

Fighting Disease with Electronics



Annual Report

April 2016 -March 2017

Since our foundation in 1951, our mission is to improve the quality of life with advanced technology. As a leading manufacturer of medical electronic equipment, Nihon Kohden provided a number of state of the art medical electronic equipment for clinical practice in the world. We are expanding our activities into emergency care, home care and health promotion.

Every year Nihon Kohden is expanding its global network, from research and development to manufacturing, sales, and service, in order to fulfill its mission to save lives with the most advanced medical technology. Nihon Kohden began its overseas expansion with Nihon Kohden America in 1979. The Company now has the sales subsidiaries in the US, Latin America, Europe, and Asia.

Since the development of the world’s first electroencephalograph that was completely AC powered in 1951, Nihon Kohden has broadened its product range into a variety of high

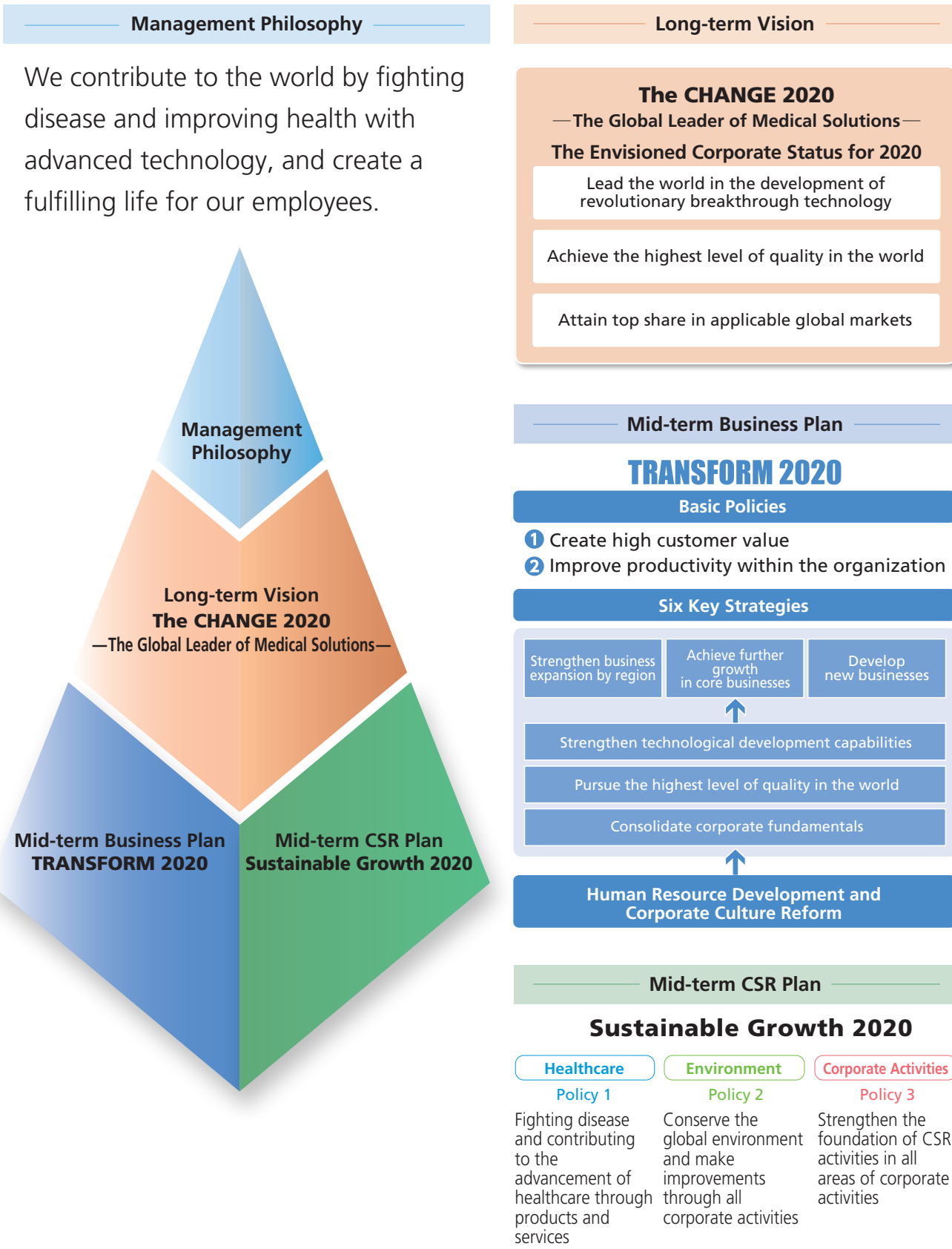
technology medical equipment such as EEG, EMG/EP measuring systems, electrocardiographs, patient monitors, defibrillators, AEDs (automated external defibrillators), and hematology analyzers. In particular Nihon Kohden has a high market share in EEG. The Company’s products are now used in more than 120 countries.

Commitment to High Quality and Reliability
Medical devices supporting the frontlines of medicine require extremely advanced degrees of quality and safety. With ISO9001 certification for its quality management system and ISO13485 certification for its medical devices, Nihon Kohden has constructed a consistent quality assurance system covering all areas, from development to after sales service. Based on our quality policy “to have the customers feel continuous satisfaction with their purchase of Nihon Kohden products,” we are continually striving to provide the highest quality products and services.

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Nihon Kohden contributes to society through its business activities as a medical device manufacturer, while aiming at sustainable growth and the enhancement of corporate value.



The new Mid-term Business Plan, TRANSFORM 2020, has been launched. In it, we aim to transform our operations to achieve a highly profitable structure.

Q. Please elaborate on the progress of the Long-term Vision.

Nihon Kohden is currently working toward fulfilling its Long-term Vision, The CHANGE 2020 –The Global Leader of Medical Solutions–, which concludes in the fiscal year ending March 2020. Under this vision, we aim to i) lead the world in the development of revolutionary breakthrough technology, ii) achieve the highest level of quality in the world, and iii) attain top share in applicable global markets as the envisioned corporate status for 2020.

To achieve this goal, we worked on the 4-year Mid-term Business Plan, Strong Growth 2017, from April 2013 to March 2017 as the second stage of the Long-term Vision. Under this plan, we saw favorable business results during the first 2 years. However, I regret to say that we did not meet the numerical targets due to the greater-than-expected impact of the progress of healthcare reform in Japan and the deterioration of the market environment in some emerging countries during the last 2 years. The improvement of profitability remains as an outstanding issue to be dealt with. Nevertheless, I believe that we achieved significant results from each of the key strategies such as strengthening our technological development capabilities, strengthening our business expansion in each region, and consolidating our corporate fundamentals.

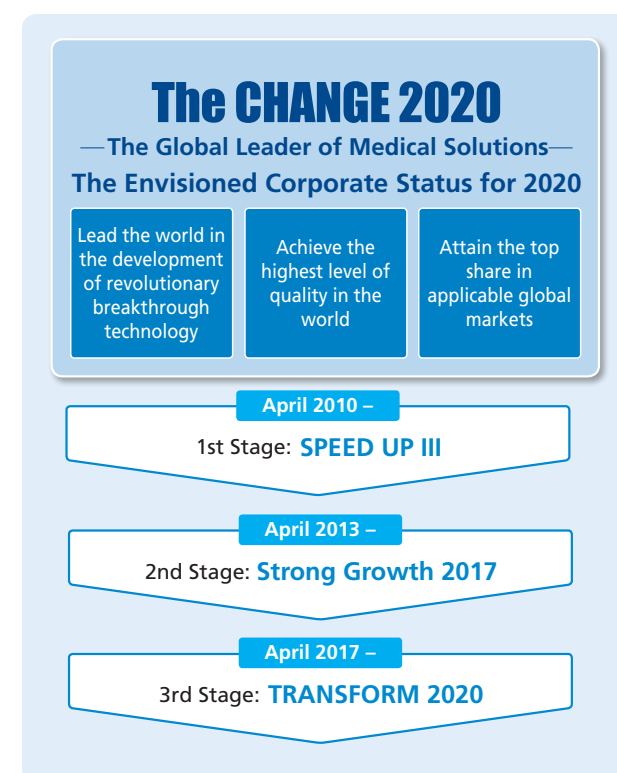
Q. Please highlight the major accomplishments of Strong Growth 2017.

We enhanced our R&D capabilities and infrastructure for the development of advanced technologies by opening the R&D office in Boston, the U.S. for industry-university collaboration, establishing the Advanced Technology Center in Tokorozawa, Saitama, and establishing a new facility in Asaka, Saitama, to which the immunochemical department has been relocated.

In terms of strengthening our business expansion by region, we reorganized our domestic sales structure to respond to the government's healthcare reforms. The sales structure was changed from a geographic region basis to a hospital/clinic market basis. The Company absorbed and merged 11 domestic sales subsidiaries. Internationally, we established 5 sales offices in the past 4 years and strengthened our sales and R&D functions in the U.S. to respond promptly to market needs.

With respect to the consolidation of corporate fundamentals, the Tomioka Production Center started operations in May 2015 for the purpose of undertaking initiatives to improve production efficiency. We also enhanced the efficiency of our business operations by utilizing IT; for example, through a company-wide introduction of TV conference systems.

Long-term Vision



Q. Please introduce the new Mid-term Business Plan, TRANSFORM 2020.

Under the 3-year Mid-term Business Plan, TRANSFORM 2020, starting from April 2017, we are transitioning from the investment phase to the phase of improving profitability by fully leveraging the business foundation established back in Strong Growth 2017. Furthermore, this truly represents a period of transformation in which initiatives to achieve sustainable growth in 2020 and thereafter should be undertaken concurrently.

We aim to achieve the transformation to a highly profitable structure through the implementation of two basic policies under the new plan. One of the basic policies is to create high customer value. We will focus on developing proprietary products and consumables such as sensors with high customer value by leveraging our core Human Machine Interface* technologies. We also aim to expand value-added

* Humane Machine Interface is the user interface that connects human and machine. For Nihon Kohden, HMI indicates sensor technology, signal processing technology, and data analysis technology.

Mid-term Business Plan



services and establish a global sales and service network that draws on high levels of expertise.

The other basic policy is to improve productivity within the organization. We will strengthen our global supply chain and improve production and logistical efficiency primarily at the Tomioka Production Center in response to expanding overseas business. At the Advanced Technology Center, we will improve development efficiency by utilizing the fully-equipped testing facilities as well as strengthening the support from process management, quality management, and production technology. We are also undertaking to improve operational efficiency across the entire organization through IT utilization and reform of work processes.

We are aiming at numerical targets of 190 billion yen in sales, 20 billion yen in operating income and 12.0% in ROE in the final fiscal year ending March 2020.

Q. Please tell us about your CSR approach.

We are now facing a major transitional phase globally wherein we are required to respond to a variety of changes such as climate change and other increasingly serious environmental issues, declining birthrates and aging populations in developed nations and intensified global competition. In this situation, the Company is advancing the Mid-term CSR Plan, Sustainable Growth 2020, to continuously pursue sustainable growth even in such rapidly changing times.

Under the Mid-term CSR Plan, we are deploying various initiatives to address issues which have been identified in the areas of Healthcare, Environment and Corporate Activities. These wide-ranging initiatives include: contribution to healthcare using our proprietary sensor technologies and the dissemination of AEDs (automated external defibrillators) in the healthcare area; provision of environmentally-friendly products and energy-saving initiatives in the environment area; and the enhancement of corporate governance, the promotion and implementation of compliance, the reinforcement of risk management and the promotion of diversity in the area of corporate activities. In July 2015, we signed on to the United Nations Global Compact to rekindle our commitment to contribute to a sustainable society through the promotion of initiatives in accordance with the Ten Principles of the United Nations Global Compact in

the areas of human rights, labor, the environment and anticorruption.

The Company has also been selected for the first time as a constituent of the FTSE4Good Index Series, a global index for socially responsible investing. We are honored to be selected because we have been actively engaging in business activities and information disclosure with relation to environmental, social and corporate governance (ESG) criteria.

Q. Please give your message to the stakeholders.

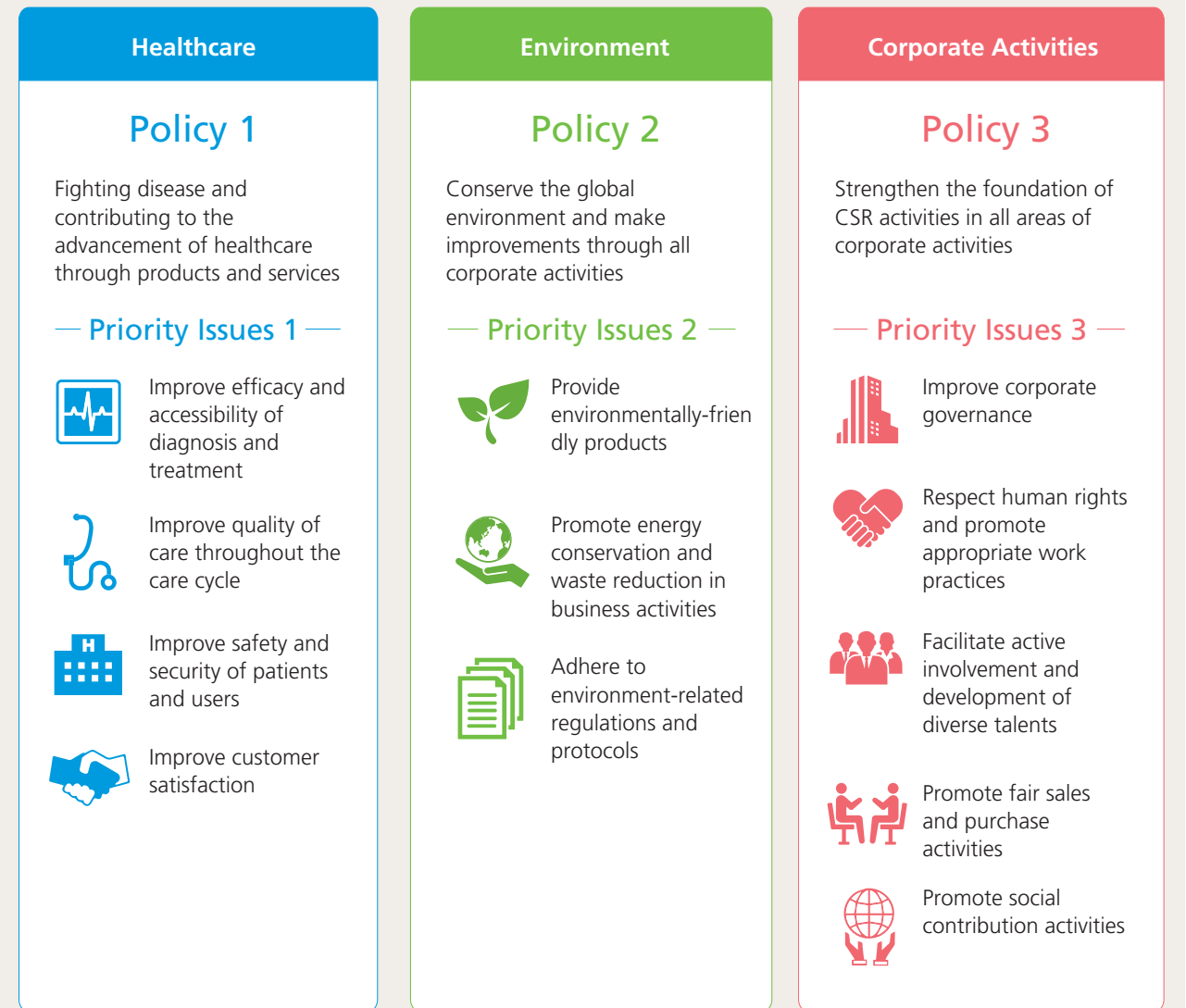
To realize its management philosophy as a manufacturer of medical electronic equipment to “contribute to the world by fighting disease and improving health with advanced technology, and create a fulfilling life for its employees,” Nihon Kohden’s basic management policy is to be a company that earns the trust of shareholders, business partners and society, as well as customers.

In implementing this basic management policy and enhancing the mid- to long-term corporate value of the Nihon Kohden Group, an important management issue to address is improving the soundness, transparency and efficiency of our management through the enhancement of corporate governance.

To improve our corporate governance and increase the soundness and transparency of our management, the Company has already transited to a company with audit and supervisory committees as well as implementing other initiatives such as the appointment of four independent outside directors and the establishment of a Nomination and Compensation Committee. In the future, we intend to continue working to improve our corporate governance on an ongoing basis.

While most of our direct customers are medical institutions such as hospitals and clinics, I always bear in mind that our end customers are patients and their families. By providing better healthcare through our advanced technologies, we contribute to improving the safety and quality of life in local communities everywhere, and this in turn leads to sustainable growth and the enhancement of corporate value. We sincerely appreciate your kind understanding of our business and further support going forward.

Mid-term CSR Plan Sustainable Growth 2020



■ UN Global Compact

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



■ FTSE4Good Index Series

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



FTSE4Good

Management Team



Eiichi Tanaka Shigeru Kawatsuhara Masahiro Kawamura Kazuhiko Ikuta Masaya Yamauchi Minoru Obara Yasuhiro Yoshitake
Kazuteru Yanagihara Yoshito Tsukahara Hirokazu Ogino Fumio Suzuki Takashi Tamura Tadashi Hasegawa Fumio Hirose

Representative Director

Fumio Suzuki

Chairman of the Board

Date of birth November 3, 1948

April 1973 Joined the Company
April 1994 Director and President of Nihon Kohden America, Inc.
April 1998 General Manager of Corporate Planning Department
April 1999 General Manager of Human Resources Department
June 1999 Director
June 2003 Managing Director
April 2005 General Manager of System Business Operations
April 2006 General Manager of Biomedical Instrument Technology Center
April 2007 General Manager of General Affairs and Human Resources Department
June 2007 Corporate Director and Executive Operating Officer
June 2008 Representative Director and President
June 2015 Representative Director, Chairman and CEO
June 2017 Representative Director, Chairman of the Board (current position)

Representative Director

Hirokazu Ogino

President and CEO

Date of birth May 28, 1970

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

Representative Director

Takashi Tamura

Executive Operating Officer
Responsible for Customer Service
General Manager, Sales Operations

Date of birth March 22, 1959

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

Director

Yoshito Tsukahara

Senior Operating Officer, General Manager, Recurring Business Division

Date of birth December 25, 1952

July 1980 Joined the Company
April 1999 President of Nihon Kohden Kita Kanto Corporation
April 2002 President of Nihon Kohden Mebiko Higashi Hanbai Corporation
April 2003 President of Nihon Kohden Tokyo Corporation
June 2007 Operating Officer
June 2008 Corporate Director and Operating Officer
April 2011 General Manager of Sales Operations
June 2013 Corporate Director and Senior Operating Officer (current position)
April 2014 General Manager of Wellcare Business Division
April 2016 General Manager of Recurring Business Division (current position)

Director

Tadashi Hasegawa

Senior Operating Officer, Responsible for finance, legal affairs, compliance, human resources, and information systems

Date of birth June 17, 1959

April 1983 Joined The Saitama Bank Ltd.
June 2009 Operating Officer of Saitama Resona Bank Limited
June 2011 Senior Operating Officer of Saitama Resona Bank Limited
June 2013 Corporate Director and Senior Operating Officer of Saitama Resona Bank Limited
March 2014 Retired as Corporate Director and Senior Operating Officer of Saitama Resona Bank Limited
April 2014 Joined the Company
June 2014 Operating Officer
June 2015 Corporate Director and Senior Operating Officer (current position)

Director

Kazuteru Yanagihara

Senior Operating Officer
General Manager, Strategic Technology Operations

Date of birth January 22, 1957

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

Director

Fumio Hirose

Senior Operating Officer, Responsible for Marketing Strategy
General Manager, Ventilator & Anesthesia Device Business Operations

Date of birth March 2, 1960

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

Director

Eiichi Tanaka

Operating Officer, General Manager, Import Business Operations

Date of birth July 15, 1962

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

Director

Yasuhiro Yoshitake

Operating Officer, General Manager, International Operations

Date of birth March 20, 1966

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

Outside Director

Masaya Yamauchi

Independent Director

Date of birth March 20, 1960

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 Outside Director of the Company (current position)
Term of office 7 years
Attendance at Board Meetings 28/28

Outside Director

Minoru Obara

Independent Director

Date of birth September 29, 1947

April 1986 Associate Professor at Dept. of Electrical Engineering, Faculty of Science and Technology, Keio University
April 1993 Professor at Dept. of Electrical Engineering (current Dept. of Electronics and Electrical Engineering), Faculty of Science and Technology, Keio University
June 2012 Outside Director of the Company (current position)
April 2013 Professor Emeritus at Keio University (current position)
Term of office 5 years
Attendance at Board Meetings 27/28

Director (Full-time Audit & Supervisory Committee Member)

Kazuhiko Ikuta

Date of birth May 29, 1956

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

Outside Director (Audit & Supervisory Committee Member)

Masahiro Kawamura

Independent Director

Date of birth August 19, 1949

June 1977 Registered as a Tax Account
March 1979 Registered as a Certified Public Accountant
August 1979 Joined Kawamura Tax Accounting Office (current position)
June 2010 Outside Audit & Supervisory Board Member of the Company
June 2016 Outside Director (Audit & Supervisory Committee Member) of the Company (current position)
Outside Director (Audit & Supervisory Committee Member) of Daitogyorui Co., Ltd (current position)

Term of office (including Outside Audit and Supervisory Board Member) 7 years
Attendance at Board Meetings 28/28
Attendance at Audit & Supervisory Board Meetings and Audit & Supervisory Committee Meetings 30/30

Outside Director (Audit & Supervisory Committee Member)

Shigeru Kawatsuhara

Independent Director

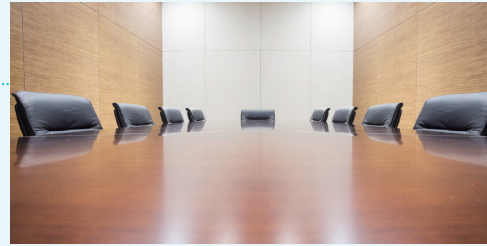
Date of birth February 14, 1952

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.
June 2016 Outside Director (Audit & Supervisory Committee Member) of the Company (current position)

Term of office 1 year
Attendance at Board Meetings 20/20
Attendance at Audit & Supervisory Committee Meetings 21/21

Enhancing Corporate Governance

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



Basic Views on Corporate Governance

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

Corporate Governance Structure

Nihon Kohden has adopted a company with Audit & Supervisory Committee structure to achieve followings: enhancement of supervisory function through possession of voting rights at the meeting of the Board by Audit & Supervisory Committee members, improvement of soundness and transparency of the management by increasing ratio of outside directors, and acceleration of the management decision-making by having options to delegate the authorities for the business execution. The Company takes measures such as introduction of an operating officer system as well as cooperation among Audit & Supervisory Committee, Internal Auditing Department and accounting auditor. The Company believes the management monitoring functions work sufficiently.

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

The Board of Directors :

The Board consists of 11 directors excluding Audit & Supervisory Committee members (including 2 outside directors) and 3 Audit & Supervisory Committee members (including 2 outside directors). The Board have monthly meeting in order to resolve the matters pursuant to the Companies Act and make a decision on the execution of important business for the Nihon Kohden group as well as supervise directors' performance of their duties.

Audit & Supervisory Committee :

Audit & Supervisory Committee consists of 3 directors, including 2 outside directors and 1 full-time member. Each Audit & Supervisory Committee member attends the important meetings such as the Management Council. Each Audit & Supervisory Committee member audits the performance of the directors' duties through the investigation of business execution and assets of the Company and its subsidiaries. Those activities shall be in accordance with the audit plan for the term which is decided at Audit & Supervisory Committee. Audit & Supervisory Committee cooperates with accounting auditor and Internal Auditing Department.

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

Management Council :

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

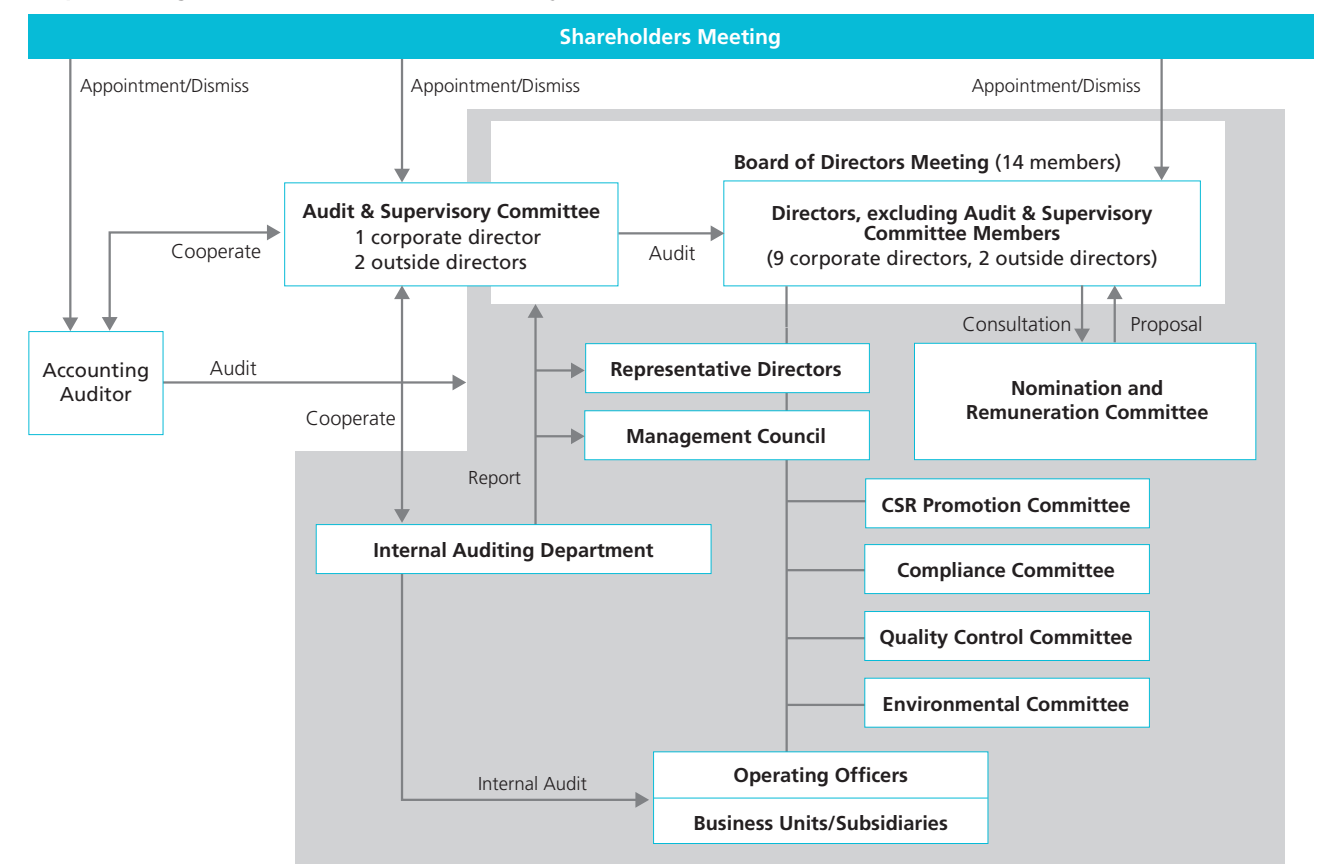
Nomination and Remuneration Committee :

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

Nomination of Directors Candidates

Director nomination is considered based on the following matters: the Board is well balanced in knowledge, experience as a whole; the Board can make appropriate and quick decisions; and individual directors have excellent character and insight, and high ethical standards. Nomination policy of directors (excluding Audit & Supervisory Committee members) is stipulated in Corporate Governance Guideline and of Audit & Supervisory Committee members is stipu-

Corporate Organization and Internal Control System



lated in Auditing Standards Conducted by Audit & Supervisory Committee.

In accordance with the policy above, nominations of directors (excluding Audit & Supervisory Committee members) are proposed by Nomination and Remuneration Committee and are approved by the Board. Nominations of Audit & Supervisory Committee members are proposed by Nomination and Remuneration Committee and are approved by the Board after the review and consent of Audit & Supervisory Committee.

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

■ Remuneration of Directors

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

- The total amount of remuneration to directors excluding directors serving as an Audit & Supervisory Committee members shall be within the limit of 400 million yen (including the amount of remuneration to outside directors which shall be within the limit of 30 million yen)
- The total amount of remuneration to Audit & Supervisory Committee members shall be within the limit of 80 million yen.

Remuneration of directors (excluding Audit & Supervisory Committee members and outside directors) consists of monthly compensations and bonuses. Monthly compensations are determined based on the size of role and range of responsibilities of each position. Bonuses are determined taking into consideration their contribution and the Company's business

performance every fiscal year. A certain percentage of monthly compensation is allotted to purchasing shares of the Company for reflecting mid- to long-term business results. Directors shall hold the shares during the period served as directors. Remuneration of outside directors excluding Audit & Supervisory Committee members consists of monthly compensations. Remuneration of directors excluding Audit & Supervisory Committee members are reviewed at Nomination and Remuneration Committee and are proposed to the Board. Remuneration of Audit & Supervisory Committee members consists of monthly compensations only and is determined after the consultation at Audit & Supervisory Committee.

The total amount of remuneration of directors in FY2016 ended March 31, 2017

	Number of Members	Total Amount
Directors excluding Audit & Supervisory Committee members (Outside Directors)	10	¥277 million
	(2)	(¥ 16 million)
Audit & Supervisory Committee members (Outside Directors)	3	¥ 30 million
	(2)	(¥ 14 million)
Audit & Supervisory Board members (Outside members)	4	¥ 13 million
	(2)	(¥ 3 million)
Total	17 persons	¥321 million

■ Supporting System for Outside Directors

Corporate Strategy Department and Audit & Supervisory Committee Secretariat are in charge of supporting outside directors by assisting their duties and communicating with. The Company provides periodic information such as monthly business reports of departments and group companies to outside directors. When the Company holds the meeting of the Board or the Management Council, Corporate Strategy Department delivers related materials to them and explains agenda items of the meetings to them in advance.

■ Cooperation among Audit Systems

Audit & Supervisory Committee cooperates closely with accounting auditor by receiving explanation of auditing plan and quarter audit results, exchanging opinions, and attending accounting audits for domestic and foreign subsidiaries conducted by the accounting auditor.

Audit & Supervisory Committee meets regularly with Internal Auditing Department (8 members), an organization under the direct supervision of the president for exchanging information and enhancing cooperation. Internal Auditing Department conducts regular internal audits of the Company and its subsidiaries regarding compliance, and effectiveness and appropriateness of business executions. Internal Auditing Department cooperates with Audit & Supervisory Committee members to enhance monitoring function on accounting and business executions. Internal Auditing Department reports the internal audit results to the president and Audit & Supervisory Committee each time the internal audit is conducted. Internal audit results and progress of improvements are reported to directors and operating officers at the Board of Directors Meetings every quarter.

■ Training Policy for Directors

Nihon Kohden provides directors with training opportunities for acquiring necessary knowledge and skills as well as understanding the roles and responsibilities. Training opportunities are provided when they are appointed and thereafter at the Company's expenses. In-house training and facility tour for acquiring necessary knowledge on the Company's business are included.

■ Board Evaluation

Nihon Kohden analyzed and evaluated the effectiveness of the Board for FY2016 to clarify issues and improvement of the Board and further improve the function of the Board. The Company conducted self-evaluations of all directors including an Audit & Supervisory Committee members in an anonymous survey related to (1) the size and constitution of the Board, (2) the operation of the Board, (3) the support-

ing system for outside directors, (4) the decision making process of the Board, and (5) the communication with shareholders and stakeholders. The Board discussed about the results of evaluation and issues for further improvements as follows:

In terms of the size, constitution and operations of the Board, it was confirmed that the structures necessary to enable appropriate performance of the Board's supervisory function have been established. It was also concluded that the Board operates effectively with an open atmosphere around the boardroom table allowing inside and outside directors to engage in lively discussions. In FY2016, based on the FY2015 evaluation results, the Company improved the materials provided to directors at Board Meetings by adding annotations for technical terms in order to enable outside directors to understand technical discussions more easily. The discussion at Board Meetings was further invigorated as the Company adhered to a policy of distributing the materials in advance, allowing every director to sufficiently prepare. On the other hand, some concerns were shared with the Board Members as follows: care needs to be taken to ensure sufficient meeting time as the number of matters to be reported to the Board increases and the discussions at Board Meetings become more active, and rules for monitoring execution of matters resolved by the Board should be established in order to further enhance its supervisory function.

With regard to those issues, the Board has already resolved and started necessary actions.

The Company will continue to improve overall effectiveness of the Board aiming at sustained growth of corporate value and for an enhancement of corporate governance.

Consolidated Financial Highlights

Nihon Kohden Corporation and Consolidated Subsidiaries
Years ended March 31, 2017, 2016, 2015, 2014, and 2013

	Millions of yen					Thousands of U.S. dollars ⁽¹⁾
	2017	2016	2015	2014	2013	2017
Net sales	¥166,285	¥165,522	¥160,803	¥153,194	¥132,538	\$1,482,173
Operating income	13,585	16,438	15,921	17,548	13,484	121,089
Income before income taxes and non-controlling interests	13,852	15,939	17,426	19,022	14,525	123,469
Income attributable to owners of parent	9,149	10,517	11,143	12,346	9,152	81,549
Total assets	152,807	144,271	146,756	130,918	116,800	1,362,038
Net assets	103,887	97,672	99,304	88,512	76,256	925,992
Amounts per share ⁽²⁾ :	Yen					U.S. dollars
Net income-basic ⁽³⁾	¥106.81	¥120.12	¥126.83	¥140.52	¥208.31	\$0.95
Cash dividends	35.00	35.00	70.00	70.00	52.00	0.31

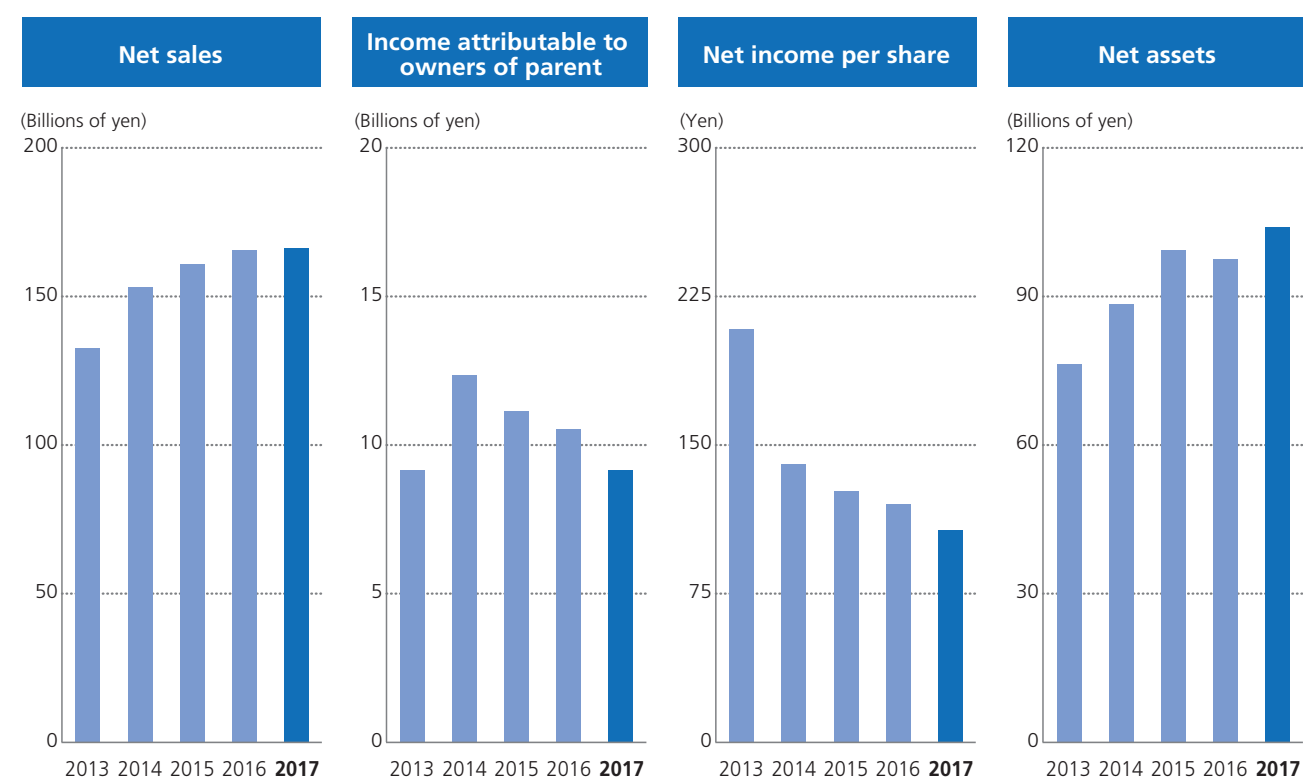
Notes: (1) U.S. dollars amounts are translated from yen, for convenience only, at the rate of ¥112.19 = US\$1.

(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.



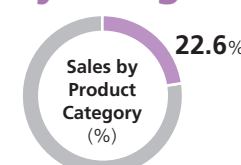
Review of Operations

During the term under review (April 1, 2016 to March 31, 2017), the Japanese government worked on healthcare system reform under its 2025 future vision of medical/long-term care services. In April 2016, medical treatment fees were revised in order to promote integrated community care systems, differentiate medical institution functions, and strengthen collaboration. Each prefecture drew up a regional health vision for the enhancement of medical treatment systems by 2025. The medical equipment industry was required to meet the changing needs of medical institutions. Internationally, overall demand for medical equipment has remained steady. In developed countries, the efficiency of medical care for medical cost restriction has been enhanced and cutting-edge medical technologies have been introduced. In emerging countries, the healthcare infrastructure has developed in parallel with economic growth although there was sluggish demand due to weak currencies and lower oil prices in some regions.

Under these circumstances, the Company implemented key strategies such as strengthening technological development capabilities, strengthening business expansion by region, and achieving further growth in core businesses under its four-year mid-term business plan, Strong Growth 2017, of which the final year is FY2016. The Company has continued to introduce new products since April 2016: an electrocardiograph with network connectivity, a fully-automatic hematology analyzer, and an EEG headset which enables a quick measurement of EEG in the Emergency Room. Nihon Kohden also strengthened its business structure. The Company reorganized its domestic sales operations and built an Advanced Technology Center in front of Tokorozawa station in Saitama prefecture.

As a result, overall sales during the term under review increased 0.5% over FY2015 to ¥166,285 million. Due to lower gross margin ratio and the increase of SG&A expenses, operating income decreased 17.4% to ¥13,585 million and income attributable to owners of parent decreased 13.0% to ¥9,149 million.

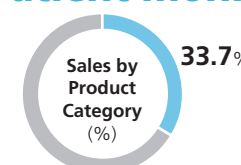
Physiological Measuring Equipment



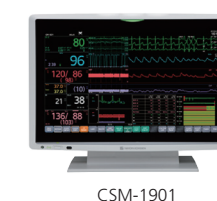
Electroencephalographs, evoked potential and electromyogram measuring systems, electrocardiographs, polygraphs for cath labs, diagnostic information systems, and related consumables such as recording paper and electrodes and maintenance services



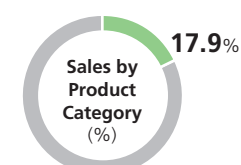
Patient Monitors



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 such as sensors, and maintenance services



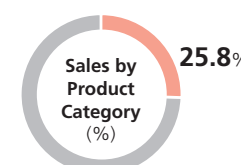
Treatment Equipment



Defibrillators, AEDs (automated external defibrillators), pacemakers, ICDs, ventilators, anesthesia machines, VNSs (vagus nerve stimulations), cochlear implant, and related consumables such as AED pads and batteries, and maintenance services



Other Medical Equipment



Automated hematology analyzers, clinical chemistry analyzers, ultrasound diagnostic equipment, basic laboratory equipment, other equipment, and consumables such as reagents, and installation & maintenance services



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

Sales by Region

Japan

Sales increased as the Company reorganized its sales operations in April 2016 to match each market: the acute care hospital market, the small and mid-sized hospital market, and the clinic market. Consumables and services also contributed to sales increase. Sales in the private hospital market increased favorably due to demand in response to revision of medical treatment fees. Sales in the clinic market also showed strong growth. Sales in the university and public hospital market decreased due to some postponements and restraints of their capital investments, reflecting a difficult management environment. As a result, domestic sales increased 2.3% over FY2015 to ¥124,765 million.

International

Sales decreased due to a negative currency translation impact. As the Company strengthened its business structure in the U.S., Asia and Africa, sales increased on a comparable basis. In the Americas, sales in the U.S. increased on a comparable basis, posting solid growth in Patient Monitors, and decreased on a yen basis due to yen appreciation. Sales in Latin America decreased due to change in distribution channels with the reorganization of the Company's sales subsidiaries in Latin America*. Sales in Europe decreased, especially in Germany and Turkey. In Asia, sales increased on a comparable basis and decreased on a yen basis. Sales in India increased favorably. Sales in China increased on a comparable basis. Sales in oil producing countries in the Middle East decreased due to negative effects of lower oil prices. Sales in Other increased strongly as the Company developed its

distribution channels in Africa. A large order in Egypt also contributed to sales increase. As a result, international sales decreased 4.6% over FY2015 to ¥41,520 million.

* The accounting term of Nihon Kohden Mexico, which was established in January and started operations in April 2016, is the end of December. Accordingly, its 9 months financial results from April 1, 2016 to December 31, 2016 were included in the consolidation.

Sales by product category

Physiological Measuring Equipment

In Japan, sales of EEGs, ECGs and diagnostic information systems decreased, while sales of polygraphs for cath lab increased. Internationally, sales of both EEGs and ECGs decreased in all areas. Overall, sales decreased 4.0% over the previous fiscal year to ¥37,659 million.

Patient Monitors

In Japan, sales of transmitters, telemetry central monitors and bedside monitors increased favorably, reflecting demand for differentiating and strengthening medical institution functions. Consumables such as sensors also contributed to sales increase. Outside Japan, sales in Other showed strong growth and sales in the Americas increased, while sales in Asia and Europe decreased. Overall, sales increased 2.4% over the previous fiscal year to ¥56,117 million.

Treatment Equipment

In Japan, sales of defibrillators were weak and sales of AEDs also decreased due to slow replacement demand. Sales of ventilators, pacemakers and ICDs increased. Internationally, sales of defibrillators decreased in all areas. Sales of AEDs decreased in the

Americas and Europe, while sales in Asia and Other increased favorably. Overall, sales decreased 2.9% over the previous fiscal year to ¥29,728 million.

Other Medical Equipment

In Japan, sales of hematology instruments increased. Sales of locally purchased products also increased. Internationally, sales of locally purchased products increased, while sales of hematology analyzers slightly decreased. Overall, sales increased 4.7% over the previous fiscal year to ¥42,781 million.

Cost of Sales, SGA Expenses and Operating Income

In the term under review, sales costs were ¥87,058 million. Gross profit ratio decreased 120 basis points to 47.6%. It was due to the appreciation of the yen and an unfavorable product mix. Gross profit on sales decreased ¥1,484 million, or 1.8%, to ¥79,227 million.

Selling, general and administrative expenses increased mainly due to the enhancement of human resources and R&D investments. The ratio of SGA expenses to sales increased 50 basis points to 39.4%. Research and development costs were ¥6,467 million (3.9% of sales).

As a result, operating income decreased ¥2,853 million, or 17.4% to ¥13,585 million.

Other Income and Deductions, Income Attributable to Owners of Parent

Net other income (deductions) turned positive and

totalled ¥267 million, from (¥499 million) in the previous fiscal year, mainly due to the decrease of exchange loss.

Income before income tax and non-controlling interests decreased ¥2,087 million to ¥13,852 million.

Income attributable to owners of parent decreased ¥1,368 million to ¥9,149 million from ¥10,517 million in the previous fiscal year. Net income per share was ¥106.81.

Cash Flow

Net cash provided by operating activities during the year under review increased ¥592 million to ¥11,357 million. It includes ¥13,852 million of income before income taxes and non-controlling interests, ¥3,565 million of depreciation and amortization, and ¥4,572 million of income taxes paid.

Net cash used in investing activities decreased ¥1,457 million to ¥6,345 million. We used ¥6,304 million for capital expenditures and ¥502 million for purchase of intangible assets.

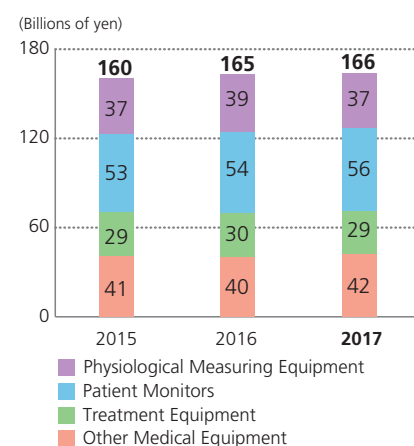
As a result of these factors, free cash flow amounted to ¥5,012 million.

Net cash used in financing activities decreased ¥5,970 million to ¥3,518 million. We paid ¥2,998 million for stockholders dividends.

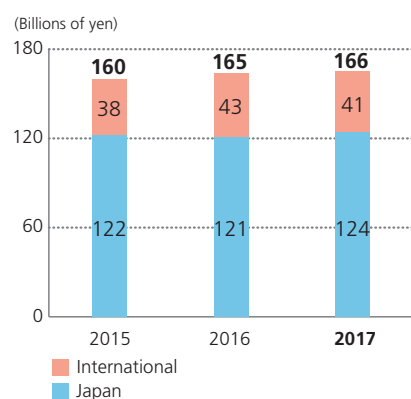
As a result, cash and cash equivalents as of March 31, 2017 increased ¥1,277 million to ¥28,561 million.

Years ended March 31

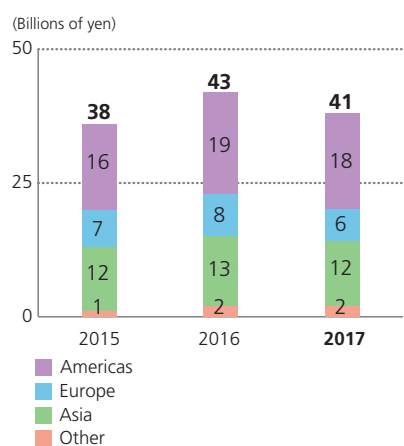
Sales by Product Category



Net Sales by Region

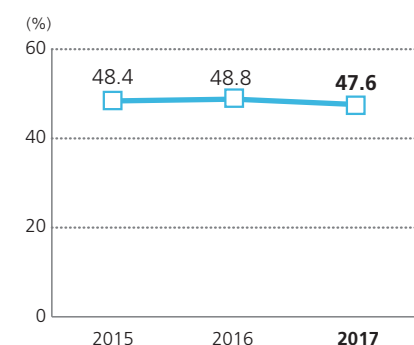


Breakdown of International Sales

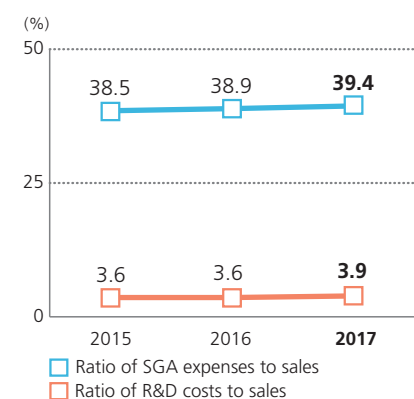


Years ended March 31

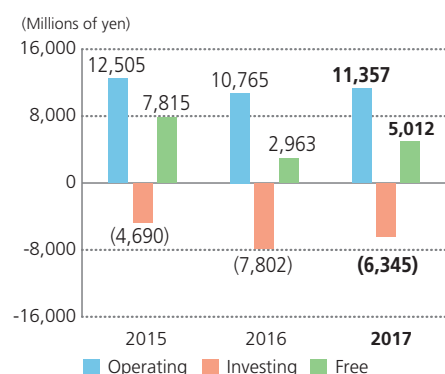
Gross Profit Ratio



SGA Expenses/R&D Costs to Net Sales



Cash Flows



Consolidated Balance Sheet

Nihon Kohden Corporation and Consolidated Subsidiaries
March 31, 2017

Assets	Millions of yen		Thousands of U.S. dollars (note 2)
	2017	2016	2017
Current assets:			
Cash (note 3)	¥ 18,753	¥ 16,422	\$ 167,154
Trade notes and accounts receivable	60,993	59,339	543,658
Short-term investments (note 4)	10,000	11,000	89,134
Inventories	22,639	19,676	201,792
Deferred income taxes (note 7)	4,498	4,589	40,093
Other current assets	2,517	2,118	22,435
Less allowance for doubtful receivables	165	214	1,471
Total current assets	119,235	112,930	1,062,795
Property, plant and equipment, net of accumulated depreciation; ¥26,152 million (\$233,105 thousand) in 2017 and ¥26,836 million in 2016:			
Buildings and structures	11,793	4,078	105,116
Machinery, equipment and vehicles	744	784	6,632
Tools, furniture and fixtures	3,007	3,047	26,803
Land	3,644	3,581	32,481
Leased assets	32	45	285
Construction in progress	929	4,161	8,280
Net property, plant and equipment	20,149	15,696	179,597
Intangible assets, net:			
Goodwill	2,187	2,393	19,494
Other intangible assets	3,410	3,799	30,395
Total intangible assets	5,597	6,192	49,889
Investments and other assets:			
Investments in securities (note 4)	5,051	6,149	45,022
Deferred income taxes (note 7)	1,242	1,594	11,071
Other investments and other assets	1,708	1,889	15,224
Less allowance for doubtful receivables	175	179	1,560
Total investments and other assets	7,826	9,453	69,757
Total assets	¥152,807	¥144,271	\$1,362,038

See accompanying notes to consolidated financial statements.

Consolidated Balance Sheet

Liabilities and Net Assets	Millions of yen		Thousands of U.S. dollars (note 2)
	2017	2016	2017
Current liabilities:			
Trade notes and accounts payable	¥ 32,539	¥ 29,727	\$ 290,035
Short-term debt and current installments of long-term debt (note 5)	629	1,175	5,607
Other payables	2,169	2,349	19,333
Accrued income taxes (note 7)	2,195	2,031	19,565
Accrued expenses	2,804	2,784	24,993
Accrued bonuses	2,671	2,860	23,808
Other current liabilities (note 5)	2,000	1,976	17,827
Total current liabilities	45,007	42,902	401,168
Non-current liabilities:			
Liabilities for retirement benefits (note 6)	2,532	3,165	22,569
Deferred income taxes (note 7)	95	68	847
Other non-current liabilities (note 5)	1,286	464	11,462
Total non-current liabilities	3,913	3,697	34,878
Total liabilities	48,920	46,599	436,046
Stockholders' equity:			
Common stock (note 8):	7,545	7,545	67,252
Authorized 197,972,000 shares; issued 89,730,980 shares in 2017 and 2016			
Additional paid-in capital (note 8)	10,415	10,415	92,834
Retained earnings (note 9)	89,985	83,834	802,077
Treasury stock, at cost; 4,073,763 shares in 2017 and 4,073,033 shares in 2016	(7,474)	(7,472)	(66,619)
Total stockholders' equity	100,471	94,322	895,544
Accumulated other comprehensive income (loss):			
Net unrealized gain on other securities (note 4)	1,605	2,036	14,306
Foreign currency translation adjustments	1,959	2,559	17,461
Remeasurements of defined benefit plans (note 6)	(148)	(1,245)	(1,319)
Total accumulated other comprehensive income	3,416	3,350	30,448
Total net assets	103,887	97,672	925,992
Commitments and contingencies			
Total liabilities and net assets	¥152,807	¥144,271	\$1,362,038

Consolidated Statement of Income

Nihon Kohden Corporation and Consolidated Subsidiaries
March 31, 2017

	Millions of yen		Thousands of U.S. dollars (note 2)
	2017	2016	2017
Net sales	¥166,285	¥165,522	\$1,482,173
Cost of sales (note 11)	87,058	84,811	775,987
Gross profit	79,227	80,711	706,186
Selling, general and administrative expenses (notes 10 and 11)	65,642	64,273	585,097
Operating income	13,585	16,438	121,089
Other income (deductions):			
Interest income	38	30	339
Dividend income	103	108	918
Interest expenses	(56)	(58)	(499)
Foreign exchange loss	(255)	(911)	(2,273)
Subsidy income	313	288	2,790
Gain on sale of investments in securities	417	—	3,717
Loss on sale/disposal of property, plant and equipment	(90)	(48)	(802)
Loss on devaluation of investments in securities (note 4)	(199)	(25)	(1,774)
Office/plant relocation expenses	(271)	(128)	(2,416)
Other, net	267	245	2,380
	267	(499)	2,380
Income before income taxes and non-controlling interests	13,852	15,939	123,469
Income taxes (note 7):			
Current	4,523	5,302	40,316
Deferred	180	92	1,604
	4,703	5,394	41,920
Net income	9,149	10,545	81,549
Income attributable to non-controlling interests	—	28	—
Income attributable to owners of parent	¥ 9,149	¥ 10,517	\$ 81,549

See accompanying notes to consolidated financial statements.

Consolidated Statement of Comprehensive Income

March 31, 2017

	Millions of yen		Thousands of U.S. dollars (note 2)
	2017	2016	2017
Net income	¥9,149	¥10,545	\$81,549
Other comprehensive income (loss) arising during the year (note 12):			
Net unrealized gain on other securities (note 4)	(431)	(291)	(3,842)
Foreign currency translation adjustments	(600)	(512)	(5,348)
Remeasurements of defined benefit plans (note 6)	1,097	(1,755)	9,778
Total other comprehensive income (loss) arising during the year	66	(2,558)	588
Comprehensive income	¥9,215	¥ 7,987	\$82,137
Comprehensive income attributable to:			
Owners of parent	¥9,215	¥ 7,962	\$82,137
Non-controlling interests	—	25	—

See accompanying notes to consolidated financial statements.

Consolidated Statement of Changes in Net Assets

Nihon Kohden Corporation and Consolidated Subsidiaries
March 31, 2017

	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	Remeasurements of defined benefit plans (note 6)	Total	Non-controlling interests
Balance at March 31, 2015	¥7,545	¥10,487	¥77,336	¥(2,030)	¥ 93,338	¥2,327	¥3,069	¥ 509	¥5,905	¥61
Changes arising during year:										
Cash dividends			(3,028)		(3,028)					(3,028)
Income attributable to owners of parent			10,517		10,517					10,517
Purchase of treasury stock				(6,439)	(6,439)					(6,439)
Disposition of treasury stock		(5)	(991)	997	1					1
Changes in equity of parent arising from transactions with non-controlling stockholders		(67)			(67)					(67)
Net changes other than stockholders' equity						(291)	(510)	(1,754)	(2,555)	(61)
Total changes during the year	—	(72)	6,498	(5,442)	984	(291)	(510)	(1,754)	(2,555)	(61)
Balance at March 31, 2016	7,545	10,415	83,834	(7,472)	94,322	2,036	2,559	(1,245)	3,350	—
Changes arising during year:										
Cash dividends			(2,998)		(2,998)					(2,998)
Income attributable to owners of parent			9,149		9,149					9,149
Purchase of treasury stock				(2)	(2)					(2)
Net changes other than stockholders' equity						(431)	(600)	1,097	66	66
Total changes during the year	—	—	6,151	(2)	6,149	(431)	(600)	1,097	66	—
Balance at March 31, 2017	¥7,545	¥10,415	¥89,985	¥(7,474)	¥100,471	¥1,605	¥1,959	¥ (148)	¥3,416	¥ —

	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	Remeasurements of defined benefit plans (note 6)	Total	Non-controlling interests
Balance at March 31, 2016	\$67,252	\$92,834	\$747,250	\$(66,601)	\$840,735	\$18,148	\$22,809	\$(11,097)	\$29,860	\$—
Changes arising during year:										
Cash dividends			(26,722)		(26,722)					(26,722)
Income attributable to owners of parent			81,549		81,549					81,549
Purchase of treasury stock				(18)	(18)					(18)
Net changes other than stockholders' equity						(3,842)	(5,348)	9,778	588	588
Total changes during the year	—	—	54,827	(18)	54,809	(3,842)	(5,348)	9,778	588	—
Balance at March 31, 2017	\$67,252	\$92,834	\$802,077	\$(66,619)	\$895,544	\$14,306	\$17,461	\$ (1,319)	\$30,448	\$—

See accompanying notes to consolidated financial statements.

Consolidated Statement of Cash Flows

Nihon Kohden Corporation and Consolidated Subsidiaries
March 31, 2017

	Millions of yen	Thousands of U.S. dollars (note 2)	
	2017	2016	2017
Cash flows from operating activities:			
Income before income taxes and non-controlling interests	¥13,852	¥15,939	\$123,469
Adjustments to reconcile income before income taxes and non-controlling interests to net cash provided by operating activities:			
Depreciation and amortization	3,565	3,625	31,777
Loss on sale/disposal of property, plant and equipment	89	47	793
Increase (decrease) in allowance for doubtful receivables	(45)	16	(401)
Decrease in accrued bonuses	(189)	(25)	(1,685)
Increase (decrease) in liabilities for retirement and severance benefits	949	(2)	8,459
Interest and dividend income	(141)	(138)	(1,257)
Interest expenses	56	58	499
Loss on devaluation of investments in securities	199	25	1,774
Gain on sale of investments in securities	(417)	–	(3,717)
Increase in trade notes and accounts receivable	(1,985)	(1,115)	(17,693)
Increase in inventories	(3,170)	(920)	(28,256)
Increase (decrease) in trade notes and accounts payable	2,826	(454)	25,190
Other, net	262	(586)	2,335
Sub total	15,851	16,470	141,287
Interest and dividend received	136	140	1,212
Interest paid	(58)	(40)	(517)
Income taxes paid	(4,572)	(5,805)	(40,752)
Net cash provided by operating activities	11,357	10,765	101,230
Cash flows from investing activities:			
Proceeds from sale of investments in securities	759	127	6,765
Purchase of investments in securities	(65)	(117)	(579)
Capital expenditures	(6,304)	(6,899)	(56,190)
Purchase of intangible assets	(502)	(547)	(4,475)
Other, net	(233)	(366)	(2,077)
Net cash used in investing activities	(6,345)	(7,802)	(56,556)
Cash flows from financing activities:			
Increase (decrease) in short-term debt	(502)	148	(4,475)
Payments on long-term debt	–	(0)	–
Dividends paid to stockholders	(2,998)	(3,028)	(26,722)
Purchase of treasury stock	(2)	(6,439)	(18)
Purchase of investments in subsidiaries that do not result in change in scope of consolidation	–	(152)	–
Other, net	(16)	(17)	(143)
Net cash used in financing activities	(3,518)	(9,488)	(31,358)
Effect of exchange rate changes on cash and cash equivalents	(217)	(304)	(1,934)
Net increase (decrease) in cash and cash equivalents	1,277	(6,829)	11,382
Cash and cash equivalents at beginning of year	27,284	34,113	243,195
Cash and cash equivalents at end of year (note 3)	¥28,561	¥27,284	\$254,577

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Nihon Kohden Corporation and Consolidated Subsidiaries
March 31, 2017

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 40 subsidiaries.

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

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

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

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

(c) Cash and Cash Equivalents

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

(d) Short-term Investments and Investments in Securities

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

(e) Inventories

Inventories are measured at the lower of cost or net selling value, which is defined as the selling price less additional estimated manufacturing costs and estimated direct selling expenses. Finished goods, 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 and the equipment attached to building and structures acquired on or after April 1, 2016, which are depreciated based on the straight-line method. Its foreign subsidiaries provided depreciation principally by the straight-line method.

The estimated useful lives are as follows:

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

According to the amendment of Corporation Tax Law, the Company applied Practical Solution on a Change in Depreciation Method Due to Tax Reform 2016 (ASBJ Practical Issues Task Force (PITF) No. 32, June 17, 2016) from the year ended March 31, 2017, and the depreciation method for equipment attached to building and structures acquired on or after April 1, 2016 has been changed from the declining-balance method to the straight-line method. The effect on net income of this change is immaterial.

(g) Intangible Assets

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

(h) Allowance for Doubtful Receivables

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

(i) Retirement and Severance Benefits

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

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

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

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

(j) Accrued Warranty Expenses

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

(k) Leases

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

(l) Foreign Currency Translation

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

(m) Income Taxes

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

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

The Company applied the Implementation Guidance on Recoverability of Deferred Tax Assets (ASBJ Guidance No.26, issued March 28, 2016) from the year ended March 31, 2017.

(n) Reclassifications

Certain reclassifications have been made to the prior years’ consolidated financial statements to conform to the presentation used as of and for the year ended March 31, 2017.

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, 2017, which was ¥112.19 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, 2017 and 2016 is follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Cash	¥ 18,753	¥ 16,422	\$ 167,154
Short-term investments that have maturities of three months or less	10,000	11,000	89,134
Time deposits with maturities of over three months	(192)	(138)	(1,711)
Cash and cash equivalents	¥ 28,561	¥ 27,284	\$ 254,577

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, 2017 and 2016 are summarized as follows:

	Millions of yen			
	Balance sheet amount	Gross unrealized gain	Gross unrealized loss	Acquisition cost
March 31, 2017				
Equity securities	¥ 4,294	¥ 2,137	¥ (7)	¥ 2,164
March 31, 2016				
Equity securities	¥ 5,112	¥ 2,776	¥ (64)	¥ 2,400

	Thousands of U.S. dollars			
	Balance sheet amount	Gross unrealized gain	Gross unrealized loss	Acquisition cost
March 31, 2017				
Equity securities	\$ 38,274	\$ 19,048	\$ (63)	\$ 19,289

There is no sale of other securities both for the years ended March 31, 2017 and 2016.

The Company recognized impairment loss on other securities of ¥258 million (\$2,300 thousand) and ¥1 million for the years ended March 31, 2017 and 2016, respectively.

5 Short-term and Long-term Debt

Short-term debt is represented by bank loans which are due within one year. The weighted average interest rates of short-term debt are 3.7% and 5.3% at March 31, 2017 and 2016, respectively.

Lease liabilities at March 31, 2017 and 2016 is summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Lease liabilities maturing in installments through 2020	¥ 33	¥ 45	\$ 295
Less current installments	16	16	143
	¥ 17	¥ 29	\$ 152

The aggregate annual maturities of lease liabilities after March 31, 2018 are as follows:

	Millions of yen	Thousands of U.S. dollars
Year ending March 31:		
2019	¥ 9	\$ 80
2020	7	62
2021	1	9
2022	—	—

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 funded and unfunded defined benefit and defined contribution retirement and pension plans for covering retirement benefits for employees.

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

The Company and certain consolidated subsidiaries 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, 2017 and 2016 and for the years then ended.

(1) Reconciliation of changes in retirement benefit obligation

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Retirement benefit obligation at beginning of year	¥ 21,162	¥ 18,881	\$ 188,626
Service cost	1,380	1,230	12,300
Interest cost	59	172	526
Actuarial gains or losses	(390)	1,799	(3,476)
Benefits paid	(782)	(920)	(6,970)
Retirement benefit obligation at end of year	¥ 21,429	¥ 21,162	\$ 191,006

(2) Reconciliation of changes in plan assets

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Plan assets at beginning of year	¥ 18,100	¥ 18,262	\$ 161,333
Expected return on plan assets	58	174	517
Actuarial gains or losses	529	(471)	4,715
Employer contributions	1,089	1,055	9,707
Benefits paid	(782)	(920)	(6,970)
Plan assets at end of year	¥ 18,994	¥ 18,100	\$ 169,302

(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
	2017	2016	2017
Funded retirement benefit obligation	¥ 21,429	¥ 21,162	\$ 191,006
Plan assets	(18,994)	(18,100)	(169,302)
	2,435	3,062	21,704
Unfunded retirement benefit obligation	97	103	865
Net liabilities for retirement benefits recognized in consolidated balance sheet	¥ 2,532	¥ 3,165	\$ 22,569
Liabilities for retirement benefits	¥ 2,532	¥ 3,165	\$ 22,569
Assets for retirement benefits	—	—	—
Net liabilities for retirement benefits recognized in consolidated balance sheet	¥ 2,532	¥ 3,165	\$ 22,569

(4) The components of retirement benefit expenses

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Service cost	¥ 1,380	¥ 1,230	\$ 12,300
Interest cost	59	172	526
Expected return on plan assets	(58)	(174)	(517)
Amortization of actuarial gain or loss	662	(278)	5,901
Retirement benefit expenses	¥ 2,043	¥ 950	\$ 18,210

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

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Actuarial gain or loss	¥ (1,582)	¥ 2,548	\$ (14,101)
Total	¥ (1,582)	¥ 2,548	\$ (14,101)

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

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Unrecognized actuarial gain or loss	¥ 213	¥ 1,795	\$ 1,899
Total	¥ 213	¥ 1,795	\$ 1,899

(7) Plan assets

(a) Percentage by major category of plan assets

	2017	2016
Debt securities	25.6%	24.2%
Equity securities	26.5	27.2
Short-term investments	19.9	20.0
General account	27.0	27.6
Other	1.0	1.0
Total	100.0%	100.0%

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

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

(8) Basis for calculation of actuarial assumptions

	2017	2016
Discount rate	0.5%	0.3%
Long-term expected rate of return	0.5	0.3

Defined contribution plans

The amount to be paid by the consolidated subsidiaries to the defined contribution plans was ¥103 million (\$918 thousand) and ¥91 million for the years ended March 31, 2017 and 2016, respectively.

Multi-employer pension plan

The amount to be paid by the Company to the Welfare Pension Fund under multi-employer pension plan was ¥423 million (\$3,770 thousand) and ¥860 million for the years ended March 31, 2017 and 2016, respectively.

Funded status of the whole Welfare Pension Fund under multi-employer pension plan at March 31, 2016 and 2015 is outlined as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Plan assets at fair value - (1)	¥ 256,616	¥ 261,939	\$ 2,287,334
Benefit obligation under pension funding programs - (2)	287,428	295,513	2,561,975
(1) - (2)*	¥ (30,812)	¥ (33,574)	\$ (274,641)

The Company's proportion of the salaries to the whole of Welfare Pension Fund at March 31, 2017 and 2016 was 9.0% and 8.9%, 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, 2016 and 2015 was unrecognized prior service cost of the pension program of ¥28,990 million (\$258,401 thousand) and ¥30,399 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 as a percentage of income before income taxes and non-controlling interests for the year ended March 31, 2017 was as follows:

Statutory tax rate	30.9%
Change in valuation allowance	4.6
Expenses not deductible for tax purposes	0.3
Income not credited for tax purposes	(0.1)
Per capita tax	0.8
Difference in statutory tax rates of subsidiaries	0.4
Tax credits primarily for research and development costs	(3.6)
Other	0.6
Effective tax rate	33.9%

The reconciliation of the statutory tax rate and the effective tax rate for the year ended March 31, 2016 was not subject to disclosure because the difference between the rates does not exceed 5% of the statutory tax rate.

Significant components of deferred tax assets and liabilities at March 31, 2017 and 2016 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Deferred tax assets:			
Valuation loss for inventories	¥ 903	¥ 793	\$ 8,049
Accrued business tax	149	187	1,328
Accrued bonuses	806	863	7,184
Liabilities for retirement benefits	786	982	7,006
Accrued warranty expenses	157	100	1,400
Allowance for doubtful receivables	65	102	579
Depreciation and amortization	1,708	1,870	15,224
Intercompany profits on inventories, and property, plant and equipment	1,264	1,362	11,267
Intangible assets	1,443	1,526	12,862
Asset retirement obligations	251	18	2,237
Other	1,505	1,008	13,415
	9,037	8,811	80,551
Valuation allowance	(1,201)	(557)	(10,705)
	7,836	8,254	69,846
Deferred tax liabilities:			
Net unrealized gain on other securities	(693)	(884)	(6,177)
Asset retirement obligations	(237)	(16)	(2,112)
Valuation difference	(577)	(655)	(5,143)
Other	(684)	(584)	(6,097)
	(2,191)	(2,139)	(19,529)
Net deferred tax assets	¥ 5,645	¥ 6,115	\$ 50,317

Net deferred tax assets and liabilities at March 31, 2017 and 2016 are reflected in the accompanying consolidated balance sheet under the following captions:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Current assets - Deferred income taxes	¥ 4,498	¥ 4,589	\$ 40,093
Investments and other assets - Deferred income taxes	1,242	1,594	11,071
Non-current liabilities - Deferred income taxes	(95)	(68)	(847)
Net deferred tax assets	¥ 5,645	¥ 6,115	\$ 50,317

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, 2017 and 2016 represent dividends paid out during those years. The amount available for dividends is based on the amount recorded in the Company's non-consolidated books of account in accordance with the Companies Act.

(a) Dividends paid during the year ended March 31, 2016

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

(a) Total dividends	¥1,538 million
(b) Cash dividends per common share	¥35
(c) Record date	March 31, 2015
(d) Effective date	June 26, 2015

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

The following was approved by the Board of Directors held on November 4, 2015.

(a) Total dividends	¥1,490 million
(b) Cash dividends per common share	¥17
(c) Record date	September 30, 2015
(d) Effective date	November 27, 2015

(b) Dividends paid during the year ended March 31, 2017

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

(a) Total dividends	¥1,542 million (\$13,745 thousand)
(b) Cash dividends per common share	¥18 (\$0.16)
(c) Record date	March 31, 2016
(d) Effective date	June 29, 2016

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

(a) Total dividends	¥1,456 million (\$12,978 thousand)
(b) Cash dividends per common share	¥17 (\$0.15)
(c) Record date	September 30, 2016
(d) Effective date	November 28, 2016

(c) Dividends to be paid after the balance sheet date but the record date for the payment belongs to the year ended March 31, 2017

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

(a) Total dividends	¥1,542 million (\$13,745 thousand)
(b) Dividend source	Retained earnings
(c) Cash dividends per common share	¥18 (\$0.16)
(d) Record date	March 31, 2017
(e) Effective date	June 29, 2017

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
	2017	2016	2017
Salaries	¥ 25,501	¥ 24,764	\$ 227,302
Retirement benefit expenses	2,414	1,858	21,517
Depreciation	2,336	2,338	20,822
Legal welfare	4,565	4,156	40,690
Traveling	2,879	2,948	25,662

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, 2017 and 2016 are ¥6,467 million (\$57,643 thousand) and ¥5,910 million, respectively.

12 Other Comprehensive Income (Loss)

The reclassification adjustment and the related income tax effects allocated to each component of other comprehensive income (loss) for the years ended March 31, 2017 and 2016 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Net unrealized gain (loss) on other securities:			
Arising during the year	¥ (205)	¥ (503)	\$ (1,827)
Reclassification adjustment	(417)	—	(3,717)
Before tax amount	(622)	(503)	(5,544)
Tax expense	191	212	1,702
Net-of-tax amount	(431)	(291)	(3,842)
Foreign currency translation adjustments:			
Arising during the year	(600)	(512)	(5,348)
Remeasurements of defined benefit plans:			
Arising during the year	919	(2,270)	8,191
Reclassification adjustment	662	(278)	5,901
Before tax amount	1,581	(2,548)	14,092
Tax expense	(484)	793	(4,314)
Net-of-tax amount	1,097	(1,755)	9,778
Total other comprehensive income (loss)	¥ 66	¥ (2,558)	\$ 588

13 Per Share Information**(a) Net Income per Share**

Basic net income per share, and reconciliation of the numbers and the amounts used in the basic net income per share computations for the years ended March 31, 2017 and 2016 are as follows:

	Yen		U.S. dollars
	2017	2016	2017
Basic net income per share	¥ 106.81	¥ 120.12	\$ 0.95

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Income attributable to owners of parent	¥ 9,149	¥ 10,517	\$ 81,549
Income not applicable to common stockholders	—	—	—
Income attributable to owners of parent applicable to common stockholders	¥ 9,149	¥ 10,517	\$ 81,549

	Number of shares (Thousands)	
	2017	2016
Weighted average number of shares outstanding on which basic net income per share is calculated	85,657	87,551

(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, 2017 and 2016 are as follows:

	Yen		U.S. dollars
	2017	2016	2017
Net assets per share	¥ 1,212.82	¥ 1,140.25	\$ 10.81

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Total net assets	¥ 103,887	¥ 97,672	\$ 925,992
Amount deducted from total net assets:			
Non-controlling interests	—	—	—
Net assets applicable to common stockholders	¥ 103,887	¥ 97,672	\$ 925,992

	Number of shares (Thousands)	
	2017	2016
Number of shares outstanding at end of year on which net assets per share is calculated	85,657	85,658

14 Leases

The Company leases mainly certain vehicles under finance leases.

Future minimum payments required under noncancellable operating leases at March 31, 2017 and 2016 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Within one year	¥ 16	¥ 49	\$ 143
Over one year	10	7	89
	¥ 26	¥ 56	\$ 232

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 receivable 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 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 trade receivables and payables and loans receivable denominated in foreign currencies. Foreign exchange forward contracts entered into by the Group are limited to the extent of existing foreign trade receivables and payables and loans receivable or a highly 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, 2017 and 2016 are as follows.

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

	Millions of yen			Thousands of U.S. dollars		
	Carrying value	Fair value	Differences	Carrying value	Fair value	Differences
March 31, 2017						
(1) Cash	¥ 18,753	¥ 18,753	¥ –	\$ 167,154	\$ 167,154	\$ –
(2) Trade notes and accounts receivable	60,993	60,993	–	543,658	543,658	–
(3) Short-term investments	10,000	10,000	–	89,134	89,134	–
(4) Investments in securities:						
Other securities	4,294	4,294	–	38,274	38,274	–
(5) Trade notes and accounts payable	32,539	32,539	–	290,035	290,035	–
(6) Short-term debt	629	629	–	5,607	5,607	–
	Millions of yen					
	Carrying value	Fair value	Differences			
March 31, 2016						
(1) Cash	¥ 16,422	¥ 16,422	¥ –			
(2) Trade notes and accounts receivable	59,339	59,339	–			
(3) Short-term investments	11,000	11,000	–			
(4) Investments in securities:						
Other securities	5,112	5,112	–			
(5) Trade notes and accounts payable	29,727	29,727	–			
(6) Short-term debt	1,175	1,175	–			

<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- Other securities

The fair value is calculated by quoted market price.

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

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

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

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Unlisted equity securities	¥ 270	¥ 530	\$ 2,407
Investments in limited partnership and similar partnership	487	507	4,341

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, 2017

	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	¥ 18,753	¥ –	¥ –	¥ –
(2) Trade notes and accounts receivable	60,993	–	–	–
(3) Short-term investments	10,000	–	–	–

	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	\$ 167,154	\$ –	\$ –	\$ –
(2) Trade notes and accounts receivable	543,658	–	–	–
(3) Short-term investments	89,134	–	–	–

<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 equipment business, the segment information is not disclosed for the years ended March 31, 2017 and 2016.

Related Information

(a) Information by products and services

Sales by products and services for the years ended March 31, 2017 and 2016 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Physiological measuring equipment	¥ 37,659	¥ 39,219	\$ 335,672
Patient monitors	56,117	54,824	500,196
Treatment equipment	29,728	30,611	264,979
Other	42,781	40,868	381,326
	¥ 166,285	¥ 165,522	\$ 1,482,173

(b) Geographic information

(1) Geographical sales for the years ended March 31, 2017 and 2016 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Japan	¥ 124,765	¥ 121,989	\$ 1,112,087
Americas	18,954	19,456	168,945
Europe	6,989	8,084	62,296
Asia	12,639	13,878	112,657
Other	2,938	2,115	26,188
	¥ 166,285	¥ 165,522	\$ 1,482,173

(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, 2017 and 2016.

(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, 2017 and 2016.

Information of impairment loss on fixed assets by reported segments

The information is not applicable for the years ended March 31, 2017 and 2016.

Goodwill by reported segments

The information is not applicable for the years ended March 31, 2017 and 2016.

Negative goodwill incurred by reported segments

The information is not applicable for the years ended March 31, 2017 and 2016.

Independent Auditor's Report

Nihon Kohden Corporation and Consolidated Subsidiaries
March 31, 2017



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Independent Auditor's Report

To the Board of Directors of
Nihon Kohden Corporation

We have audited the accompanying consolidated financial statements of Nihon Kohden Corporation, which comprise the consolidated balance sheet as of March 31, 2017, and the consolidated statement of income, comprehensive income, changes in net assets and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Nihon Kohden Corporation as of March 31, 2017, 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 29, 2017

BDO Toyo & Co., a Japanese Audit Corporation, is a member of BDO International Limited, a UK company limited by guarantee, and forms part of the international BDO network of independent member firms.
BDO is the brand name for the BDO network and for each of the BDO member firms.

Board of Directors

Representative Director, Chairman of the Board
Fumio Suzuki

Representative Director, President and CEO
Hirokazu Ogino

Representative Director
Takashi Tamura

Corporate Directors
Yoshito Tsukahara
Tadashi Hasegawa
Kazuteru Yanagihara
Fumio Hirose
Eiichi Tanaka
Yasuhiro Yoshitake

Outside Directors
Masaya Yamauchi
Minoru Obara

Corporate Director, Audit & Supervisory Committee Member
Kazuhiko Ikuta

Outside Directors, Audit & Supervisory Committee Members
Masahiro Kawamura
Shigeru Kawatsuhara

Operating Officers
Shigeru Hirata
Toshihiko Hiraoka
Yoshiaki Uematsu
Makoto Magara
Shuhei Morinaga
Kazuomi Shimoda
Masato Semba
Takashi Seo
Masahiko Kumakura
Naoyuki Muraki
Syuuichi Kurita
Shinichi Iwasaki
Naoki Kobayashi
Hiroyuki Satake

Corporate Data

Date of Incorporation
August 7, 1951

Paid-in Capital*
¥7,544 million

Shares of Common Stock Issued*
89,730 thousand

Number of Employees*
4,934 (group)
*As of March 31, 2017

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

International Operations
Tokorozawa-shi, Saitama 359-8580, Japan
Phone: +81 (3) 5996-8036 Fax: +81 (3) 5996-8100

Web Site
www.nihonkohden.com

Subsidiaries*

•Japan

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 Mexico S.A. de C.V. (Mexico City, Mexico)
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 Deutschland 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 (HarbourFront 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)
OrangeMed, Inc. (Irvine, CA, USA)

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

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

*As of June 30, 2017

Major Stockholders*

Stockholders	No. of Shares (thousands)	Stockholding Ratio
State Street Bank and Trust Company 505223	9,667	10.77%
The Master Trust Bank of Japan, Ltd. (trust account)	5,978	6.66%
STATE STREET CLIENT OMNIBUS ACCOUNT OM02	4,454	4.96%
Saitama Resona Bank, Ltd.	4,193	4.67%
Japan Trustee Service Bank, Ltd. (trust account 9)	2,806	3.12%
RBC IST 15 PCT LENDING ACCOUNT-CLIENT ACCOUNT	2,790	3.10%
Japan Trustee Service Bank, Ltd. (trust account)	2,337	2.60%
Fujitsu Ltd.	1,857	2.07%
Japan Trustee Service Bank, Ltd. (trust account 5)	1,535	1.71%
THE BANK OF NEW YORK, NON-TREATY JASDEC ACCOUNT	1,330	1.48%
Subtotal	36,953	
Total Outstanding Issue	89,730	

* As of March 31, 2017

Note: The above list excludes Nihon Kohden's treasury stock of 4,073 thousands shares (4.53%).

NIHON KOHDEN CORPORATION

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