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May 10, 2016

NIHON KOHDEN CORPORATION (6849)

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Nihon Kohden Announces Renewal of Policy toward Large-Scale Purchases of the Company's Shares

The Company adopted the policy toward large-scale purchases of the Company's shares (hereinafter referred to as the "Former Basic Rule") based on the shareholder approval at the 56th General Meeting of Shareholders held on June 28, 2007, and its renewal with partial amendment was approved at the 59th and 62nd General Meeting of Shareholders held on June 29, 2010 and June 26, 2013. However, the effective period of the Former Basic Rule will expire at the conclusion of the 65th General Meeting of Shareholders to be held on June 28, 2016 (hereinafter "this General Meeting of Shareholders").

Before the Former Basic Rule expires, the Company resolved at the Board of Directors meeting held on May 10, 2016 to renew the Former Basic Rule as a measure to prevent decisions on the Company's financial and business policies from being controlled by persons deemed inappropriate (as set forth in Article 118, Paragraph 3 (b) (2) of the Ordinance for Enforcement of the Companies Act), subject to approval at this General Meeting of Shareholders (hereinafter the amended policy shall be referred to as the "Basic Rule").

The Basic Rule shall remain in effect from the expiration of the Former Basic Rule until the conclusion of the General Meeting of Shareholders for the last fiscal year ending within three years after this General Meeting of Shareholders..

The Basic Rule is not revised from the Former Basic Rule and Independent Committee members are changed. Overview of the Basic Rule is added and there is a minor change of expression or addition of words.

I. Basic Principles regarding persons who control decisions on the Company's financial and business policies

The Company believes that persons involved in financial and operational decision-making processes should demonstrate an adequate understanding of the Company's corporate philosophy, the diversity of sources of corporate value, and the importance of maintaining the trust and confidence of the many stakeholders who constitute the foundations of the Company, and should also have the ability and capacity to enhance the corporate value of the Company and in turn the common interests of the shareholders over the medium to long term.

The Company believes that its shareholders should make the final decision as to whether to accept a Large-Scale Purchase. The Company does not necessarily reject Large-Scale Purchases if they would contribute to the corporate value and the common interests of the shareholders. However, the Company cannot rule out the possibility of an inappropriate Large-Scale Purchase that may harm corporate value and benefits for all shareholders. Some examples are, but not limited, the following:

- those with a purpose that would apparently harms corporate value and common interests of the shareholders ;
- those with the potential to practically coerce shareholders to sell shares; or
- those that do not provide sufficient disclosure of information on the proposal given to and sufficient time allowed for the Board of Directors and shareholders to review the proposal.

A person who proposes a Large-Scale Purchase or equivalent undertaking that would not contribute to the corporate value of the Company or the common interests of the shareholders shall be deemed unsuitable for involvement in the financial and operational decisions of the Company. A necessary and appropriate response shall be applied to the actions of such persons in order to preserve the corporate value and common interests of the shareholders.

II. The Source of Corporate Value of the Company and Special Initiatives for Realization of the Basic Principles

1. The Source of Corporate Value of the Company

Founded in 1951 under the vision of Fighting Disease with Electronics, Nihon Kohden has supplied medical institutions with various medical devices across the globe as one of the top medical electronic equipment manufacturers. The Company provides an extensive line-up of medical equipment using advanced technology, ranging from physiological measuring equipment such as EEGs and ECGs, patient monitors and treatment equipment such as defibrillators and AEDs to basic healthcare devices and home medical appliances.

In the industry of medical equipment, it is essential to identify needs of customers such as doctors, nurses, engineers and patients adhering tightly to actual medical care scene and to continue to develop and provide timely user-oriented products. Given that medical equipment has a direct bearing on human lives, it is vital to maintain the highest standards of quality and safety and to provide full customer service and support so that products can be used with total confidence.

Nihon Kohden believes that the Company's main sources of corporate value include technology development in collaboration with end users in clinical practice; a loyal clientele base in Japan and around the world; a commitment to quality products and services backed by development, production, sales and service teams; and a solid brand reputation established over many years in the industry.

The Company has been nurturing expertise and know-how and wealth of experience accumulated since its foundation and has been maintaining good cooperative relationship with domestic and overseas customers established through collaboration between industry, government and academia, all of which helped the Company strengthen capability of technological development and provide high-value added products with high international competitiveness. And the confidence the Company gained from its customers, clients and other stakeholders through many years of business activities is now the valuable assets of the Company, or, Nihon Kohden brand, which cannot be replaced by anything else.

2. Measures for the Enhancement of Corporate Value

(1) Corporate Philosophy and Mid-to Long-Term Management Strategy

Nihon Kohden's corporate philosophy is "we contribute to the world by fighting disease and improving health with advanced technology, and create a fulfilling life for our employees." as a medical electronics manufacturer. Based on its corporate philosophy, the Company aims at achieving sustained group growth and enhancement of the Company's corporate value.

In 2010, the Company set out a long-term vision, The CHANGE 2020 –The Global Leader of Medical Solutions–, for the next ten years. The vision describes a future where the Company aims to (1) lead the world in the development of revolutionary breakthrough technology, (2) achieve the highest level of quality in the world, and (3) attain top share in applicable global markets. The target for the period ending March 2020 is sales of ¥200 billion, operating income of ¥25 billion and overseas sales ratio of 35%.

Nihon Kohden implements its four-year mid-term business plan, Strong Growth 2017, towards realizing its long-term vision. The Company 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 will aggressively execute the following six key strategies and enhances its operation base to ensure growth.

a. Pursue the highest level of quality in the world

Nihon Kohden will enhance its credibility as a leading medical equipment manufacturer by ensuring quality in every activity of every division across the entire Nihon Kohden Group, from development and design to production, logistics, sales and services, to keep its customers satisfied and ensure that customers around the world recognize Nihon Kohden for its superior quality products, sales and services.

b. Strengthen technological development capabilities

Nihon Kohden will further reinforce its technological strength and speed of development processes. To this end, the Company will strengthen its R&D organization to address the needs of clinical practice swiftly and flexibly. The Company will also promote industry-government-academia collaboration as well as collaboration with other companies both inside and outside Japan.

c. Strengthen business expansion by region

Nihon Kohden will strive to achieve strong growth internationally and take steps to reinforce its business expansion in the Americas, Europe and Asia. Specifically, the Company will focus initiatives on strengthening business activities in Japan, the U.S. and emerging markets including BRICs.

d. Achieve further growth in core businesses

Nihon Kohden will take steps to achieve further growth in its core businesses both inside and outside Japan in order to expand its global market share and establish a stable and consistent revenue base.

e. Develop new businesses

Nihon Kohden aims to develop new core businesses by in-house development, alliances, M&A and other measures. The Company will pursue the development and introduction of medical equipment designed to improve medical safety, address lifestyle-related diseases, dementia, and intractable diseases. The Company will also pursue solutions for an integrated community care system.

f. Consolidate corporate fundamentals

In order to adapt to changes in the business environment and become the world's leader in medical equipment, Nihon Kohden will foster a more robust business structure that is globalized, efficient, profitable and fast-paced as well as implement CSR activities aimed at sustainable growth and strengthen its human resource development initiatives.

Nihon Kohden continues to enhance the corporate value of the Company and in turn the common interests of the shareholders as well as contribute to the society through addressing the challenge of healthcare by technological development and providing customers with safety and security.

(2) Target Management Indices

Nihon Kohden aims to increase ROE to enhance corporate and shareholder value. The Company sets its target consolidated ROE at 13.5% in its four-year mid-term business plan, Strong Growth 2017.

In order to achieve the target, the Company will focus on increasing sales and profits by implementing Strong Growth 2017. The Company will also improve efficiency of assets by measures such as reduction of inventories as well as enhance shareholder return.

(Reference) Consolidated ROE

FY2013	FY2014	FY2015
15.0%	11.9%	10.7%

3. Strengthening of Corporate Governance

To realize its corporate 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 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.

As part of the Company's commitment to better Corporate Governance, the Company has introduced an operating officer system that provides a clear segregation between managerial decision making and supervisory functions on directors and the execution of operations on operating officers. The Company also appoints two highly independent Outside Directors to strengthen the management supervisory functions at the Board.

Nihon Kohden decided the transition to a Company with Audit & Supervisory Committee to further enhance corporate governance. The transition is subject to the approval at this General Meeting of Shareholders. The Company will also establish a nominations and remuneration advisory committee, of which the majority of members are Outside Directors, as voluntary advisory committee of the Board.

III. Purpose and Contents of the Basic Rule

1. Purpose of the Basic Rule

The Basic Rule has been introduced as a measure to prevent decisions on the Company's financial and business policies from being controlled by persons deemed inappropriate (as defined in the Basic Principles described in I above).

Based on the perspective of protecting and increasing corporate value and benefits for all shareholders, the purpose of the Basic Rule is, (i) to clarify the procedures that should be taken by a Large-Scale Purchaser when conducting Large-Scale Purchase of shares of the Company, (ii) to ensure necessary and sufficient information and time that allow shareholders to make appropriate judgment, and (iii) to ensure opportunity to the Company to negotiate with the Large-Scale Purchaser and offer shareholders alternative plans.

Currently the Board of Directors is not received any proposal regarding Large-Scale Purchases of the Company's share certificates or other securities by specific third parties. The Company's major shareholders as of March 31, 2016 are listed in Reference Material (5).

2. Contents of the Basic Rule

(1) Overview of the Basic Rule

The flowchart of an outline of the Basic Rule is described in Reference Material (1). Other overview of the Basic Rule is as follows:

Effective Period	3 years
Targeted Holding Ratio	20%
Deliberation Period	Purchase via a cash: 60 days Others: 90 days
Deliberation Body	Independent Committee
Decision making on Trigger of Defense Measures	The Board of Directors makes decision, fully respecting the opinion of the Independent Committee
Shareholders' Meeting	Convened when the Independent Committee recommends
Defense Measures	Gratis allotment of stock acquisition rights

(2) Targeted Large-Scale Purchase

The Basic Rule will be applied to cases where there is Large-Scale Purchase that falls under (a) or (b) below; or any similar action (except where the action has been previously approved by the Board of Directors of the Company). Hereafter a person or a company intending to conduct a Large-Scale Purchase shall be referred to as "Large-Scale Purchaser" and referred to as "Large-Scale Purchaser Group" combined with persons in special relationship as defined in Paragraph 7, Article 27-2 of the Financial Instruments and Exchange Act.

- (a) A purchase or other acquisition that would result in the holding ratio (*1) of share certificates (*2) of a holder and its joint holder (*3) amounting to 20% or more of share certificates or other securities issued by the Company; or
- (b) A tender offer (*4) that would result in the ownership ratio of share certificates (*5) of a tender offerer (*6) and persons in special relationship (*7) totaling 20% or more of share certificates or

other securities issued by the Company (*8).

The Large-Scale Purchaser Group must follow the procedures set out in the Basic Rule, and may not commence a Large-Scale Purchase until the Board of Directors of the Company decides whether or not to implement the gratis allotment of stock acquisition rights as a Defense Measure (see (6) below) in accordance with the Basic Rule.

Notes:

- (*1) Holding Ratio as defined in Paragraph 4, Article 27-23 of the Financial Instruments and Exchange Act.
- (*2) Share certificates or other securities as defined in Paragraph 1, Article 27-23 of the Financial Instruments and Exchange Act.
- (*3) Holder includes persons described as a holder in Paragraph 3, Article 27-23 of the Financial Instruments and Exchange Act; joint holder as defined in Paragraph 5, Article 27-23 of the Financial Instruments and Exchange Act, including persons considered to be joint holders in Paragraph 6, Article 27-23 of the Financial Instruments and Exchange Act.
- (*4) Tender Offer as defined in Paragraph 6, Article 27-2 of the Financial Instruments and Exchange Act.
- (*5) Ownership ratio as defined in Paragraph 8, Article 27-2 of the Financial Instruments and Exchange Act.
- (*6) Tender offerer as defined in the text of Paragraph 1, Article 27-2 of the Financial Instruments and Exchange Act.
- (*7) Persons in special relationship as defined in Paragraph 7, Article 27-2 of the Financial Instruments and Exchange Act.
- (*8) Share certificates or other securities as defined in Paragraph 1, Article 27-2 of the Financial Instruments and Exchange Act.

(3) Submission of a Statement of Intent of Purchase

- a. A Large-Scale Purchaser Group, prior to making a Large-Scale Purchase, must first submit a proposal of Large-Scale Purchase which includes the following items and a written statement containing a pledge to comply with the Basic Rule (together with a proposal of Large-Scale Purchase, referred to as a "Statement of Intent of Purchase") to the Board of Directors. Statement of Intent of Purchase and additional information described in C below must be made in the Japanese language.
 - i) An overview of the Large-Scale Purchaser Group, including the Large-Scale Purchaser's name, address, governing law for incorporation, structure of the ownership, contact information in Japan, description of business, financial conditions, etc.
 - ii) The purpose, method and terms of the Large-Scale Purchase
 - iii) Purchase price of the Company's shares and the basis for its determination thereof
 - iv) Source of funds for the purchase, including names of the lenders and repayment plan in case of borrowing
 - v) When the Large-Scale Purchase is not made in cash, type of considerations and basis for its evaluation thereof
 - vi) Management policies, business plans, capital policies, and dividend policies for the Company that

- the Large-Scale Purchaser intends to adopt after the completion of the Large-Scale Purchase
- vii) Policies on the treatment of employees, clients, customers, and other stakeholders that the Large-Scale Purchaser intends to adopt after the completion of the Large-Scale Purchase
 - viii) Any other information that the Board of Directors or the Independent Committee reasonably considers necessary
- b. The Board of Directors will disclose the information as regards to the fact that a Large-Scale Purchase has been proposed as well as the information included in the Statement of Intent of Purchase submitted to the Board of Directors in a timely manner, when deemed appropriate.
 - c. Upon receipt of the Statement of Intent of Purchase, the Board of Directors of the Company shall immediately forward the document to the Independent Committee. Should the Board of Directors and the Independent Committee determine that the contents included in the Statement of Intent of Purchase are deemed insufficient or unclear, they may set a reply period and require the Large-Scale Purchaser Group to provide additional information directly or via the Board of Directors to the reasonable extent. The Board of Directors and Independent Committee may continue to require additional information until such time as necessary and sufficient information has been provided, subject to a maximum response period of 60 days from the initial receipt of the Statement of Intent of Purchase. If, however, the Large-Scale Purchaser Group reasonably explains why it is difficult to provide parts of the additional information requested by the Board of Directors of the Company and the Independent Committee, the Independent Committee may finish the negotiations regarding information provision with the Large-Scale Purchaser Group and begin deliberation as described in (4) below before all of the information requested has been provided in full.

(4) Deliberation made by the Independent Committee

- a. To eliminate arbitrary decisions by the Board of Directors and to ensure fair judgment as regards to the compliance with the Basic Rule by the Large-Scale Purchaser Group and as regards to whether Defense Measures should be triggered, the Company establishes the Independent Committee, in accordance with resolution at the Board of Directors, comprised of three or more Independent Committee members. Those members are appointed by the Board of Directors from Outside Directors or Independent Outside Advisors (See Reference Material (3) for the outline of the Independent Committee, and Reference Material (4) for candidates for members of the Independent Committee).
- b. The Board of Directors shall, after a Large-Scale Purchase or Large-Scale Purchase proposal, promptly requests the Independent Committee to be convened.
- c. The Independent Committee shall, as an advisory body of the Board of Directors, review and examine the contents of the Statement of Intent of Purchase and alternative plans (if such alternative plans are submitted by the Board of Directors) and submit an opinion as regards to whether Defense Measures should be triggered to the Board of Directors attached with basis of such opinion. Deliberation made by the Independent Committee, shall be disclosed in a timely and appropriate manner. The Independent Committee shall deliberate on the following items:
 - i) Status of compliance with the Basic Rule by the Large-Scale Purchaser Group
 - ii) Examination as to whether the information provided in the Statement of Intent of Purchase is deemed necessary and sufficient in light of items described in 2. (3) a.

- iii) Request to the Large-Scale Purchaser Group for additional information or conduct an interview with the Large-Scale Purchaser Group
 - iv) Examination of contents included in the Statement of Intent of Purchase and information additionally provided
 - v) Examination of alternative plans submitted by the Company
 - vi) Evaluation of results of discussions and negotiations conducted by the Board of Directors with the Large-Scale Purchaser Group
 - vii) As to whether to convene a General Meeting of Shareholders in relation to the use of Defense Measures
 - viii) As to whether Defense Measures should be triggered
 - ix) As to whether Defense Measures should be cancelled
 - x) Other items that should be determined by the Board of Directors, among which are consulted to the Independent Committee
- d. The Independent Committee, when it deems necessary to compare the details of the relevant Large-Scale Purchase proposal described on the Statement of Intent of Purchase with the Company's business plans, may set a reasonable reply period (up to 60 days) and request that the Board of Directors present (i) an opinion on the contents of proposal of the relevant Large-Scale Purchase, (ii) supporting materials and alternative proposal (if any), and (iii) any other information or materials that the Independent Committee considers necessary and appropriate.
- e. The Board of Directors of the Company shall provide the above information and other materials as requested by the Independent Committee. The Board of Directors may, when necessary, discuss and negotiate with the Large-Scale Purchaser Group and offer shareholders alternative plans.
- f. Should the Independent Committee determine that sufficient and necessary information regarding the Large-Scale Purchase has been provided, it will notify the relevant Large-Scale Purchaser of the fact that it has commenced a process of the Deliberation on the prospective Large-Scale Purchase proposal. Then the Independent Committee makes Deliberation within a set period of time (hereinafter referred to as "Deliberation Period"). Such Deliberation Period shall be either (i) or (ii) below, depending on the difficulty level for reviewing the Large-Scale Purchase proposal.
- i) A 60-day period shall be granted for a prospective Large-Scale Purchase in which all shares of the Company are to be purchased via a cash offer in Japanese yen
 - ii) A 90-day period shall be granted for any prospective Large-Scale Purchase other than (i) above
- g. The Independent Committee may, at the expense of the Company, seek advice from independent outside experts which include financial advisors, certified public accountants, attorneys, academic experts, etc. to ensure that its decision ensures and enhances the Company's corporate value and common interests of its shareholders.

(5) Recommendations by the Independent Committee

- a. Recommendation for the triggering of a Defense Measure

The Independent Committee shall, where it adjudges that the Large-Scale Purchase falls into any one of the following categories, recommend the implementation of Defense Measures in the form of gratis allotment of stock acquisition rights to the Board of Directors, except where it is deemed necessary to obtain further information from or conduct further negotiations or discussions with the

Large-Scale Purchaser.

The Independent Committee may, if it is uncertain whether the Large-Scale Purchase will fall into the categories ii) through iv), recommend the implementation of Defense Measures subject to the approval of a General Meeting of Shareholders in advance (hereinafter referred to as the "Shareholders' Meeting").

- i) If the Large-Scale Purchaser Group does not comply with the Basic Rule (including the case in which a written statement containing a pledge to comply with the Basic Rule is not submitted)
 - ii) Cases in which it is clear that the relevant Large-Scale Purchase damages common interests of shareholders of the Company which includes:
 - Buying out the Company's share certificates in order to require such share certificates to be compulsorily purchased by the Company or the parties concerned with the Company at an inflated price (so-called "green mailer" case)
 - Management that achieves an interest for the Large-Scale Purchaser Group to the detriment of the Company, such as temporarily taking control of the Company in order to acquire important assets of the Company (including intangible assets such as intellectual properties, know-how, and customer base, etc.) at low prices
 - Diverting the Company's assets as collateral for or repayment of debts of the Large-Scale Purchaser Group
 - Temporary control of the Company's management to dispose the assets of the Company so that the Large-Scale Purchaser may cause the Company to temporarily distribute high dividends or sell the shares at a temporarily higher price as a result of the high dividends
 - iii) Cases that threaten to have the effect of forcing the Company's shareholders into selling their shares, such as coercive two-tiered tender offers (meaning acquisitions of shares including tender offers that do not offer to acquire all shares in the initial acquisition, and set unfavorable acquisition terms for the second stage or do not set clear terms for the second stage)
 - iv) In the event that conditions for the purchase (including the amount and type of considerations, the purchase schedule, legality, probability of the purchase, post-purchase management policies and business plans) are significantly insufficient or inappropriate from the Company's intrinsic value
- b. Recommendation for the non-triggering of a Defense Measure

In the event that the Independent Committee does not consider the Large-Scale Purchase to warrant the use of Defense Measures, it shall recommend to the Board of Directors that Defense Measures should not be used. Such a recommendation may be made regardless of the expiry of the Deliberation Period.

(6) Resolution of the Board of Directors

- a. The Board of Directors make the decision as to whether Defense Measures should be triggered, fully respecting the opinion of the Independent Committee, except where a Shareholders' Meeting is held as described in (7) below, in which case the decision of the Board of Directors shall be based on the resolution adopted at the Shareholders' Meeting.
- b. The Board of Directors may, when necessary, discuss and negotiate with the Large-Scale Purchaser Group even after the triggering of the Defense Measures. Such discussions or negotiations may result in material change in matters which were the basis of the judgment made by the Board of

Directors to trigger a Defense Measure, which includes the Large-Scale Purchaser Group proposing any change in matters that may affect the basis of the Large-Scale Purchase. In such circumstances, the Company, in accordance with resolution at the Board of Directors, may cancel the Defense Measures after consulting with the Independent Committee on the condition. (The announcement of such cancellation shall be disclosed in a timely and appropriate manner in accordance with the relevant legislation and the regulations of Financial Instruments Exchanges). Specifically, the Company may stop the gratis allotment of stock acquisition right, or acquire all of the allocated stock acquisition free of charge.

(7) Convocation of the Shareholders' Meeting

If the Independent Committee recommends the implementation of Defense Measures subject to the approval of the Shareholders' Meeting in advance as described in (5) a. above, the Board of Directors may promptly convene the Shareholders' Meeting in accordance with the law on the issue of gratis allotment of stock acquisition rights in accordance with the Basic Rule.

(8) Information disclosure

The Company shall provide information in a timely and appropriate manner regarding the status and progress of procedures set out in the Basic Rule (including receipt of the Statement of Intent to Purchase and commencement of the Deliberation Period) as well as summaries of recommendations provided by the Independent Committee, decisions made by the Board of Directors, resolutions approved by the Shareholders' Meeting, and any other information deemed appropriate by the Independent Committee or the Board of Directors, in line with the Basic Rule and in accordance with the relevant legislation and the regulations of Financial Instruments Exchanges.

(9) Gratis allotment of stock acquisition rights

Where a gratis allotment of stock acquisition rights is implemented as a Defense Measure in accordance with the Basic Rule, the implementation thereof shall be undertaken as detailed in Reference Material (2).

(10) Effective term and abolition or amendment of the Basic Rule

- a. Basic Rule shall remain in effect from the introduction thereof after being adopted at this General Meeting of Shareholders until the conclusion of the General Meeting of Shareholders for the last fiscal year ending within three years after this General Meeting of Shareholders. Continuance of the implementation of the Basic Rule shall be presented again to the General Meeting of Shareholders of the Company for approval.
- b. The Basic Rule may be changed or revised at the Board of Directors before the expiration of the effective term to reflect possible revisions of laws and ordinances and rules of financial instruments exchanges, or other reasons, on the condition that such changes or revisions are not inconsistent with the resolution of this General Meeting of Shareholders. The Basic Rule shall be abolished when (a) a General Meeting of Shareholders of the Company passes a resolution to abolish the Basic Rule, or (b) the Board of Directors passes a resolution to abolish the Basic Rule. When the Basic Rule is amended or abolished, timely and appropriate disclosure of the fact that such amendment or abolishment shall be made by the Board of Directors.

(11) Interpretation of the laws and ordinances

The provisions of the laws and ordinances referred in the Basic Rule are based on the laws and ordinances effective as of May 10, 2016. If the meanings of the provisions or terms as set forth in each item referred therein are required revisions due to the enactment, amendment or abolishment of laws and ordinances after May 10, 2016, the Board of Directors may interpret the meanings of the provisions or terms as set forth in each item therein to the reasonable extent as required, taking into consideration of the purposes of such enactment, amendment or abolishment.

IV. Impact on shareholders and investors

1. Impact on shareholders and investors upon introduction of the Basic Rule

At the time of introduction of the Basic Rule, no actual gratis allotment of stock acquisition rights will be implemented. Accordingly, it is expected that the introduction of the Basic Rule will have no economic impact on shareholders and investors.

2. Impact when Defense Measures are triggered

When the Board of Directors implements Defense Measures with the purpose of protecting the common interest of its shareholders, a gratis allotment of stock acquisition rights will be implemented on the registered shareholders of the Company as of the Allotment Date that will separately be determined by the Board of Directors, at a ratio of one stock acquisition right per one share held. In order to exercise stock acquisition rights, shareholders are required to pay 1 Japanese Yen for each stock acquisition right during the prescribed period in addition to performing prescribed procedures. If the shareholders do not perform the aforementioned procedure during the prescribed period, the shares they hold in the Company will be diluted. If the stock acquisition rights are issued with the condition that such rights may be compulsorily acquired by the Company, the shareholders receive the Company's shares as consideration for acquired stock acquisition rights. In such cases, shareholders are not required to make any payment and the shares they hold in the Company will not be diluted.

3. Impact upon the cancellation of the Defense Measures

In the event that the Company either cancels the gratis allotment of stock acquisition rights or purchases the allocated rights on a gratis basis after the registered shareholders of the Company as of the Allotment Date are confirmed, the shares they hold in the Company will not be diluted. In such cases, subsequent fluctuations in the share price could potentially disadvantage investors who have purchased or sold stock on the expectation of dilution of the price per share.

V. Rationale of the Basic Rule

1. Fully satisfying the requirements of the Guidelines Regarding Takeover Defense

The Basic Rule fully satisfies the three principles, "Principle of protecting and enhancing corporate value and shareholders' common interests", "Principle of prior disclosure and shareholders' will" and "Principle of ensuring the necessity and reasonableness" set out in the "Guidelines Regarding Takeover Defense for the Purposes of Protection and Enhancement of Corporate Value and Shareholders' Common Interests" released by the Ministry of Economy, Trade and Industry and the Ministry of Justice on May 27, 2005.

2. Respecting the intent of shareholders

The Basic Rule will be introduced subject to the approval at this General Meeting of Shareholders. As the term of Directors is 1 year (the term of Directors serving as an Audit & Supervisory Committee Member is 2 years, if the transition to a Company with Audit & Supervisory Committee is approved by this General Meeting of Shareholders), intention of the shareholders regarding the Basic Rule may be reflected through election of board members that takes place every year. If the General Meeting of Shareholders makes a resolution to abolish the Basic Rule after its introduction, the Basic Rule will be abolished at that time to reflect the intent of the shareholders.

3. Elimination of arbitrary decisions by the Board of Directors

To eliminate arbitrary decisions by the Board of Directors and to ensure fair judgment as regards to compliance with the Basic Rule by the Large-Scale Purchaser Group and as regards to whether Defense Measures should be triggered, the Company establishes the Independent Committee, in accordance with the resolution at the Board of Directors. The Board of Directors makes the decision as to whether Defense Measures should be triggered, fully respecting the opinion of the Independent Committee. The Board of Directors also complies with the resolution of the Shareholders' Meeting, if the Independent Committee recommends the implementation of Defense Measures subject to the approval of the Shareholders' Meeting in advance.

By disclosing outlines of the Deliberation to the shareholders, the Independent Committee ensures a structure which contributes to the corporate value of the Company and the common interests of its shareholders.

4. Establishing reasonably objective requirements for the triggering of the Defense Measures

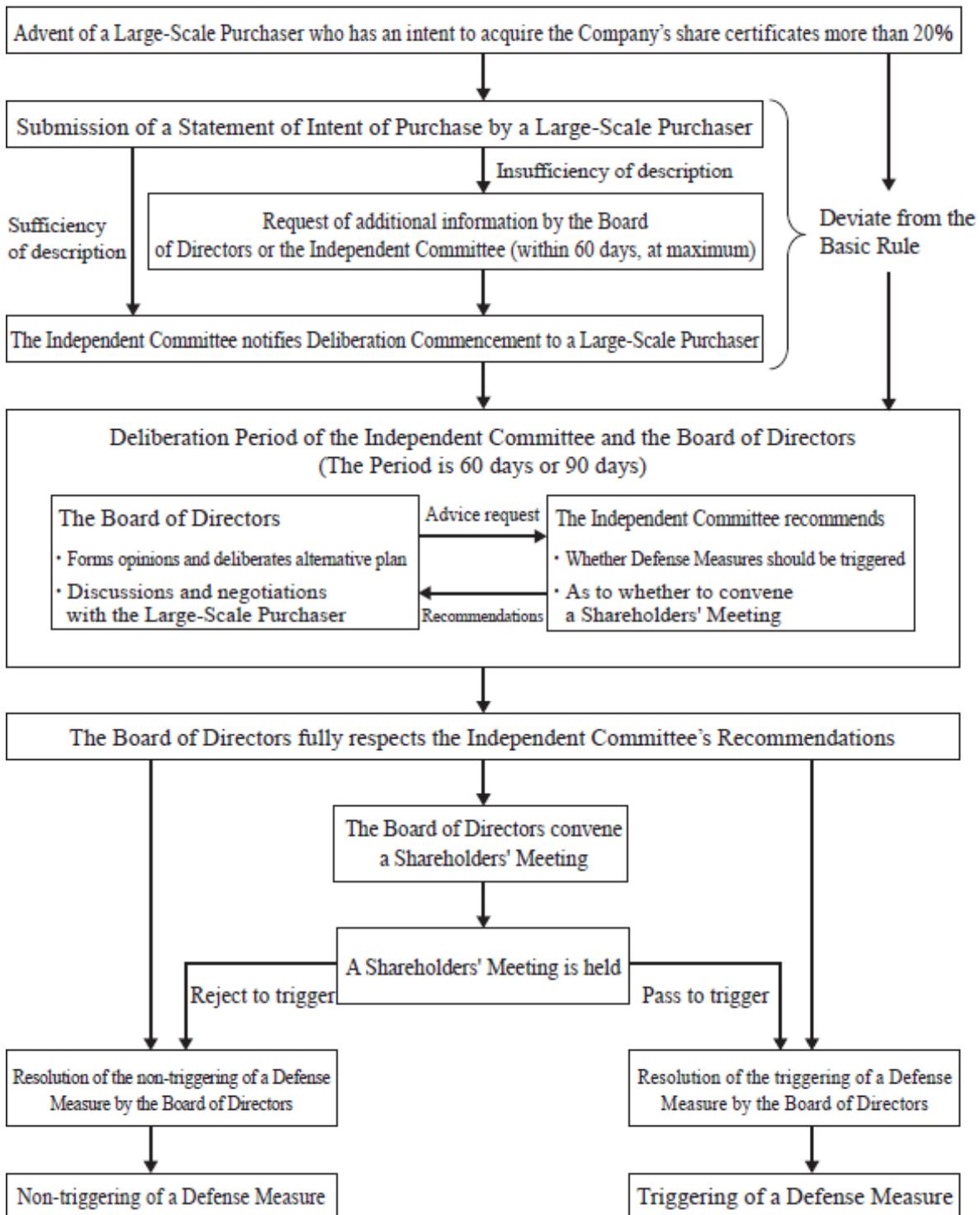
As set out in III 2. (5) a., Defense Measures established by the Basic Rule will not be triggered unless pre-determined reasonable and objective requirements have been satisfied, which ensures a structure to eliminate arbitrary triggering of the Defense Measures by the Board of Directors.

5. No dead-handed or slow-handed takeover defense measures

The Basic Rule may be abolished by a meeting of the Board of Directors composed of Directors who are elected at the Company's General Meeting of Shareholders in accordance with a person who acquired a large quantity of share certificates or other securities of the Company. Accordingly, the Basic Rule is not a dead-handed takeover defense measure (a takeover defense measure in which even if a majority of the members of the Board of Directors are replaced, the triggering of the measure cannot be stopped). Further, since the appointment terms of the Directors are not staggered, the Basic Rule is not a slow-handed takeover defense measure (a takeover defense measure that requires a considerable period of time to repeal because the Directors cannot all be replaced at once).

Reference Material (1):

Flowchart of response procedures in the event of a Large-Scale Purchase of Company share certificates or other securities



Note: This flowchart is an outline of the Basic Rule. For details of the Basic Rule, please refer to the text.

Reference Material (2): Terms and Conditions of the Stock Acquisition Rights

1. Total number of stock acquisition rights to be issued

The maximum number of stock acquisition rights is the number of outstanding shares of the Company (excluding the number of shares of the Company held by the Company at that time) on a date that is determined as an allotment date by a resolution at the Board of Directors regarding issuance of the stock acquisition rights (hereinafter referred to as the "Allotment Date").

2. Shareholders to whom the stock acquisition rights are granted and terms and conditions of allotment thereof

One stock acquisition right will be granted for each share held by shareholders, other than the Company, who are recorded in the last register of shareholders of the Company as of the Allotment Date.

3. Class and number of shares issued upon the exercise of stock acquisition rights

Class of shares subject to stock acquisition rights is common stock and the number of shares issued upon the exercise of stock acquisition rights shall be one share for each stock acquisition right. If the Company conducts a stock split or reverse stock split after the issuance of stock acquisition rights, number of shares issued will be adjusted.

4. Issue price of stock acquisition rights

Stock acquisition rights are issued without considerations as they are allotted to shareholders without considerations.

5. Amount to be paid upon exercising the stock acquisition rights

The amount required to be paid to exercise a stock acquisition right is one Japanese Yen for each common stock of the Company. If the stock acquisition rights are issued with the condition that such rights may be compulsorily acquired by the Company, the shareholders receive the Company's shares as considerations for acquired stock acquisition rights. Accordingly the shareholders are not required to make any payment.

6. Restriction on transfer of stock acquisition rights

Any transfer of stock acquisition rights shall be subject to the approval of the Board of Directors.

7. Conditions for the exercise of the stock acquisition rights

Except where previously agreed by the Board of Directors, persons affiliated with a Large-Scale Purchaser Group which has an intent to acquire 20% or more of the total voting rights of the Company are not generally permitted to exercise their stock acquisition rights. Further details of this requirement will be determined separately by the Board of Directors.

8. Exercise period of the stock acquisition rights

The period for exercising stock acquisition rights and other terms and conditions shall be determined separately by the Board of Directors. The Board of Directors may impose conditions that gives it the right to obtain stock acquisition rights from holders thereof (except from those holders who are not permitted to exercise their stock acquisition rights as described in 7. above) and to issue one share per acquisition right thus obtained.

Reference Material (3) Outline of the Independent Committee

1. The Independent Committee shall be comprised of three members or more. The members of the Independent Committee shall be elected from Outside Director of the Company or outside experts (including attorneys, licensed tax accountants, certified public accountants, academic experts, experienced corporate managers, and parties with knowledge of the investment banking industry) and may not be those included in the following categories (1) to (5). The Chairman of the Independent Committee shall be elected by mutual election by the members of the Committee.
 - (1) Major shareholders (shareholders holding over 5% of the outstanding shares of the Company), a person in special relationship (as defined in Paragraph 7, Article 27-2 of the Financial Instruments and Exchange Act) with the major shareholders, or a person representing the interest thereof
 - (2) A person who is or was a Director or an employee of an affiliate of the Company (An affiliate refers to a company in which the Company holds the majority of voting rights and includes a company in which a subsidiary or a sub-sub-subsidiary of the Company holds the majority of voting rights).
 - (3) A person who is a Director, an Executive Officer or an employee of a company which has a significant business relationship with the Company or a company which had a significant business relationship with the Company in the past 3 years. (A company which has a significant business relationship with the Company refers to a company which has paid to the Company or has received from the Company a total amount which exceeds the higher of the ¥100 million per year or 2% of annual consolidated sales of the relevant company in consideration of goods or services.)
 - (4) A person who receives or received in the past 3 years a substantial amount of compensation (¥10 million or higher per year) as an advisor to the Company (including a corporate attorney and a management consultant, etc. and excluding an Outside Director)
 - (5) Close relatives of a person described in (1) to (4) above (relatives within 2 degrees of relationship or relatives living together)
2. The term of office of members of the Independent Committee shall be 3 years provided that their re-appointment shall not be prevented.
3. The Independent Committee shall review and examine the contents of the Statement of Intent of Purchase and alternative plans (if such alternative plans are submitted by the Board of Directors) and submit an opinion as regards to whether Defense Measures should be triggered to the Board of Directors attached with basis of such opinion. The Independent Committee shall deliberate on the following items:
 - i) Status of compliance with the Basic Rule by the Large-Scale Purchaser Group
 - ii) Examination as to whether the information provided in the Statement of Intent of Purchase is deemed necessary and sufficient in light of items described in 2. (2) a.
 - iii) Request to the Large-Scale Purchaser Group for additional information or conduct an interview with the Large-Scale Purchaser Group
 - iv) Examination of contents included in the Statement of Intent of Purchase and information additionally provided
 - v) Examination of alternative plans submitted by the Company
 - vi) Evaluation of results of discussions and negotiations conducted by the Board of Directors with the Large-Scale Purchaser Group
 - vii) As to whether to convene a General Meeting of Shareholders in relation to the use of Defense Measures
 - viii) As to whether Defense Measures should be triggered
 - ix) As to whether Defense Measures should be cancelled
 - x) Other items that should be determined by the Board of Directors, among which are consulted to the Independent Committee
4. As a general rule, a resolution shall be adopted with the attendance of all members of the Independent Committee and by the majority of voting rights. Under a circumstance which is deemed unavoidable, a resolution may be adopted with a majority of voting rights when a majority of the members of the Independent Committee holding the voting rights as regards to the relevant resolution are in attendance.

Reference Material (4): Candidates for members of The Independent Committee

Masaya Yamauchi

Born in 1960

(Career Summary)

April 1988 Registered as an attorney (Tokyo Bar Association)

September 1993 Established Nakagawa & Yamauchi Law Office

August 2001 Integrated into Hibiki-Sogo Law Office (current position)

June 2010 Director of the Company (current position)

June 2010 Member of the Independent Committee of the Company (current position)

- Mr. Masaya Yamauchi is the current Company's Outside Director and a candidate (reappointment) for an Outside Director at this General Meeting of Shareholders.
- The Company has filed with the Tokyo Stock Exchange a notification to establish that Mr. Yamauchi is an independent officer as provided by the Exchange, because he satisfies the requirements therefor.
- No material conflict of interest exists between the Company and Mr. Yamauchi.

Minoru Obara

Born in 1947

(Career Summary)

April 1986 Assistant 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

June 2012 Director of the Company (current position)

April 2013 Professor Emeritus at Keio University (current position)

- Mr. Minoru Obara is the current Company's Outside Director and a candidate (reappointment) for an Outside Director at this General Meeting of Shareholders.
- The Company has filed with the Tokyo Stock Exchange a notification to establish that Mr. Obara is an independent officer as provided by the Exchange, because he satisfies the requirements therefor.
- No material conflict of interest exists between the Company and Mr. Obara.

Masahiro Kawamura

Born in 1949

(Career Summary)

June 1977 Registered as a Tax Accountant

March 1979 Register as a Certified Public Accountant

August 1979 Joined Kawamura Tax Accounting Office (current position)

June 2010 Outside Corporate Auditor of the Company (current position)

June 2010 Member of the Independent Committee of the Company (current position)

- Mr. Masahiro Kawamura is the current Company's Outside Corporate Auditor and a candidate for an Outside Director serving as an Audit & Supervisory Committee Member at this General Meeting of Shareholders.
- The Company has filed with the Tokyo Stock Exchange a notification to establish that Mr. Kawamura is an independent officer as provided by the Exchange, because he satisfies the requirements therefor.
- No material conflict of interest exists between the Company and Mr. Kawamura.

Shigeru Kawatsuhara

Born in 1952

(Career Summary)

April 1975 Joined TOKO, INC.

April 2002 Senior Manager of Sales Department 1, Sales Operations, TOKO, INC.

April 2004 General Manager of Sales Center, TOKO, INC.

June 2005 Corporate Director and General Manager of Sales Center, TOKO, INC.

April 2008 President of TOKO, INC.

May 2014 Chairman of TOKO, INC.

March 2015 Senior Advisor of TOKO, INC.

April 2016 Part-time Advisor of TOKO, INC. (current position)

- Mr. Kawatsuhara is a candidate for an Outside Director serving as an Audit & Supervisory Committee Member at this General Meeting of Shareholders.
- The Company will file with the Tokyo Stock Exchange a notification to establish that Mr. Kawatsuhara is an independent officer as provided by the Exchange, because he satisfies the requirements therefor.
- No material conflict of interest exists between the Company and Mr. Kawatsuhara.

Reference Material (5): Major Shareholders as of March 31, 2016

Shareholders	Number of Shares	Shareholding Ratio (%)
State Street Bank and Trust Company 505223	9,459,240	11.04%
The Master Trust Bank of Japan, Ltd. (trust account)	5,899,500	6.88%
STATE STREET BANK AND TRUST, BOSTON AS TRUSTEE FOR MAWER INVESTMENT MANAGEMENT LTD.	4,476,562	5.22%
Saitama Resona Bank, Ltd.	4,193,750	4.89%
Japan Trustee Service Bank, Ltd. (trust account 9)	2,704,400	3.15%
Japan Trustee Service Bank, Ltd. (trust account)	2,556,300	2.98%
THE BANK OF NEW YORK, NON-TREATY JASDEC ACCOUT	2,253,600	2.63%
Fujitsu Ltd.	1,857,758	2.16%
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	1,325,130	1.54%
Nihon Kohden employee shareholding association	1,251,192	1.46%

Note: The above list excludes Nihon Kohden's treasury stock of 4,073,033 shares. The shareholding ratio is calculated after deduction of the Company's treasury stock.