*Fighting Disease with Electronics*

NIHON KOHDEN

# Annual Report

April 2014 - March 2015

# Company Profile

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

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

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

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

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

Health care professionals throughout the world are familiar with Nihon Kohden as a manufacturer of innovative equipment that is reliable, high quality, safe, and easy to operate.

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

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

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

## Contents

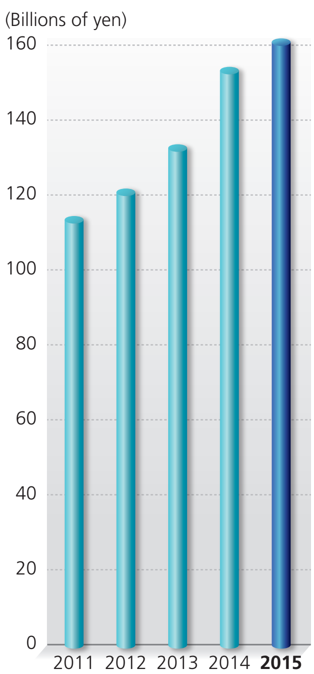
# Consolidated Financial Highlights

Nihon Kohden Corporation and Consolidated Subsidiaries
Years ended March 31, 2015, 2014, 2013, 2012, and 2011

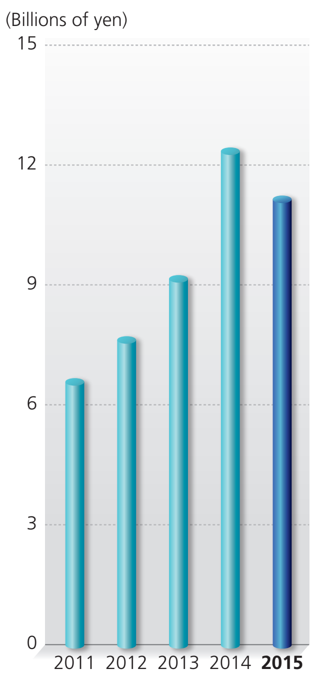
| | Millions of yen | | | | | Thousands of U.S. dollars[1] |
|---|---|---|---|---|---|---|
| | **2015** | 2014 | 2013 | 2012 | 2011 | **2015** |
| Net sales | **¥160,803** | ¥153,194 | ¥132,538 | ¥120,718 | ¥113,380 | **$1,338,129** |
| Operating income | **15,921** | 17,548 | 13,484 | 12,027 | 10,598 | **132,487** |
| Income before income taxes and minority interests | **17,426** | 19,022 | 14,525 | 12,181 | 10,293 | **145,011** |
| Net income | **11,143** | 12,346 | 9,152 | 7,622 | 6,573 | **92,727** |
| Total assets | **146,756** | 130,918 | 116,800 | 99,403 | 92,496 | **1,221,237** |
| Net assets | **99,304** | 88,512 | 76,256 | 67,911 | 62,294 | **826,363** |
| Amounts per share[2]: | Yen | | | | | U.S. dollars |
| Net income-basic[3] | **¥126.83** | ¥140.52 | ¥208.31 | ¥173.49 | ¥149.62 | **$1.06** |
| Cash dividends | **70.00** | 70.00 | 52.00 | 44.00 | 44.00 | **0.58** |

Notes : (1) U.S. dollars amounts are translated from yen, for convenience only, at the rate of ¥120.17 = US$1.
(2) Computation of net income and dividends per share was based on the average number of shares of common stock outstanding during each fiscal year.
Cash dividends per share are dividends applicable to the respective years including dividends to be paid after the end of the year.
See Note 9 and 13 of Consolidated Financial Statements.
(3) Effective on April 1, 2015, each share of common stock was split into two shares. The Company calculated EPS for fiscal years ended March 31, 2014 and 2015 on the assumption that stock split was conducted at the beginning of the fiscal year ended March 31, 2014.

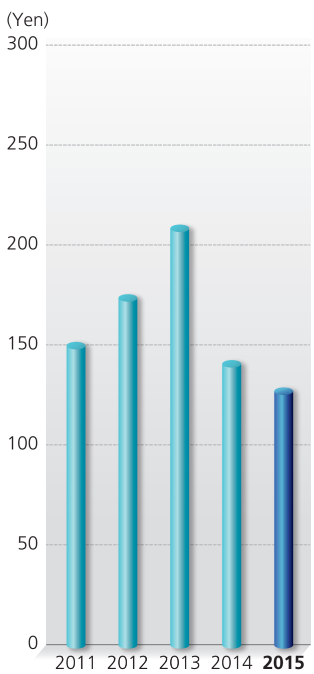
## Net sales



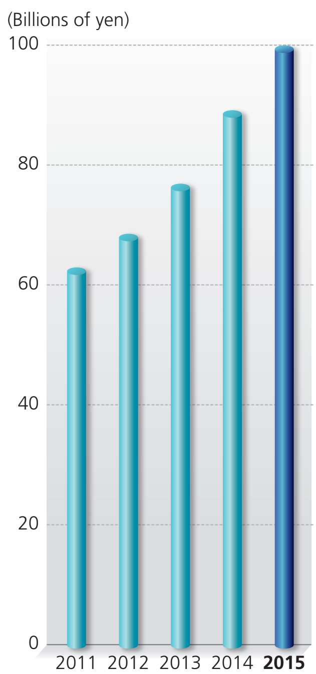

## Net income




## Net income per share




## Net assets



# To Our Stockholders

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

Ever since the Company's founding in 1951, we have enthusiastically continued our original mission of "fighting disease with electronics" and Nihon Kohden has continued to move forward as a top manufacturer of medical electronic equipment. In that period, with a particular eye toward the connection between human and machine, we have concentrated our efforts on developing human-machine interface technologies and turned them into practical reality in many excellent medical electronic products. Nihon Kohden developed the basis of $SpO_2$ which is indispensable in modern medicine. We have become the world's leading manufacturer of electroencephalographs and our electrocardiographs, evoked potential and electromyogram measuring systems, patient monitors, defibrillators, automated hematology analyzers and other medical equipment have earned an excellent reputation among users around the world.

With our 1995 ISO9001 certification, the international standard of quality assurance, and CE marking in 1996, based on the EU Medical Device Directive, Nihon Kohden has constructed a consistent quality assurance system covering all areas, from development to after sales service. Based on our quality policy "to have the customers feel continuous satisfaction with their purchase of Nihon Kohden products," we are continuously striving to develop the highest quality products.

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

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

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

In FY2014, the challenging market conditions such as expiration of the regional medical care revival plan, revision of medical treatment fees and the consumption tax hike impacted our domestic business. However, we recorded stable sales growth in Japan, supported by new products and a wide-range product line-up. Internationally, sales in all areas showed positive growth. Especially, sales in the U.S. and emerging countries posted strong growth, due in part to continued investment in strengthening our international business structure. We recorded the highest revenue in the Company's history, but operating income decreased because an unfavorable product mix in domestic business led to lower gross margin ratio.

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

FY2015 is the halfway point of Strong Growth 2017 and we will accelerate progress towards the achievement of this plan. We aim to achieve sustainable growth in Japan and strong growth in international markets. The Company enhanced its global operations by establishing overseas offices, building a new Tomioka production center, and constructing a new R&D center.

Under a new management team since June 25, 2015, we will continue to implement this plan to achieve sustained group growth and enhance corporate value.

We remain wholly committed to increasing the value of the Company and highly appreciate your continued support.

Fumio Suzuki
Chairman and CEO

Hirokazu Ogino
President and COO

# Nihon Kohden revises its mid-term business plan, Strong Growth 2017

Nihon Kohden aims to realize its long-term vision, The CHANGE 2020 – The Global Leader of Medical Solutions –, which was set out in 2010 for the next ten years to 2020.

The Company's four-year mid-term business plan, Strong Growth 2017, is the second stage in realizing its long-term vision. Nihon Kohden aims to achieve sustainable growth in Japan under the Japanese government's future vision to reorganize the medical and nursing care systems by 2025 and achieve strong growth in international markets. The Company also enhances its operating base to ensure growth. Under review of the two-year progress of this plan, Nihon Kohden has launched competitive technologies and products such as iNIBP* and BSM-1700 transport monitor. The FY2016 target for domestic sales was achieved 2 years ahead of schedule and FY2014 overseas sales exceeded the Company's forecast. The Company also enhanced its operating base by establishing overseas offices and Tomioka production center and constructing an R&D center. The Company aims to achieve the original numerical targets set for the final year of the plan (ending March 31, 2017), sales of ¥170 billion and operating income of ¥18 billion, one year ahead of schedule. Thus the Company revised upward the numerical targets of Strong Growth 2017 and aims to sustain growth of the Nihon Kohden Group and enhance the corporate value of the Company.

* iNIBP is an original algorithm which allows quick and painless NIBP measurement during cuff inflation.

Long-term vision (April 2010 to March 2020)

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

### Envisioned corporate status for 2020

| | | |
|---|---|---|
| Lead the world in the development of revolutionary breakthrough technology | Achieve the highest level of quality in the world | Attain top share in applicable global markets |

### Target for the year ending March 2020

| | | |
|---|---|---|
| Sales : ¥200 billion | Operating income : ¥25 billion | Overseas sales ratio : 35% |

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

# Strong Growth 2017

## Key Points for Revision of Strong Growth 2017

### Reaffirm 6 key strategies

**Key strategies**

- Pursue the highest level of quality in the world
- Strengthen technological development capabilities
- Strengthen business expansion by region
- Achieve further growth in core businesses
- Develop new businesses
- Consolidate corporate fundamentals

### Add following revision

+

**Strengthen business expansion by region**

**Strengthen business expansion in the U.S.**

- Reorganize direct-sales operations
- Expand product line-up
- Keep high customer satisfaction

**Achieve further growth in core businesses**

**Establish stable and consistent revenue base in core businesses**

- Introduce high-quality, competitive products and technologies in Patient Monitors, Diagnostic Equipment and Treatment Equipment
- Strengthen consumables business such as sensors

**Consolidate corporate fundamentals**

**Globalized, efficient, profitable and fast-paced business structure**

- Improve development efficiency
- Strengthen response to regulations
- Establish global supply chain which promotes optimization and efficiency
- Further globalize head office functions and appoint local management staff

### Revise upward the numerical targets

**Strong Growth 2017 targets for FY2016 ending March 2017 (consolidated)**

| | FY2012 actual | FY2014 actual | FY2016 target |
|---|---|---|---|
| Sales | ¥132.5 billion | ¥160.8 billion | **¥182.0 billion** |
| - Domestic | ¥110.2 billion | ¥122.4 billion | **¥130.0 billion** |
| - Overseas | ¥ 22.3 billion | ¥ 38.3 billion | **¥ 52.0 billion** |
| Operating income | ¥ 13.4 billion | ¥ 15.9 billion | **¥ 20.0 billion** |
| ROE | 12.7 % | 11.9 % | **13.5 %** |

**Breakdown of overseas sales by region**

| | FY2012 actual | FY2014 actual | FY2016 target |
|---|---|---|---|
| Americas | ¥8.0 billion | ¥16.4 billion | **¥22.6 billion** |
| Europe | ¥5.6 billion | ¥ 7.4 billion | **¥ 8.7 billion** |
| Asia | ¥7.5 billion | ¥12.5 billion | **¥18.2 billion** |
| Other | ¥1.0 billion | ¥ 1.8 billion | **¥ 2.5 billion** |

Exchange rate assumptions: ¥118 to the dollar, ¥125 to the euro

## Physiological Measuring Equipment

EEG-1250

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

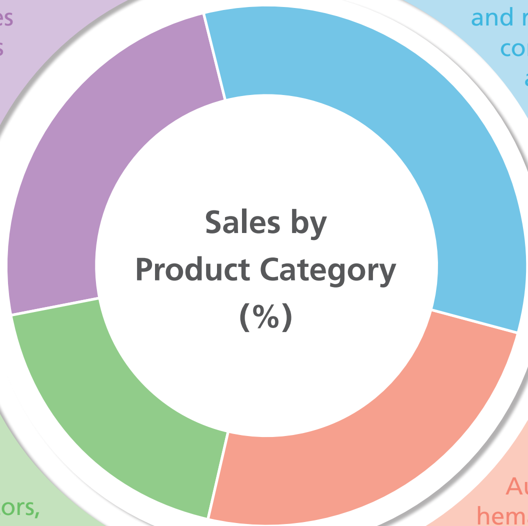
**23.1%**

## Patient Monitors

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

BSM-1700

**33.0%**




**18.3%**

AED-2152

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

## Treatment Equipment

**25.6%**

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

MEK-6500

Note : Transformer business was assigned to Sumida Power Technology Co., Ltd., in September 2014.

## Other Medical Equipment

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

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

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

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

# Review of Operations

During the term under review (April 1, 2014 to March 31, 2015), the Japanese government revised medical treatment fees in April 2014 and promulgated the law for securing comprehensive medical and long-term care in the communities. This indicated the direction to differentiate medical institution functions, promote collaboration between medical and nursing care, and establish an integrated community care system, which was based on the government's 2025 future vision of medical/long-term care services. In Europe and the United States, the governments have carried out measures for medical cost restriction as well as healthcare reform. In emerging countries, the healthcare infrastructure has developed together with economic growth. Overall demand for medical equipment remained steady, although there was political uncertainty in some regions.

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

The Company is continuing to develop new treatment equipment and it launched Japan's first magnetic stimulation treatment equipment for urinary incontinence. New competitive products were also launched since April 2014: a middle-end defibrillator and the Company's first vital sign telemeter.

Nihon Kohden also strengthened its business structure abroad. The Company established an R&D subsidiary in Boston and Nihon Kohden Malaysia Sdn. Bhd. applied for a manufacturer license for medical devices in Malaysia. The Company also established a new production facility in Tomioka city in Gunma prefecture to increase production efficiency and increase production volume. The new production facility started operation in May 2015.

As a result, overall sales during the term under review increased 5.0% over FY2013 to ¥160,803 million. Because gross margin ratio was lower than FY2013 and SG&A expenses increased, operating income decreased 9.3% to ¥15,921 million and net income decreased 9.7% to ¥11,143 million.

## New products

**Magnetic Stimulation Treatment Equipment**
**TMU-1100**

**Defibrillator**
**TEC-5600 series**

**Vital Sign Telemeter**
**GZ-130P**

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

## Sales

In the term under review, sales increased ¥7,609 million, or 5.0%, to ¥160,803 million.

### Sales by Product Category

**Physiological Measuring Equipment:** In Japan, sales of EEGs, ECGs and diagnostic information systems decreased. Sales of polygraphs for cath lab increased. Internationally, sales of EEGs increased in all areas with especially strong growth in the Americas and Asia. Sales of ECGs remained at the same level as the previous fiscal year. Overall, sales increased 1.4% over the previous fiscal year to ¥37,181 million.

**Patient Monitors:** In Japan, sales of bedside monitors and clinical information systems decreased, although consumable sales such as sensors increased favorably. Outside Japan, sales in all areas achieved double digit growth. Overall, sales increased 4.3% over the previous fiscal year to ¥53,068 million.

**Treatment Equipment:** In Japan, AED sales showed strong growth as a wide range of models and the Company's AED Remote Monitoring System, which supports the customers' daily check, have been well received. Internationally, sales of AEDs increased in all areas. Sales of defibrillators decreased compared to the strong previous fiscal year with large orders from Iraq. Overall, sales increased 3.5% over the previous fiscal year to ¥29,393 million.

**Other Medical Equipment:** In Japan, sales of hematology instruments and locally purchased products increased. Internationally, sales of hematology analyzers increased in Asia. Overall, sales increased 10.4% over the previous fiscal year to ¥41,161 million.

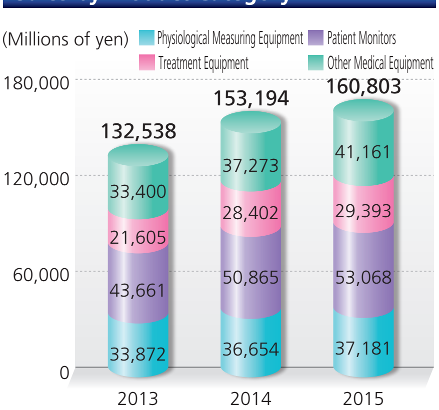
### Sales by Region

**Japan:** The Company developed and marketed products and services that meet market trends in Japan such as reorganizing care functions and establishing regional health care networks. Sales in the private hospital and the clinic market increased. AEDs sales also increased favorably in the PAD market. Sales in the university and public hospital market were weak because the regional medical care revival plan was almost expired in March 2014. Revision of medical treatment fees and the consumption tax hike also affected sales. As a result, domestic sales increased 1.7% over FY2013 to ¥122,490 million.

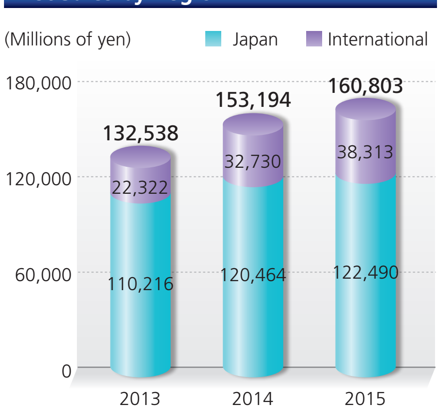
**International:** Sales in all areas and all product categories increased as the Company strengthened its international business structure and launched new products in Patient Monitors. In the Americas, sales in the U.S. and Latin America showed strong growth. Sales in Europe increased on a comparable basis as sales of Patient Monitors increased in Western Europe. Sales in Russia remained weak. In Asia, sales in Southeast Asia, India and Korea showed strong growth. Sales in China slightly increased. As a result, international sales increased 17.1% over FY2013 to ¥38,313 million.

Years ended March 31

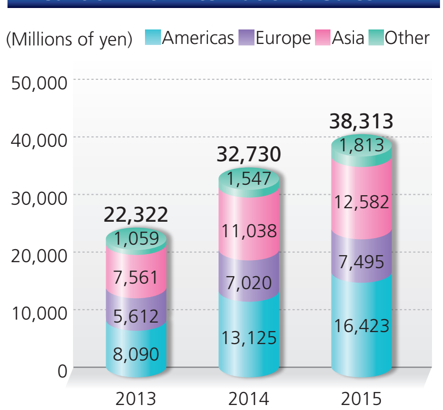
**Sales by Product Category**




**Net Sales by Region**




**Breakdown of International Sales**



## Cost of Sales, SGA Expenses and Operating Income

In the term under review, sales costs were ¥82,908 million. Gross profit ratio declined 160 basis points to 48.4%. It was due to unfavorable product mix as well as some low-margin deals in domestic business. Gross profit on sales increased ¥1,278 million, or 1.7%, to ¥77,895 million.

Selling, general, and administrative expenses increased mainly due to the enhancement of human resources. The ratio of SGA expenses to sales remained the same level of the previous fiscal year at 38.5%. Research and development costs were ¥5,746 million (3.6% of sales).

As a result, operating income decreased ¥1,627 million, or 9.3% to ¥15,921 million.

## Other Income and Expenses, Net Income

Net other income increased ¥31 million to ¥1,505 million, mainly due to gain on transfer of business.

Income before income tax and minority interests decreased ¥1,596 million to ¥17,426 million.

Net income decreased ¥1,203 million to ¥11,143 million from ¥12,346 million in the previous fiscal year. Net income per share was ¥126.83.

Note: Effective on April 1, 2015, each share of common stock was split into two shares. The Company calculated EPS on the assumption that stock split was conducted at the beginning of the fiscal year ended March 31, 2015.

## Cash Flows

Net cash provided by operating activities during the year under review increased ¥3,122 million to ¥12,505 million. It includes ¥17,426 million of income before income taxes and minority interests, ¥4,206 million of increase in trade notes and accounts payable, and ¥7,572 million of income taxes paid.

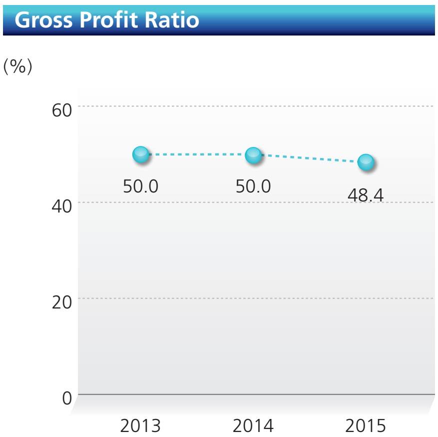
Net cash used in investing activities increased ¥269 million to ¥4,690 million. We used ¥3,175 million for capital expenditures and ¥1,170 million for purchase of intangible assets.

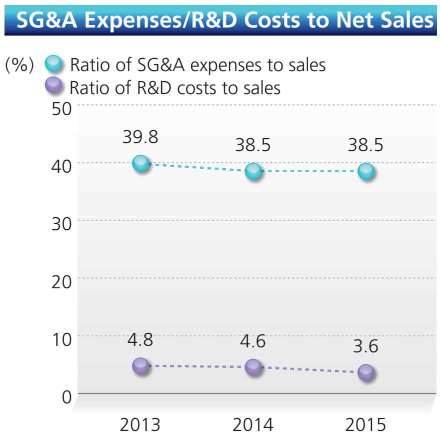
As a result of these factors, free cash flow amounted to ¥7,815 million.

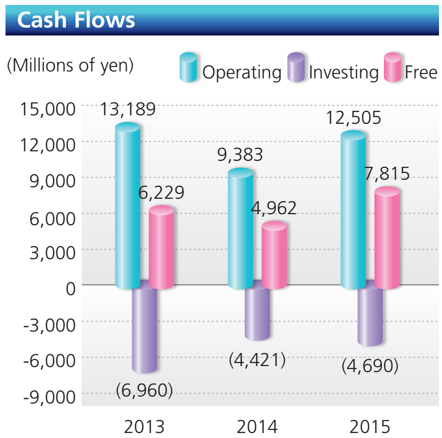
Net cash used in financing activities decreased ¥169 million to ¥3,267 million. We paid ¥3,303 million for stockholders dividends.

As a result, cash and cash equivalents as of March 31, 2015 increased ¥5,304 million to ¥34,113 million.

Years ended March 31



Nihon Kohden Corporation and Consolidated Subsidiaries

# Consolidated Balance Sheet

March 31, 2015

| Assets | Millions of yen | | Thousands of U.S. dollars (note 2) |
|---|---|---|---|
| | 2015 | 2014 | 2015 |
| Current assets: | | | |
| Cash (note 3) | ¥ 13,233 | ¥ 13,883 | $ 110,119 |
| Trade notes and accounts receivable | 58,835 | 54,456 | 489,598 |
| Short-term investments (note 4) | 21,000 | 15,010 | 174,753 |
| Inventories | 19,270 | 17,265 | 160,356 |
| Deferred income taxes (note 7) | 4,526 | 4,537 | 37,663 |
| Other current assets | 1,729 | 1,606 | 14,388 |
| Less allowance for doubtful receivables | 204 | 242 | 1,698 |
| Total current assets | 118,389 | 106,515 | 985,179 |
| Property, plant and equipment, net of accumulated depreciation; ¥25,880 million ($215,362 thousand) in 2015 and ¥24,520 million in 2014: | | | |
| Buildings and structures | 4,216 | 3,521 | 35,084 |
| Machinery, equipment and vehicles | 555 | 570 | 4,619 |
| Tools, furniture and fixtures | 3,058 | 2,739 | 25,447 |
| Land | 3,548 | 3,222 | 29,525 |
| Leased assets | 47 | 54 | 391 |
| Construction in progress | 787 | 508 | 6,549 |
| Net property, plant and equipment | 12,211 | 10,614 | 101,615 |
| Intangible assets, net: | | | |
| Goodwill | 2,559 | 2,353 | 21,295 |
| Other intangible assets | 4,226 | 4,301 | 35,167 |
| Total intangible assets | 6,785 | 6,654 | 56,462 |
| Investments and other assets: | | | |
| Investments in securities (note 4) | 6,686 | 4,526 | 55,638 |
| Deferred income taxes (note 7) | 1,299 | 1,448 | 10,810 |
| Other investments and other assets | 1,571 | 1,213 | 13,073 |
| Less allowance for doubtful receivables | 185 | 52 | 1,540 |
| Total investments and other assets | 9,371 | 7,135 | 77,981 |
| Total assets | ¥146,756 | ¥130,918 | $1,221,237 |

See accompanying notes to consolidated financial statements.

| Liabilities and Net Assets | Millions of yen | | Thousands of U.S. dollars (note 2) |
|---|---|---|---|
| | 2015 | 2014 | 2015 |
| Current liabilities: | | | |
| Trade notes and accounts payable | ¥ 30,816 | ¥ 25,996 | $ 256,437 |
| Short-term debt and current installments of long-term debt (note 5) | 1,117 | 992 | 9,295 |
| Other payables | 3,683 | 2,430 | 30,648 |
| Accrued income taxes (note 7) | 2,350 | 3,975 | 19,556 |
| Accrued expenses | 2,802 | 2,936 | 23,317 |
| Accrued bonuses | 2,889 | 3,079 | 24,041 |
| Other current liabilities (note 5) | 1,997 | 1,841 | 16,618 |
| Total current liabilities | 45,654 | 41,249 | 379,912 |
| Non-current liabilities: | | | |
| Long-term debt (note 5) | — | 0 | — |
| Liabilities for retirement benefits (note 6) | 619 | 701 | 5,151 |
| Deferred income taxes (note 7) | 579 | 61 | 4,818 |
| Other non-current liabilities (note 5) | 600 | 395 | 4,993 |
| Total non-current liabilities | 1,798 | 1,157 | 14,962 |
| Total liabilities | 47,452 | 42,406 | 394,874 |
| Stockholders' equity: | | | |
| Common stock (note 8): Authorized 98,986,000 shares; issued 45,765,490 shares in 2015 and 2014 | 7,545 | 7,545 | 62,786 |
| Additional paid-in capital (note 8) | 10,487 | 10,487 | 87,268 |
| Retained earnings (note 9) | 77,336 | 69,654 | 643,555 |
| Treasury stock, at cost; 1,835,752 shares in 2015 and 1,835,266 shares in 2014 | (2,030) | (2,027) | (16,893) |
| Total stockholders' equity | 93,338 | 85,659 | 776,716 |
| Accumulated other comprehensive income: | | | |
| Net unrealized gain on other securities (note 4) | 2,327 | 882 | 19,364 |
| Foreign currency translation adjustments | 3,069 | 1,603 | 25,539 |
| Remeasurements of defined benefit plans | 509 | 308 | 4,236 |
| Total accumulated other comprehensive income | 5,905 | 2,793 | 49,139 |
| Minority interests | 61 | 60 | 508 |
| Total net assets | 99,304 | 88,512 | 826,363 |
| Commitments and contingencies | | | |
| Total liabilities and net assets | ¥146,756 | ¥130,918 | $1,221,237 |

# Consolidated Statement of Income

March 31, 2015

| | Millions of yen | | Thousands of U.S. dollars (note 2) |
|---|---|---|---|
| | **2015** | 2014 | **2015** |
| Net sales | **¥160,803** | ¥153,194 | **$1,338,129** |
| Cost of sales (note 11) | **82,908** | 76,577 | **689,923** |
| Gross profit | **77,895** | 76,617 | **648,206** |
| Selling, general and administrative expenses (notes 10 and 11) | **61,974** | 59,069 | **515,719** |
| Operating income | **15,921** | 17,548 | **132,487** |
| Other income (deductions): | | | |
| Interest income | **44** | 45 | **366** |
| Dividend income | **101** | 96 | **841** |
| Interest expenses | **(46)** | (48) | **(383)** |
| Foreign exchange gains | **818** | 782 | **6,807** |
| Subsidy income | **177** | 228 | **1,473** |
| Gain (loss) on sale/disposal of property, plant and equipment | **1** | (12) | **8** |
| Gain on transfer of business | **191** | – | **1,590** |
| Gain on sale of investments in securities (note 4) | **–** | 36 | **–** |
| Loss on devaluation of investments in securities | **(36)** | – | **(300)** |
| Other, net | **255** | 347 | **2,122** |
| | **1,505** | 1,474 | **12,524** |
| Income before income taxes and minority interests | **17,426** | 19,022 | **145,011** |
| Income taxes (note 7): | | | |
| Current | **5,942** | 6,732 | **49,446** |
| Deferred | **335** | (78) | **2,788** |
| | **6,277** | 6,654 | **52,234** |
| Income before minority interests | **11,149** | 12,368 | **92,777** |
| Minority interests | **6** | 22 | **50** |
| Net income | **¥ 11,143** | ¥ 12,346 | **$ 92,727** |

See accompanying notes to consolidated financial statements.

# Consolidated Statement of Comprehensive Income

March 31, 2015

| | Millions of yen | | Thousands of U.S. dollars (note 2) |
|---|---|---|---|
| | **2015** | 2014 | **2015** |
| Income before minority interests | **¥11,149** | ¥12,368 | **$ 92,777** |
| Other comprehensive income arising during the year (note 12): | | | |
| Net unrealized gain on other securities | **1,445** | 423 | **12,025** |
| Foreign currency translation adjustments | **1,472** | 1,803 | **12,249** |
| Remeasurements of defined benefit plans | **202** | – | **1,681** |
| Total other comprehensive income arising during the year | **3,119** | 2,226 | **25,955** |
| Comprehensive income | **¥14,268** | ¥14,594 | **$118,732** |
| Comprehensive income attributable to: | | | |
| Owners of the parent | **¥14,256** | ¥14,575 | **$118,632** |
| Minority interests | **12** | 19 | **100** |

See accompanying notes to consolidated financial statements.

# Consolidated Statement of Changes in Net Assets

March 31, 2015

| | Millions of yen | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Stockholders' equity | | | | | Accumulated other comprehensive income (loss) | | | | | |
| | Common stock (note 8) | Additional paid-in capital (note 8) | Retained earnings (note 9) | Treasury stock | Total | Net unrealized gain on other securities (note 4) | Foreign currency translation adjustments | Remeasurement of defined benefit plans | Total | Minority interests | Total net assets |
| Balance at March 31, 2013 | ¥7,545 | ¥10,487 | ¥59,944 | ¥(2,023) | ¥75,953 | ¥ 459 | ¥ (203) | ¥ – | ¥ 256 | ¥47 | ¥76,256 |
| Changes arising during year: | | | | | | | | | | | |
| Cash dividends | | | (2,636) | | (2,636) | | | | | | (2,636) |
| Net income | | | 12,346 | | 12,346 | | | | | | 12,346 |
| Purchase of treasury stock | | | | (4) | (4) | | | | | | (4) |
| Disposition of treasury stock | | 0 | | 0 | 0 | | | | | | 0 |
| Net changes other than stockholders' equity | | | | | | 423 | 1,806 | 308 | 2,537 | 13 | 2,550 |
| Total changes during the year | – | 0 | 9,710 | (4) | 9,706 | 423 | 1,806 | 308 | 2,537 | 13 | 12,256 |
| Balance at March 31, 2014 | 7,545 | 10,487 | 69,654 | (2,027) | 85,659 | 882 | 1,603 | 308 | 2,793 | 60 | 88,512 |
| Cumulative effects of changes in accounting policies | | | (166) | | (166) | | | | | | (166) |
| Restated balance at March 31, 2014 | 7,545 | 10,487 | 69,488 | (2,027) | 85,493 | 882 | 1,603 | 308 | 2,793 | 60 | 88,346 |
| Changes arising during year: | | | | | | | | | | | |
| Cash dividends | | | (3,295) | | (3,295) | | | | | | (3,295) |
| Net income | | | 11,143 | | 11,143 | | | | | | 11,143 |
| Purchase of treasury stock | | | | (3) | (3) | | | | | | (3) |
| Net changes other than stockholders' equity | | | | | | 1,445 | 1,466 | 201 | 3,112 | 1 | 3,113 |
| Total changes during the year | – | – | 7,848 | (3) | 7,845 | 1,445 | 1,466 | 201 | 3,112 | 1 | 10,958 |
| Balance at March 31, 2015 | ¥7,545 | ¥10,487 | ¥77,336 | ¥(2,030) | ¥93,338 | ¥2,327 | ¥3,069 | ¥509 | ¥5,905 | ¥61 | ¥99,304 |

| | Thousands of U.S. dollars (note 2) | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Stockholders' equity | | | | | Accumulated other comprehensive income (loss) | | | | | |
| | Common stock (note 8) | Additional paid-in capital (note 8) | Retained earnings (note 9) | Treasury stock | Total | Net unrealized gain on other securities (note 4) | Foreign currency translation adjustments | Remeasurement of defined benefit plans | Total | Minority interests | Total net assets |
| Balance at March 31, 2014 | $62,786 | $87,268 | $579,629 | $(16,868) | $712,815 | $ 7,340 | $13,339 | $2,563 | $23,242 | $500 | $736,557 |
| Cumulative effects of changes in accounting policies | | | (1,381) | | (1,381) | | | | | | (1,381) |
| Restated balance at March 31, 2014 | 62,786 | 87,268 | 578,248 | (16,868) | 711,434 | 7,340 | 13,339 | 2,563 | 23,242 | 500 | 735,176 |
| Changes arising during year: | | | | | | | | | | | |
| Cash dividends | | | (27,420) | | (27,420) | | | | | | (27,420) |
| Net income | | | 92,727 | | 92,727 | | | | | | 92,727 |
| Purchase of treasury stock | | | | (25) | (25) | | | | | | (25) |
| Net changes other than stockholders' equity | | | | | | 12,024 | 12,200 | 1,673 | 25,897 | 8 | 25,905 |
| Total changes during the year | – | – | 65,307 | (25) | 65,282 | 12,024 | 12,200 | 1,673 | 25,897 | 8 | 91,187 |
| Balance at March 31, 2015 | $62,786 | $87,268 | $643,555 | $(16,893) | $776,716 | $19,364 | $25,539 | $4,236 | $49,139 | $508 | $826,363 |

See accompanying notes to consolidated financial statements.

Nihon Kohden Corporation and Consolidated Subsidiaries

# Consolidated Statement of Cash Flows

March 31, 2015

| | Millions of yen | | Thousands of U.S. dollars (note 2) |
|---|---|---|---|
| | **2015** | 2014 | **2015** |
| Cash flows from operating activities: | | | |
| Income before income taxes and minority interests | **¥17,426** | ¥19,022 | **$145,011** |
| Adjustments to reconcile income before income taxes and minority interests to net cash provided by operating activities: | | | |
| Depreciation and amortization | **3,606** | 3,241 | **30,008** |
| (Gain) loss on sale/disposal of property, plant and equipment | **(1)** | 12 | **(8)** |
| Increase (decrease) in allowance for doubtful receivables | **82** | (71) | **682** |
| Increase (decrease) in accrued bonuses | **(194)** | 257 | **(1,614)** |
| Increase (decrease) in liabilities for retirement and severance benefits | **(65)** | 57 | **(541)** |
| Interest and dividend income | **(146)** | (142) | **(1,215)** |
| Interest expenses | **47** | 48 | **391** |
| (Gain) loss on valuation of investments in securities | **35** | (114) | **291** |
| Gain on transfer of business | **(190)** | – | **(1,581)** |
| Increase in trade notes and accounts receivable | **(3,373)** | (8,117) | **(28,069)** |
| Increase in inventories | **(1,691)** | (162) | **(14,072)** |
| Increase in trade notes and accounts payable | **4,206** | 1,572 | **35,001** |
| Other, net | **243** | 347 | **2,022** |
| Sub total | **19,985** | 15,950 | **166,306** |
| Interest and dividend received | **144** | 142 | **1,198** |
| Interest paid | **(52)** | (48) | **(432)** |
| Income taxes paid | **(7,572)** | (6,661) | **(63,011)** |
| Net cash provided by operating activities | **12,505** | 9,383 | **104,061** |
| Cash flows from investing activities: | | | |
| Proceeds from sale of investments in securities | **–** | 118 | **–** |
| Purchase of investments in securities | **(414)** | (108) | **(3,445)** |
| Capital expenditures | **(3,175)** | (3,778) | **(26,421)** |
| Purchase of intangible assets | **(1,170)** | (722) | **(9,736)** |
| Proceeds from transfer of business | **248** | – | **2,064** |
| Other, net | **(179)** | 69 | **(1,490)** |
| Net cash used in investing activities | **(4,690)** | (4,421) | **(39,028)** |
| Cash flows from financing activities: | | | |
| Increase (decrease) in short-term debt | **57** | (766) | **475** |
| Payments on long-term debt | **(0)** | (0) | **(0)** |
| Dividends paid to stockholders | **(3,303)** | (2,628) | **(27,486)** |
| Dividends paid to minority stockholders of subsidiaries | **–** | (6) | **–** |
| Purchase of treasury stock | **(3)** | (4) | **(25)** |
| Other, net | **(18)** | (32) | **(150)** |
| Net cash used in financing activities | **(3,267)** | (3,436) | **(27,186)** |
| Effect of exchange rate changes on cash and cash equivalents | **756** | 599 | **6,291** |
| Net increase in cash and cash equivalents | **5,304** | 2,125 | **44,138** |
| Cash and cash equivalents at beginning of year | **28,809** | 26,684 | **239,735** |
| Cash and cash equivalents at end of year (note 3) | **¥34,113** | ¥28,809 | **$283,873** |

See accompanying notes to consolidated financial statements.

# Notes to Consolidated Financial Statements

March 31, 2015

## 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 36 subsidiaries.

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

Investments in affiliates are accounted for by the equity method.

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

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

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

### (c) Cash and Cash Equivalents

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

### (d) Short-term Investments and Investments in Securities

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

### (e) Inventories

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

### (f) Property, Plant and Equipment

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

The estimated useful lives are as follows:

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

### (g) Intangible Assets

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

### (h) Allowance for Doubtful Receivables

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

### (i) Retirement and Severance Benefits

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

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

The Company has applied ASBJ Statement No. 26 Accounting Standard for Retirement Benefits (released on May 17, 2012, hereinafter the "Standard") and ASBJ Guidance No. 25 Guidance on Accounting Standard for Retirement Benefits (released on March 26, 2015, hereinafter the "Guidance") effective from the year ended March 31, 2015, in accordance with the provisions stated in Paragraph 35 of the Standard and Paragraph 67 of the Guidance.

In applying these accounting standards, the method for attributing projected benefits to periods has been changed from the straight-line basis to the benefit formula basis, and the method for determining the discount rate has been changed from the method using the discount rate based on the average remaining service period to the method using a single weighted-average discount rate that reflects the periods until the expected payment of retirement benefits and the amount of projected benefits every such period.

According to the transitional treatment provided in Paragraph 37 of the Standard, the effect of changing the method for calculating retirement benefit obligations and service costs was recognized by adjusting retained earnings at the beginning of the year ended March 31, 2015.

As a result, liabilities for retirement benefits increased ¥258 million ($2,147 thousand) and retained earnings decreased ¥166 million ($1,381 thousand) at the beginning of the year ended March 31, 2015. The effect of this change on consolidated operating income and income before income taxes and minority interests for the year ended March 31, 2015 is immaterial. The impact on the net income per share is shown in note (13) Per Share Information.

### (j) Accrued Warranty Expenses

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

### (k) Leases

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

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

### (l) Foreign Currency Translation

Under the Accounting Standards for Foreign Currency Transactions, foreign currency transactions are translated into yen on the basis of the rates in effect at the transaction date, receivables and payables denominated in foreign currencies are translated into yen at the rate of exchange 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 and "Minority interests".

### (m) Income Taxes

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

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

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

"Accounting Standard for Business Combinations" (ASBJ Statement No. 21), "Accounting Standard for Consolidated Financial Statements" (ASBJ Statement No. 22), "Accounting Standard for Business Divestitures" (ASBJ Statement No. 7) and other related standards and implementation guidance were revised on September 13, 2013. The Company is scheduled to apply these accounting standards from the beginning of the year ending March 31, 2016.

In accordance with these revisions, the following accounting policies of the Company will be changed.

- the treatment of the parent company's interests changes in equity of its subsidiary while the parent company's control is continuing because of additional acquisition of shares of the subsidiary
- the treatment of acquisition-related expenses
- the presentation of net income and the change from minority interests to non-controlling interests
- the treatment of provisional accounting

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

### (o) Reclassifications

Certain reclassifications have been made to the prior years' consolidated financial statements to conform to the presentation used as of and for the year ended March 31, 2015.

## 2 Financial Statement Translation

The translations of the yen amounts into U.S. dollars are included solely for the convenience of the reader, using the prevailing exchange rate at March 31, 2015, which was ¥120.17 to U.S. $1. This translation should not be construed as a representation that the amounts shown could be converted into U.S. dollars at such rate.

## 3 Cash and Cash Equivalents

Reconciliation between "Cash" in the accompanying consolidated balance sheet and "Cash and cash equivalents" in the accompanying consolidated statement of cash flows at March 31, 2015 and 2014 is follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2015** | 2014 | **2015** |
| Cash | **¥ 13,233** | ¥ 13,883 | **$ 110,119** |
| Short-term investments that have maturities of three months or less | **21,000** | 15,010 | **174,753** |
| Time deposits with maturities of over three months | **(120)** | (74) | **(999)** |
| Short-term investments other than certificate of deposit | **–** | (10) | **–** |
| Cash and cash equivalents | **¥ 34,113** | ¥ 28,809 | **$ 283,873** |

## 4 Short-term Investments and Investments in Securities

Balance sheet amount, acquisition cost, gross unrealized gain and gross unrealized loss of other securities with fair value at March 31, 2015 and 2014 are summarized as follows:

| | Millions of yen | | | |
|---|---|---|---|---|
| | Balance sheet amount | Gross unrealized gain | Gross unrealized loss | Acquisition cost |
| March 31, 2015 | | | | |
| Equity securities | **¥ 5,610** | **¥ 3,211** | **¥ –** | **¥ 2,399** |
| March 31, 2014 | | | | |
| Equity securities | ¥ 3,619 | ¥ 1,235 | ¥ (14) | ¥ 2,398 |
| Bond securities | 10 | 0 | – | 10 |
| | ¥ 3,629 | ¥ 1,235 | ¥ (14) | ¥ 2,408 |

| | Thousands of U.S. dollars | | | |
|---|---|---|---|---|
| | Balance sheet amount | Gross unrealized gain | Gross unrealized loss | Acquisition cost |
| March 31, 2015 | | | | |
| Equity securities | **$ 46,684** | **$ 26,721** | **$ –** | **$ 19,963** |

There is no sale of other securities for the year ended March 31, 2015. For the year ended March 31 2014, proceeds from the sale of other securities were ¥36 million, gross realized gains were ¥36 million and gross realized losses were nil.

## 5 Short-term and Long-term Debt

Short-term debt is represented by bank loans which are due within one year. The weighted average interest rates of short-term debt are 4.7% and 3.9% at March 31, 2015 and 2014, respectively.

Long-term borrowings at March 31, 2015 and 2014 is summarized as follows:

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

Lease liabilities at March 31, 2015 and 2014 is summarized as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2015** | 2014 | **2015** |
| Lease liabilities maturing in installments through 2020 | **¥ 47** | ¥ 50 | **$ 391** |
| Less current installments | **17** | 18 | **141** |
| | **¥ 30** | ¥ 32 | **$ 250** |

The aggregate annual maturities of long-term borrowings after March 31, 2016 are as follows:

| | Millions of yen | Thousands of U.S. dollars |
|---|---|---|
| Year ending March 31: | | |
| 2017 | ¥ – | $ – |
| 2018 | – | – |
| 2019 | – | – |
| 2020 | – | – |

The aggregate annual maturities of lease liabilities after March 31, 2016 are as follows:

| | Millions of yen | Thousands of U.S. dollars |
|---|---|---|
| Year ending March 31: | | |
| 2017 | ¥ 13 | $ 108 |
| 2018 | 12 | 100 |
| 2019 | 4 | 33 |
| 2020 | 1 | 8 |

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

## 6 Retirement and Severance Benefits

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

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

The Company and certain consolidated subsidiaries have enrolled in Japanese Welfare Pension Fund as a multi-employer plan. If the Company's proportion of plan assets corresponding to Company's contribution cannot be reasonably estimated, the contribution is accounted for as defined contribution plans.

### Defined benefit plans

Followings are the information for the Company's and the consolidated subsidiaries' defined benefit plans at March 31, 2015 and 2014 and for the years then ended.

(1) Reconciliation of changes in retirement benefit obligation

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2015 | 2014 | 2015 |
| Retirement benefit obligation at beginning of year | ¥ 17,068 | ¥ 16,103 | $ 142,032 |
| Cumulative effects of changes in accounting policies | 258 | – | 2,147 |
| Restated balance at beginning of year | 17,326 | 16,103 | 144,179 |
| Service cost | 1,132 | 999 | 9,420 |
| Interest cost | 215 | 242 | 1,789 |
| Actuarial gains and losses | 766 | 466 | 6,374 |
| Benefits paid | (558) | (742) | (4,643) |
| Retirement benefit obligation at end of year | ¥ 18,881 | ¥ 17,068 | $ 157,119 |

(2) Reconciliation of changes in plan assets

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2015 | 2014 | 2015 |
| Plan assets at beginning of year | ¥ 16,367 | ¥ 15,099 | $ 136,199 |
| Expected return on plan assets | 213 | 226 | 1,772 |
| Actuarial gains and losses | 1,218 | 870 | 10,136 |
| Employer contributions | 1,022 | 914 | 8,505 |
| Benefits paid | (558) | (742) | (4,644) |
| Plan assets at end of year | ¥ 18,262 | ¥ 16,367 | $ 151,968 |

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

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2015 | 2014 | 2015 |
| Funded retirement benefit obligation | ¥ 18,881 | ¥17,068 | $ 157,119 |
| Plan assets | (18,262) | (16,367) | (151,968) |
| | 619 | 701 | 5,151 |
| Unfunded retirement benefit obligation | – | – | – |
| Net liabilities for retirement benefits recognized in consolidated balance sheet | ¥ 619 | ¥701 | $ 5,151 |
| Liabilities for retirement benefits | ¥ 619 | ¥ 701 | $ 5,151 |
| Assets for retirement benefits | – | – | – |
| Net liabilities for retirement benefits recognized in consolidated balance sheet | ¥ 619 | ¥ 701 | $ 5,151 |

(4) The components of retirement benefit expenses

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2015 | 2014 | 2015 |
| Service cost | ¥ 1,132 | ¥ 999 | $ 9,420 |
| Interest cost | 215 | 242 | 1,789 |
| Expected return on plan assets | (213) | (226) | (1,772) |
| Amortization of actuarial gain or loss | (177) | (44) | (1,473) |
| Retirement benefit expenses | ¥ 957 | ¥ 971 | $ 7,964 |

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

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2015 | 2014 | 2015 |
| Actuarial loss | ¥ (452) | ¥ – | $ (3,761) |
| Total | ¥ (452) | ¥ – | $ (3,761) |

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

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2015 | 2014 | 2015 |
| Unrecognized actuarial loss | ¥ (753) | ¥ (478) | $ (6,266) |
| Total | ¥ (753) | ¥ (478) | $ (6,266) |

(7) Plan assets

(a) Percentage by major category of plan assets

| | **2015** | 2014 |
|---|---|---|
| Debt securities | **22.5%** | 21.2% |
| Equity securities | **30.0** | 28.8 |
| Short-term investments | **19.9** | 20.2 |
| General account | **26.7** | 28.6 |
| Other | **0.9** | 1.2 |
| 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

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

| | **2015** | 2014 |
|---|---|---|
| Discount rate | **0.9%** | 1.5% |
| Long-term expected rate of return | **1.0** | 1.5 |

### Defined contribution plans

The amount to be paid by the consolidated subsidiaries to the defined contribution plans was ¥78 million ($649 thousand) and ¥67 million for the years ended March 31, 2015 and 2014, respectively.

### Multi-employer pension plan

The amount to be paid by the Company to the welfare pension fund under multi-employer pension plan was ¥840 million ($6,990 thousand) and ¥805 million for the years ended March 31, 2015 and 2014, respectively.

Funded status of the whole welfare pension fund under multi-employer pension plan at March 31, 2014 and 2013 is outlined as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2014** | 2013 | **2014** |
| Plan assets at fair value - (1) | **¥ 231,951** | ¥ 213,152 | **$ 1,930,191** |
| Benefit obligation under pension funding programs - (2) | **255,868** | 248,261 | **2,129,217** |
| (1) - (2)* | **¥ (23,917)** | ¥ (35,109) | **$ (199,026)** |

The Company's proportion of the salaries to the whole of welfare pension fund at March 31, 2015 and 2014 was 8.7% and 8.4%, respectively. This is different from the actual ratio of the Company's contribution to the total.

Main reason of the differences above* at March 31, 2014 and 2013 was unrecognized prior service cost of the pension program of ¥31,537 million ($262,437 thousand) and ¥33,124 million, respectively. The unrecognized prior service cost is amortized over 20 years by the straight-line method.

## 7 Income Taxes

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

The reconciliation of the statutory tax rate and the effective tax rate for the year ended March 31, 2015 is not subject to disclosure because the difference between the rates does not exceed 5% of the statutory tax rate.

The reconciliation of the statutory tax rate and the effective tax rate as a percentage of income before income taxes and minority interests for the year ended March 31, 2014 was follows:

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

Significant components of deferred tax assets and liabilities at March 31, 2015 and 2014 are as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2015 | 2014 | 2015 |
| Deferred tax assets: | | | |
| Valuation loss for inventories | ¥ 892 | ¥ 905 | $ 7,423 |
| Accrued business tax | 192 | 318 | 1,598 |
| Accrued bonuses | 943 | 1,087 | 7,847 |
| Liabilities for retirement benefits | 212 | 261 | 1,764 |
| Accrued warranty expenses | 106 | 129 | 882 |
| Allowance for doubtful receivables | 67 | 76 | 557 |
| Depreciation and amortization | 1,981 | 1,908 | 16,485 |
| Intercompany profits on inventories, and property, plant and equipment | 1,274 | 1,223 | 10,602 |
| Intangible assets | 1,672 | 1,461 | 13,914 |
| Other | 901 | 867 | 7,498 |
| | 8,240 | 8,235 | 68,570 |
| Valuation allowance | (556) | (572) | (4,627) |
| | 7,684 | 7,663 | 63,943 |
| Deferred tax liabilities: | | | |
| Net unrealized gain on other securities | (1,096) | (470) | (9,120) |
| Asset retirement obligations | (17) | (20) | (142) |
| Valuation difference | (714) | (669) | (5,942) |
| Other | (611) | (580) | (5,084) |
| | (2,438) | (1,739) | (20,288) |
| Net deferred tax assets | ¥ 5,246 | ¥ 5,924 | $ 43,655 |

Net deferred tax assets and liabilities at March 31, 2015 and 2014 are reflected in the accompanying consolidated balance sheet under the following captions:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2015 | 2014 | 2015 |
| Current assets - Deferred income taxes | ¥ 4,526 | ¥ 4,537 | $ 37,663 |
| Investments and other assets - Deferred income taxes | 1,299 | 1,448 | 10,810 |
| Non-current liabilities - Deferred income taxes | (579) | (61) | (4,818) |
| Net deferred tax assets | ¥ 5,246 | ¥ 5,924 | $ 43,655 |

Following the promulgation of the law "Partial Amendment of the Income Tax Act, etc." (Act No.9 of 2015) and "Partial Amendment of the Local Tax Act, etc." (Act No.2 of 2015) on March 31, 2015, the effective statutory tax rate used for the calculation of deferred tax assets and deferred tax liabilities has been revised from the previous rate of 35.6%. The rate of 33.1% has been applied to the temporary differences, expected to be either deductible, taxable or expired in the year beginning on April 1, 2015, while the rate of 32.3% has been applied to the temporary differences, expected to be either deductible, taxable, or expired in or after the year beginning on April 1, 2016.

As a result of the change in tax rates, the amount of deferred tax assets (the amount after offsetting deferred tax liabilities) decreased by ¥234 million ($1,947 thousand) and income taxes-deferred for the current year increased by ¥370 million ($3,079 thousand), unrealized gain on other securities increased by ¥110 million ($915 thousand) and accumulated remeasurements of defined benefit plans increased by ¥25 million ($208 thousand).

## 8 Common Stock

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

## 9 Retained Earnings and Dividends

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

Cash dividends charged to retained earnings for the years ended March 31, 2015 and 2014 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.

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

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

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

| | |
|---|---|
| (a) Total dividends | ¥1,318 million |
| (b) Cash dividends per common share | ¥30 |
| (c) Record date | March 31, 2013 |
| (d) Effective date | June 27, 2013 |

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

| | |
|---|---|
| (a) Total dividends | ¥1,318 million |
| (b) Cash dividends per common share | ¥30 |
| (c) Record date | September 30, 2013 |
| (d) Effective date | November 28, 2013 |

**(b) Dividends paid during the year ended March 31, 2015**

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

| | |
|---|---|
| (a) Total dividends | ¥1,757 million ($14,621 thousand) |
| (b) Cash dividends per common share | ¥40 ($0.33) |
| (c) Record date | March 31, 2014 |
| (d) Effective date | June 27, 2014 |

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

| | |
|---|---|
| (a) Total dividends | ¥1,538 million ($12,799 thousand) |
| (b) Cash dividends per common share | ¥35 ($0.29) |
| (c) Record date | September 30, 2014 |
| (d) Effective date | November 27, 2014 |

**(c) Dividends to be paid after the balance sheet date but the record date for the payment belongs to the year ended March 31, 2015**

The following was approved by the general meeting of stockholders held on June 25, 2015.

| | |
|---|---|
| (a) Total dividends | ¥1,538 million ($12,799 thousand) |
| (b) Dividend source | Retained earnings |
| (c) Cash dividends per common share | ¥35 ($0.29) |
| (d) Record date | March 31, 2015 |
| (e) Effective date | June 26, 2015 |

## 10 Selling, General and Administrative Expenses

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

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2015** | 2014 | **2015** |
| Salaries | **¥ 23,033** | ¥ 20,752 | **$ 191,670** |
| Retirement benefit expenses | **1,729** | 1,693 | **14,388** |
| Depreciation | **2,646** | 2,424 | **22,019** |
| Legal welfare | **3,885** | 3,565 | **32,329** |
| Traveling | **3,045** | 2,886 | **25,339** |

## 11 Research and Development Costs

Research and development costs charged to manufacturing costs and selling, general and administrative expenses for the years ended March 31, 2015 and 2014 are ¥5,746 million ($47,816 thousand) and ¥7,109 million, respectively.

## 12 Other Comprehensive Income

The reclassification adjustment and the related income tax effects allocated to each component of other comprehensive income for the years ended March 31, 2015 and 2014 are as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2015** | 2014 | **2015** |
| Net unrealized gain on other securities: | | | |
| Arising during the year | **¥ 2,072** | ¥ 639 | **$ 17,242** |
| Reclassification adjustment | **–** | – | **–** |
| Before tax amount | **2,072** | 639 | **17,242** |
| Tax expense | **(627)** | (216) | **(5,217)** |
| Net-of-tax amount | **1,445** | 423 | **12,025** |
| Foreign currency translation adjustments: | | | |
| Arising during the year | **1,472** | 1,803 | **12,249** |
| Remeasurements of defined benefit plans | | | |
| Arising during the year | **452** | – | **3,761** |
| Reclassification adjustment | **(177)** | – | **(1,473)** |
| Before tax amount | **275** | – | **2,288** |
| Tax expense | **(73)** | – | **(607)** |
| Net-of-tax amount | **202** | – | **1,681** |
| Total other comprehensive income | **¥ 3,119** | ¥ 2,226 | **$ 25,955** |

## 13 Per Share Information

Net income per share and net assets per share have been calculated by assuming the two for one share split, which became effective on April 1, 2015, was executed at the beginning of the year ended March 31, 2014.

### (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, 2015 and 2014 are as follows:

| | Yen | | U.S. dollars |
|---|---|---|---|
| | **2015** | 2014 | **2015** |
| Basic net income per share | **¥ 126.83** | ¥ 140.52 | **$ 1.06** |

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2015** | 2014 | **2015** |
| Net income | **¥ 11,143** | ¥ 12,346 | **$ 92,727** |
| Net income not applicable to common stockholders | **–** | – | **–** |
| Net income applicable to common stockholders | **¥ 11,143** | ¥ 12,346 | **$ 92,727** |

| | Number of shares (Thousands) | |
|---|---|---|
| | **2015** | 2014 |
| Weighted average number of shares outstanding on which basic net income per share is calculated | **87,859** | 87,861 |

### (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, 2015 and 2014 are as follows:

| | Yen | | U.S. dollars |
|---|---|---|---|
| | **2015** | 2014 | **2015** |
| Net assets per share | **¥1,129.57** | ¥1,006.73 | **$ 9.40** |

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2015** | 2014 | **2015** |
| Total net assets | **¥ 99,304** | ¥ 88,512 | **$ 826,363** |
| Amount deducted from total net assets: | | | |
| Minority interests | **61** | 60 | **508** |
| Net assets applicable to common stockholders | **¥ 99,243** | ¥ 88,452 | **$ 825,855** |

| | Number of shares (Thousands) | |
|---|---|---|
| | **2015** | 2014 |
| Number of shares outstanding at end of year on which net assets per share is calculated | **87,859** | 87,860 |

As described in note (1) (i), the Company applied revised accounting standards for retirement benefits for the year ended March 31, 2015. As a result, the net assets per share decreased by ¥1.89 ($0.02).

## 14 Leases

The Company leases certain vehicles under finance leases.

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

| | Millions of yen |
|---|---|
| Acquisition cost | **¥ 5** |
| Accumulated depreciation | **5** |
| Net book value | **¥ 0** |

Not applicable for the year ended March 31, 2015.

Future minimum payments which include interest portion required under finance leases currently accounted for as operating leases at March 31, 2015 and 2014 are as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2015** | 2014 | **2015** |
| Within one year | **¥ –** | ¥ 0 | **$ –** |
| Over one year | **–** | – | **–** |
| | **¥ –** | ¥ 0 | **$ –** |

Lease payments for finance leases currently accounted for as operating leases for the years ended March 31, 2015 and 2014 amounted to ¥0 million ($0 thousand) and ¥1 million, respectively.

Future minimum payments required under noncancellable operating leases at March 31, 2015 and 2014 are as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2015** | 2014 | **2015** |
| Within one year | **¥ 49** | ¥ 62 | **$ 408** |
| Over one year | **24** | 38 | **199** |
| | **¥ 73** | ¥ 100 | **$ 607** |

## 15 Financial Instruments

### Conditions of Financial instruments

(1) Management policy

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

Surplus funds are invested in highly safe financial instruments.

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

(2) Financial instruments and risks

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

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

(3) Financial instruments risk management

1) Credit risk

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

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

2) Market risk

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

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

3) Liquidity risk

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

(4) Supplemental explanation regarding fair value of financial instruments

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

### Fair value of financial instruments

The carrying amounts on the consolidated balance sheet, fair value, and differences at March 31, 2015 and 2014 are as follows.

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

| | Millions of yen | | | Thousands of U.S. dollars | | |
|---|---|---|---|---|---|---|
| March 31, 2015 | Carrying value | Fair value | Differences | Carrying value | Fair value | Differences |
| (1) Cash | **¥ 13,233** | **¥ 13,233** | **¥ –** | **$ 110,119** | **$ 110,119** | **$ –** |
| (2) Trade notes and accounts receivable | **58,835** | **58,835** | **–** | **489,598** | **489,598** | **–** |
| (3) Short-term investments | **21,000** | **21,000** | **–** | **174,753** | **174,753** | **–** |
| (4) Investments in securities: | | | | | | |
| Other securities | **5,610** | **5,610** | **–** | **46,684** | **46,684** | **–** |
| (5) Trade notes and accounts payable | **30,816** | **30,816** | **–** | **256,437** | **256,437** | **–** |
| (6) Short-term debt | **1,117** | **1,117** | **–** | **9,295** | **9,295** | **–** |

| | Millions of yen | | |
|---|---|---|---|
| March 31, 2014 | Carrying value | Fair value | Differences |
| (1) Cash | ¥ 13,882 | ¥ 13,882 | ¥ – |
| (2) Trade notes and accounts receivable | 54,456 | 54,456 | – |
| (3) Short-term investments | 15,010 | 15,010 | – |
| (4) Investments in securities: | | | |
| Other securities | 3,619 | 3,619 | – |
| (5) Trade notes and accounts payable | 25,996 | 25,996 | – |
| (6) Short-term debt | 992 | 992 | – |

<1> Fair value measurement of financial instruments

Assets and liabilities:

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

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

(4) Investments in securities

The fair value is calculated by quoted market price.

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

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

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

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2015** | 2014 | **2015** |
| Unlisted equity securities | **¥ 549** | ¥ 529 | **$ 4,569** |
| Investments in limited partnership and similar partnership | **527** | 378 | **4,385** |

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, 2015

| | Millions of yen | | | |
|---|---|---|---|---|
| | Due within one year | Due after one year through five years | Due after five years through ten years | Due after ten years |
| (1) Cash | **¥ 13,233** | **¥ –** | **¥ –** | **¥ –** |
| (2) Trade notes and accounts receivable | **58,835** | **–** | **–** | **–** |
| (3) Short-term investments | **21,000** | **–** | **–** | **–** |

| | Thousands of U.S. dollars | | | |
|---|---|---|---|---|
| | Due within one year | Due after one year through five years | Due after five years through ten years | Due after ten years |
| (1) Cash | **$ 110,119** | **$ –** | **$ –** | **$ –** |
| (2) Trade notes and accounts receivable | **489,598** | **–** | **–** | **–** |
| (3) Short-term investments | **174,753** | **–** | **–** | **–** |

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

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

## 16 Segment Information

Because the Company and consolidated subsidiaries operate in one operating segment, medical electronic equipments business, the segment information is not disclosed for the years ended March 31, 2015 and 2014.

### Related Information

### (a) Information by products and services

Sales by products and services for the years ended March 31, 2015 and 2014 are as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2015** | 2014 | **2015** |
| Physiological measuring equipment | **¥ 37,181** | ¥ 36,654 | **$ 309,403** |
| Patient monitors | **53,068** | 50,865 | **441,608** |
| Treatment equipment | **29,393** | 28,402 | **244,595** |
| Other | **41,161** | 37,273 | **342,523** |
| | **¥ 160,803** | ¥ 153,194 | **$ 1,338,129** |

### (b) Geographic information

(1) Geographical sales for the years ended March 31, 2015 and 2014 are as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2015** | 2014 | **2015** |
| Japan | **¥ 122,490** | ¥ 120,464 | **$ 1,019,306** |
| Americas | **16,423** | 13,125 | **136,665** |
| Europe | **7,495** | 7,020 | **62,370** |
| Asia | **12,582** | 11,038 | **104,701** |
| Other | **1,813** | 1,547 | **15,087** |
| | **¥ 160,803** | ¥ 153,194 | **$ 1,338,129** |

(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, 2015 and 2014.

### (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, 2015 and 2014.

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

The information is not applicable for the years ended March 31, 2015 and 2014.

### Goodwill by reported segments

The information is not applicable for the years ended March 31, 2015 and 2014.

### Negative goodwill incurred by reported segments

The information is not applicable for the years ended March 31, 2015 and 2014.

## 17 Subsequent Event

### Share split and partial amendments to the Articles of Incorporation

The Company split its shares and partially amended the Articles of Incorporation on April 1, 2015 in accordance with the resolution of the Board of Directors held on February 3, 2015.

1. Purpose of the share split and partial amendments to the Articles of Incorporation

The purpose of the share split is to improve the investment environment, and increase the liquidity of the Company's shares and expand its investor base. On April1, 2015, in respond to the share split, the Company amended the total number of shares authorized to be issued which is provided in the Article 6 of the Articles of Incorporation in accordance with the resolution of the Board of Directors based on the provisions of Article 184 Paragraph 2 of the Companies Act.

2. Method of share split

The Company split shares of common stock held by shareholders listed or recorded in the last shareholders' resister at March 31, 2015 at a rate of two to one.

3. Increase in number of shares due to stock split

Total number of shares issued prior to the stock split: 45,765,490 shares
Increase in number of shares due to the stock split: 45,765,490 shares
Total number of shares issued after the stock split: 91,530,980 shares
Total number of shares authorized to be issued after the stock split: 197,972,000 shares

4. Schedule of the stock split

Public notice date of the record date: March 16, 2015
Record date: March 31, 2015
Effective date: April 1, 2015

The impact on the net income per share is shown in note (13) Per Share Information.

### Disposal of treasury stocks

A resolution has been made at the Board of Directors held on May 11, 2015 to dispose of treasury stocks pursuant to the provisions of Article 178 of the Companies Act. The treasury stocks have been disposed at May 20, 2015 as follows:
(1) Type of shares disposed of: Common stocks
(2) The number of shares disposed of: 1,800,000 shares (Percentage against the total number of shares outstanding before the disposal: 1.97%)
(3) Disposal date: May 20, 2015

The total number of shares outstanding is 89,730,980 shares after the disposal.

### Acquisition of treasury stocks

The Company acquired treasury stocks pursuant to the provisions of Article 165 Paragraph 3 of the Companies Act by replacing the provisions stipulated in Article 156 of the same Act in accordance with the resolution of the Board of Directors held on June 1, 2015.

1. Reasons for the acquisition of treasury stocks

The acquisition of treasury stocks was conducted in an aim to prepare for flexible capital policies in respond to changes in the economic environment.

2. Details of the acquisition of treasury stocks

(1) Type of shares to be acquired: Common stocks
(2) Number of shares to be acquired: 200,000 shares
(3) Acquired price: ¥2,998 ($24.95) per share
(4) Total acquisition costs: ¥599,600,000 ($4,990 thousand)
(5) Acquisition date: June 2, 2015
(6) Acquisition method: Acquisition using the Tokyo Stock Exchange Trading Network Off-Auction Own Share Repurchase Trading System (ToSTNeT-3)

# Independent Auditor's Report

March 31, 2015

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

To the Board of Directors of
Nihon Kohden Corporation

We have audited the accompanying financial statements of Nihon Kohden Corporation, which comprise the consolidated balance sheet as of March 31, 2015, and the consolidated statement of income, comprehensive income, changes in net assets and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

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

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

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

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

Opinion
In our opinion, the financial statements present fairly, in all material respects, the financial position of Nihon Kohden Corporation as of March 31, 2015, and of its financial performance and its cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

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

BDO Toyo & Co.

BDO Toyo & Co.
Tokyo, Japan
June 26, 2015

# Corporate Directory

As of June 25, 2015

## Board of Directors

**Chairman and CEO**
Fumio Suzuki

**President and COO**
Hirokazu Ogino

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

**Outside Corporate Directors**
Masaya Yamauchi
Minoru Obara

**Audit & Supervisory Board Members**
Toshinobu Mayuzumi
Masami Sugiyama

**Outside Audit & Supervisory Board Members**
Osamu Kato
Masahiro Kawamura

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

## Corporate Data

**Date of Incorporation**
August 7, 1951

**Paid-in Capital***
¥7,544 million

**Shares of Common Stock Issued***
45,765 thousand

**Number of Employees***
4,616 (group)
*As of March 31, 2015

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

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

**Web Site**
www.nihonkohden.com

## Subsidiaries*

### ● Japan

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

**Production**
Nihon Kohden Tomioka Corporation

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

### ● International

**Sales**

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

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

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

**R&D, Production and Sales**

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

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

**R&D**

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

**Production**

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

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

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

* As of March 31, 2015

## Major Stockholders*

| Stockholders | No. of Shares (thousands) | Stockholding Ratio |
|---|---|---|
| State Street Bank and Trust Company 505223 | 2,797 | 6.11% |
| The Master Trust Bank of Japan, Ltd. (trust account) | 2,470 | 5.39% |
| Saitama Resona Bank, Ltd. | 2,096 | 4.58% |
| Toshiba Medical Systems Corporation | 1,990 | 4.34% |
| RBC IST 15 PCT NON LENDING ACCOUNT-CLIENT ACCOUNT | 1,511 | 3.30% |
| Japan Trustee Service Bank, Ltd. (trust account) | 1,430 | 3.12% |
| State Street Bank and Trust Company | 1,229 | 2.68% |
| Fujitsu Ltd. | 928 | 2.02% |
| RBC IST 15 PCT LENDING ACCOUNT-CLIENT ACCOUNT | 845 | 1.84% |
| Japan Trustee Service Bank, Ltd. (trust account 9) | 813 | 1.77% |
| Subtotal | 16,112 | |
| Total Outstanding Issue | 45,765 | |

* As of March 31, 2015

NIHON KOHDEN

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