable | 64,151 | 64,151 | — | 60,993 | 60,993 | — |
| (3) Short-term investments | 15,000 | 15,000 | — | 10,000 | 10,000 | — |
| (4) Investments in securities: Other securities | 4,991 | 4,991 | — | 4,294 | 4,294 | — |
| (5) Trade notes and accounts payable | 29,846 | 29,846 | — | 32,539 | 32,539 | — |
| (6) Short-term debt | 488 | 488 | — | 628 | 628 | — |

<1> Fair value measurement of financial instruments

Assets and liabilities:

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

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

(4) Investments in securities: Other securities

The fair value is calculated by quoted market price.

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

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

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

| | Millions of yen | |
|------------------------------------------------------------|-----------------|------|
| | 2018 | 2017 |
| Unlisted equity securities | ¥236 | ¥269 |
| Investments in limited partnership and similar partnership | 501 | 487 |

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

<3> Projected future redemption of monetary claim and securities with maturities at March 31, 2018

| | Millions of yen | | | |
|-----------------------------------------|---------------------|---------------------------------------|----------------------------------------|---------------------|
| | Due within one year | Due after one year through five years | Due after five years through ten years | Due after ten years |
| (1) Cash | ¥16,589 | ¥— | ¥— | ¥— |
| (2) Trade notes and accounts receivable | 64,151 | — | — | — |
| (3) Short-term investments | 15,000 | — | — | — |

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

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

15. Business Combination**Transaction under common control**

The meeting of the Board of Directors held on December 1, 2016 resolved that the Company merged 11 wholly owned subsidiaries which operate research and development, manufacturing, sales and maintenance services by absorption-type merger and on April 1, 2017, the Company merged the 11 subsidiaries.

Through the mergers, the Company strives for the further growth, improvement of Group business efficiency, strengthening Group management system and enhancement of customer satisfaction.

This transaction is recorded as a transaction under common control, based on the Accounting Standard for Business Combinations (ASBJ Statement No. 21) and the Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures (ASBJ Guidance No. 10).

Notes to Consolidated Financial Statements

16. Segment Information

Because the Company and consolidated subsidiaries operate in one operating segment, medical electronic equipment business, the segment information is not disclosed for the years ended March 31, 2018 and 2017.

Related Information

(a) Information by Products and Services

Sales by products and services for the years ended March 31, 2018 and 2017 are as follows:

| | Millions of yen | |
|-----------------------------------|-----------------|----------|
| | 2018 | 2017 |
| Physiological measuring equipment | ¥ 39,323 | ¥ 37,658 |
| Patient monitors | 59,229 | 56,117 |
| Treatment equipment | 32,892 | 29,728 |
| Other | 42,804 | 42,781 |
| | ¥174,249 | ¥166,285 |

(b) Geographic Information

(1) Geographical sales for the years ended March 31, 2018 and 2017 are as follows:

| | Millions of yen | |
|----------|-----------------|----------|
| | 2018 | 2017 |
| Japan | ¥128,144 | ¥124,764 |
| Americas | 22,000 | 18,953 |
| Europe | 8,462 | 6,988 |
| Asia | 13,634 | 12,639 |
| Other | 2,008 | 2,938 |
| | ¥174,249 | ¥166,285 |

(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, 2018 and 2017.

(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, 2018 and 2017.

Information of impairment loss on fixed assets by reported segments

The information is not applicable for the years ended March 31, 2018 and 2017.

Goodwill by reported segments

The information is not applicable for the years ended March 31, 2018 and 2017.

Negative goodwill incurred by reported segments

The information is not applicable for the years ended March 31, 2018 and 2017.

17. Subsequent Event

The meeting of the Board of Directors held on May 10, 2018 resolved that the Company cancelled its common stock pursuant to Article 178 of the Companies Act. On May 21, 2018, 1,000,000 shares (1.11% of the total number of shares issued before the cancellation) were cancelled. The total number of shares issued after the cancellation is 88,730,980 shares.

Independent Auditor's Report

Nihon Kohden Corporation and Consolidated Subsidiaries
March 31, 2018



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Independent Auditor's Report

To the Board of Directors of
Nihon Kohden Corporation

We have audited the accompanying consolidated financial statements of Nihon Kohden Corporation, which comprise the consolidated balance sheet as of March 31, 2018, 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, 2018, and of its financial performance and its cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

BDO Toyo & Co.

BDO Toyo & Co.
Tokyo, Japan
June 28, 2018

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Company Information

■ Company Overview (as of March 31, 2018)

| | |
|-------------------------|---------------------------------------------------------------------|
| Common Name | NIHON KOHDEN |
| Official Name | NIHON KOHDEN CORPORATION |
| Incorporated | August 7, 1951 |
| Capital Stock | ¥7,544 million |
| Net Sales | (Consolidated) ¥174.2 billion (fiscal year ended March 31, 2018) |
| Type of Business | Development, production, and sales of medical electronic devices |
| Employees | (Consolidated) 5,031 persons |

■ Stock Overview (as of March 31, 2018)

| | |
|------------------------------------|--------------------|
| Number of Shares Authorized | 197,972,000 shares |
| Number of Shares Issued | 89,730,980 shares |
| Number of Shareholders | 6,558 persons |

■ Subsidiaries: 29 companies (as of June 30, 2018)

Sales and Promotion

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

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

Development of Medical Electronic Equipment and Software

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

Group General Affairs and Staffing

E-Staff Corporation
 E-Staff Insurance Services Corporation

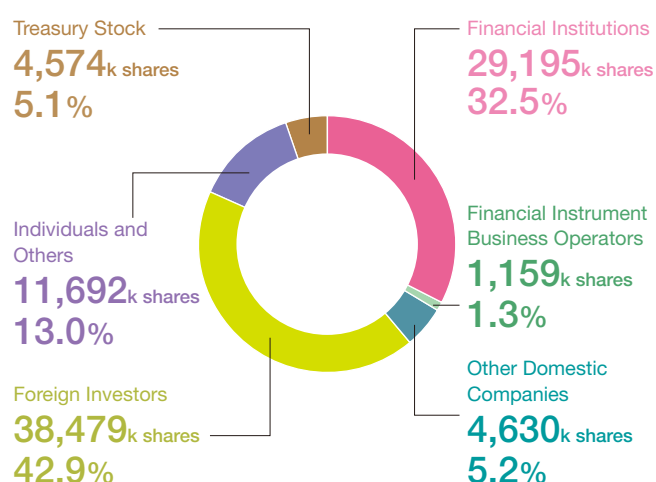
Other

RESUSCITATION SOLUTION, INC.

Development, Manufacturing, Sales, and Sales Promotion

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

■ Ownership Breakdown (as of March 31, 2018)



■ Major Shareholders (as of March 31, 2018)

| Shareholders | Number of Shares (Thousands of shares) | Shareholding Ratio (%) |
|------------------------------------------------------|----------------------------------------|------------------------|
| State Street Bank and Trust Company 505223 | 9,832 | 10.95 |
| The Master Trust Bank of Japan, Ltd. (trust account) | 4,320 | 4.81 |
| Saitama Resona Bank, Ltd. | 4,193 | 4.67 |
| Japan Trustee Service Bank, Ltd. (trust account) | 3,326 | 3.70 |
| Fujitsu Ltd. | 1,857 | 2.07 |
| Japan Trustee Service Bank, Ltd. (trust account 9) | 1,645 | 1.83 |
| RBC IST 15 PCT LENDING ACCOUNT - CLIENT ACCOUNT | 1,641 | 1.82 |
| State Street Bank and Trust Company 505103 | 1,636 | 1.82 |
| Japan Trustee Service Bank, Ltd (trust account 5) | 1,596 | 1.77 |
| GOVERNMENT OF NORWAY | 1,500 | 1.67 |

* The above list excludes Nihon Kohden's treasury stock of 4,574 thousand shares (shareholding ratio of 5.09%).

Disclaimer

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

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