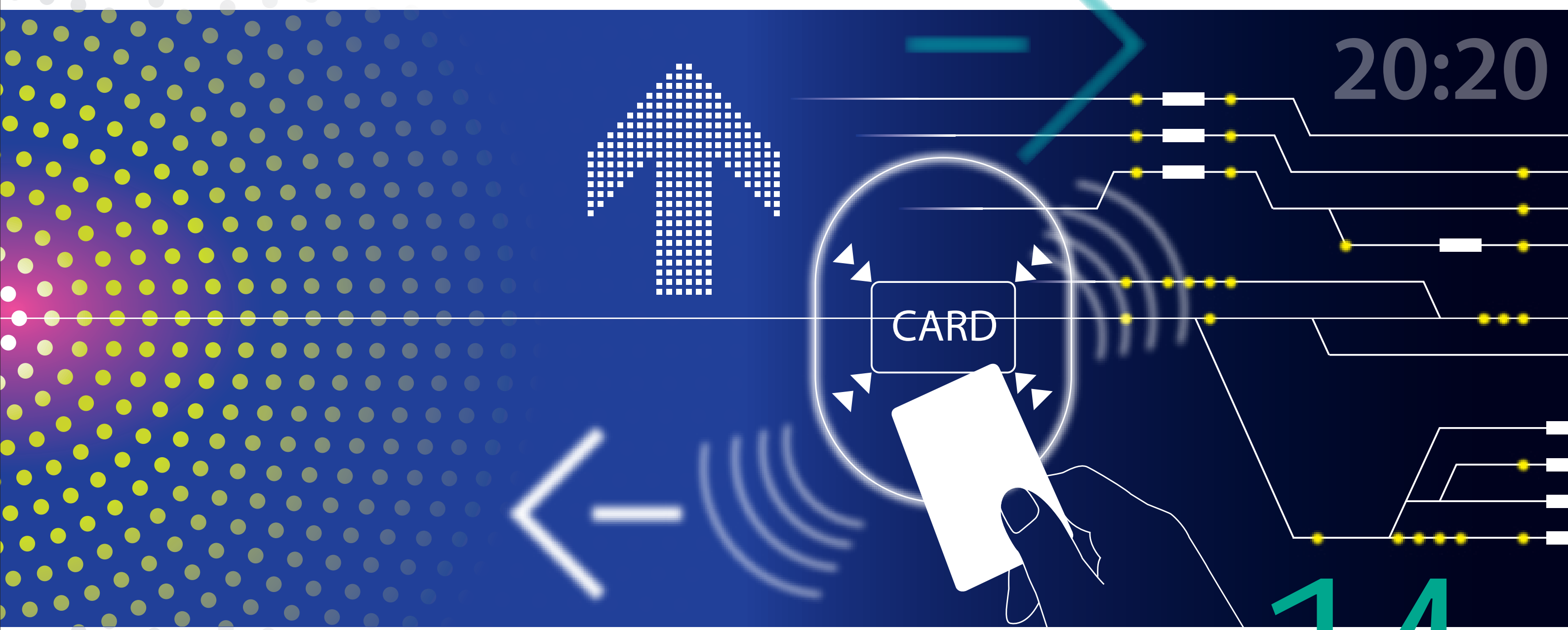
NIPPON SIGNAL

Opening New Paths with Advanced Technology



Annual Report 2014

PROFILE

Since its establishment in 1928, Nippon Signal has contributed to the realization of a more comfortable society with advanced technologies for “Safety and Reliability.”

In order for us to continue to contribute to society, we formulated and are currently implementing “Vision-2020 3E,” a long-term management plan to guide us through fiscal 2020, with the goal of helping us transform into a company that generates sustainable growth, while continually adapting to the wide fluctuations in the social environment. We are actively seeking market expansion through the implementation of this plan, including the development and growth of new businesses that apply the technologies of existing businesses, along with overseas expansion focused on the Asia region.

Nippon Signal will continue to follow its corporate philosophy of “Contribute to society through advanced technologies for ‘Safety and Reliability,’ with the aim of realizing a more livable society,” and will pursue the type of advanced manufacturing expected of a company recognized by society.

Contents

CONSOLIDATED FINANCIAL HIGHLIGHTS

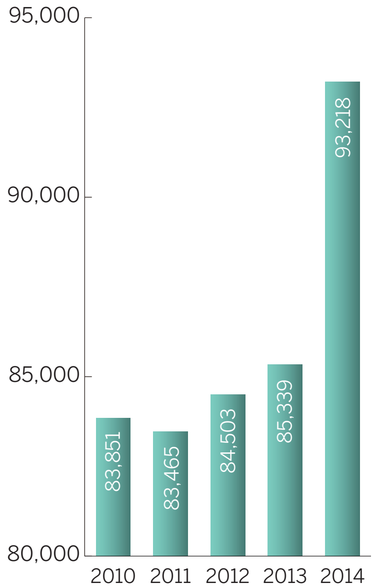
The Nippon Signal Co., Ltd. and Consolidated Subsidiaries
Years ended March 31, 2012, 2013 and 2014

	Millions of yen			Thousands of U.S. dollars (Note 1)
For the fiscal year	2012	2013	**2014**	**2014**
Net sales	¥ 84,503	¥ 85,339	**¥ 93,218**	**$ 905,025**
Operating income	3,296	5,082	**5,943**	**57,703**
Income before income taxes and minority interests	3,576	5,985	**7,039**	**68,344**
Net income	1,628	3,135	**3,667**	**35,605**
Comprehensive income	3,001	6,735	**4,932**	**47,880**
Amounts per share of common stock (in yen and U.S. dollars):				
Net income	¥ 26.09	¥ 50.25	**¥ 58.32**	**$ 0.57**
Cash dividends applicable to the year	10.00	13.00	**16.00**	**0.16**
At fiscal year-end				
Total net assets	¥ 57,126	¥ 62,955	**¥ 66,886**	**$ 649,380**
Total assets	105,591	111,059	**113,141**	**1,098,454**
Amounts per share of common stock (in yen and U.S. dollars):				
Net assets	¥ 828.24	¥ 917.15	**¥ 975.92**	**$ 9.47**
Cash Flows				
Cash flows from operating activities	¥ (7,043)	¥ 5,847	**¥ 10,657**	**$ 103,461**
Cash flows from investing activities	(1,469)	(741)	**(1,745)**	**(16,945)**
Cash flows from financing activities	4,237	(2,436)	**(7,237)**	**(70,267)**
Cash and cash equivalents at the end of year	¥ 6,603	¥ 9,359	**¥ 11,058**	**$ 107,361**

Note: U.S. dollar amounts represent translation of Japanese yen, for convenience only, at the rate of ¥103 to U.S. $1, the approximate exchange rate as of March 31, 2014.

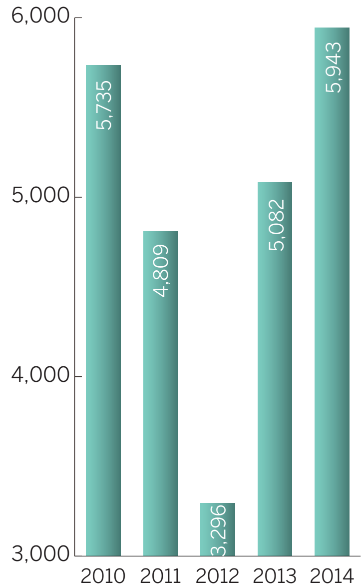
Net Sales

Millions of yen



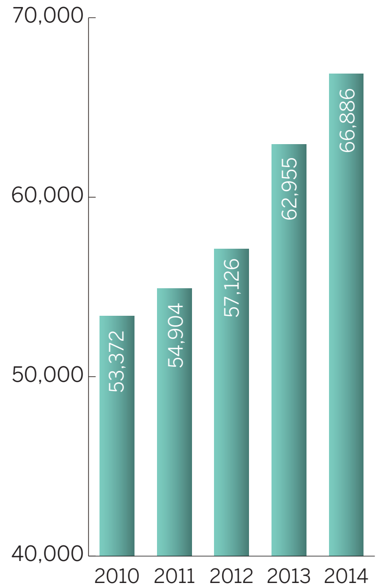
Operating Income

Millions of yen



Net Assets

Millions of yen



Embracing the Challenge

The Nippon Signal Group is accelerating the growth of its businesses to reach new heights.

We would like to thank our shareholders for their ongoing support.

Below is the report of our 131st financial statement (April 1, 2013~March 31, 2014) and the initiatives of the Group.

Summary of 131st financial statement

Our consolidated performance for the current fiscal year posted orders of ¥105,783 million, an increase of 13.2% year on year, and net sales of ¥93,218 million, an increase of 9.2% year on year, buoyed by the economic recovery stimulated by the effects of financial policies of the government as well as by active capital investments of client companies. In particular, our international business posted outstanding orders of more than ¥12 billion, which we regard to be a considerable result.

We also grew, for the second consecutive year, in each of operating income, ordinary income, and current net income. In particular, current net income posted ¥3,667 million, the highest ever for the Nippon Signal Group.

In terms of shareholder dividends, we decided to pay ¥11 per share (normal dividends of ¥9 plus commemorative dividends of ¥2) in appreciation for our 85th anniversary in February 2014 and the long-standing support and patronage of our shareholders. With already paid interim dividends of ¥5, annual dividends totaled ¥16 per share (consolidated dividend ratio: 27.4%), which is an increase of ¥3 year on year.

Acquisition of Nisshin Electronics Service Co., Ltd. as a wholly owned subsidiary

On November 12, 2013, we executed a share exchange agreement with Nisshin Electronics Service Co., Ltd., which was our subsidiary listed on the second section of the Tokyo Stock Exchange, and acquired this company as a wholly owned subsidiary as of March 1, 2014.

The main business of Nisshin Electronics Service is maintenance service of electrical and electronic equipment, and the company provides maintenance services for AFC, parking area devices, traffic systems, and other devices manufactured and sold by Nippon Signal, the parent company, as well as these devices and OA devices sold by other companies.

Up to now, we have been working on the competitive operation of the Group throughout the cycle from R&D to manufacture, sales, and construction and maintenance. However, we will strive to further speed up decision making and achieve more efficient and agile operation within the Group by incorporating Nisshin Electronics Service as a wholly owned subsidiary through this share exchange. In addition, Nisshin Electronics Service, as it has become a wholly owned subsidiary, will endeavor to maximize customer satisfaction through providing more value-added services and enhancing quality, by further strengthening coordination with our Company as a manufacturer and reflecting information gained through post-sale services to the upper processes, namely development and design of products. Furthermore, by sharing the know-how we have gained overseas, we will speed up the deployment of Nisshin Electronics Service's new business.

Through these initiatives, the Nippon Signal Group will further enhance and strengthen Group operation and further heighten the value of other companies in the Group to meet the expectations of all our shareholders, including those who have newly acquired our shares.

Expected results for the next fiscal year

The next fiscal year (132nd fiscal year) marks the last year of the ongoing medium-term management plan (fiscal 2012~2014), and is the halfway mark of our long-term management plan "Vision-2020 3E" (fiscal 2009~2020).

of the Next Leap Forward

We will further deepen initiatives for the two big themes of this medium-term management plan, namely “Manufacturing Reform” and “Embracing the Challenge of New Business Fields,” and accelerate the speed of growth of business, buoyed by positive factors such as the 2020 Tokyo Olympics and Paralympics and by infrastructure export policies based on government–private cooperation.

With regard to “Human Development,” an important policy of this medium-term management plan, we will actively take measures such as implementing various programs for developing global human resources, promoting the utilization of women as part of management strategies for the growth of our Company, and increasing employment of non-Japanese.

We look forward to the continued support and guidance of all of our valued shareholders.

June 2014

Yohei Furuhata
President

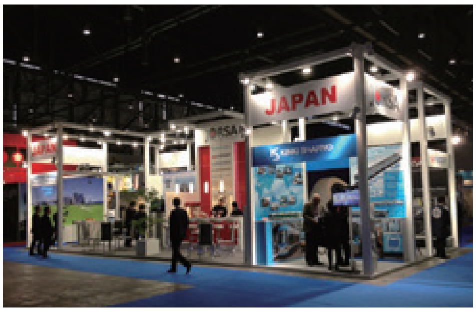
Main Initiatives of Nippon Signal for the Past Year

Below are the initiatives made by our Company during the current fiscal year.

● May

Participation at UITP 2013

At the Mobility and City Transport Exhibition (commonly called UITP 2013) held in Geneva, Switzerland, from May 27 to May 29, we held a booth as a member of the Japan Overseas Rolling Stock Association (JORSA) to present products such as SPARCS, our wireless train control system.



● June

President Furuhata attended AFDP Africa Top Leaders and Businessmen's Conference

Prior to the 5th Tokyo International Conference on African Development (TICAD V) held between June 1 and June 3, Nippon Signal President Furuhata of our Company attended the AFDP Africa Top Leaders and Businessmen's Conference held at the Yokohama Royal Park Hotel and participated in the panel discussion.

4 ▸ 5 ▸ 6 ▸ 7 ▸ 8 ▸ 9

● April 2013

Initiation ceremony for new employees

63 people joined the Nippon Signal Group this year.

September ●

Accepted orders for signal systems for city railways in Gimpo, Korea

We accepted an order totaling approximately ¥1.7 billion for signal systems for city railways in Gimpo from Hyundai Rotem Company, which is a group company of the Hyundai Motor Company group of Korea.

September ●

Accepted order for signal systems for Metro No. 8 in Delhi, India

We accepted an order totaling approximately ¥3.7 billion for signal systems for Metro No. 8 in Delhi from Delhi Metro Rail Corporation Limited.

November

Chairman Nishimura awarded the Order of the Rising Sun, Gold Rays with Rosette

Nippon Signal Chairman Nishimura (at the time) was awarded with the Order of the Rising Sun, Gold Rays with Rosette. This order was awarded due to Chairman Nishimura's performance as the former president of our Company, as the chairman of the Japan Association of Signal Industries, as the chairman of the Saitama Employers' Association, etc.

November

Executed share exchange agreement with Nisshin Electronics Service Co., Ltd.

In order to speed up decision making and achieve more efficient and agile management of the Group, we executed a share exchange agreement effective as of March 1, 2014 with Nisshin Electronics Service Co., Ltd., which is listed on the second section of the Tokyo Stock Exchange.

10 ▶ 11 ▶ 12 ▶ 1 ▶ 2 ▶ 3 ▶

December

Awarded with the 13th Public Construction Gold Award

The quality of our Company's products and construction work being highly valued, the Public Construction Commission of Executive Yuan of the Republic of China (equivalent to the Cabinet of Japan) awarded a construction project undertaken by our Company, "New Construction for Electronic Interlocking for Conventional Line's Zhubei Station," with the 13th Public Construction Gold Award (equivalent to Prime Minister's Award of Japan) in the institution category, which is the most honorable award for public construction in Taiwan.

(Right) Nippon Signal Chairman Kazuyoshi Nishimura (at the time)

January 2014

Made donations to the Embassy of the Philippines

In response to the enormous damage caused by Typhoon No. 30 in November 2013, Overseas Division Manager Oshima visited the Embassy of the Philippines as a representative of the Nippon Signal Group and offered a donation of ¥3 million, donated by employees of the Group companies.

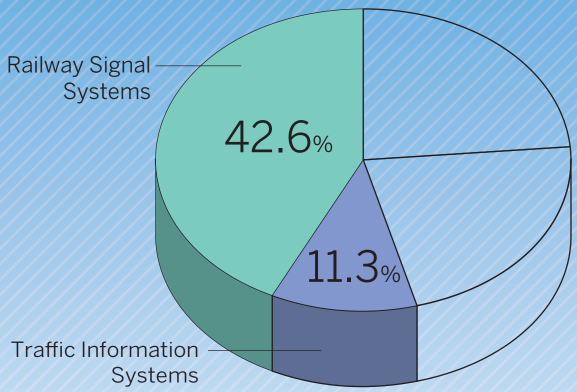
(Left) Nippon Signal Overseas Division Manager Hideo Oshima

Traffic and Transportation Infrastructure DIVISION

This business grew in sales, buoyed by orders and sales of various types of signal safety devices such as ATC, CTC, relay interlocking devices, and control center devices for prefectural police headquarters.

Sales: ¥50,200 million (+8.8% year on year)

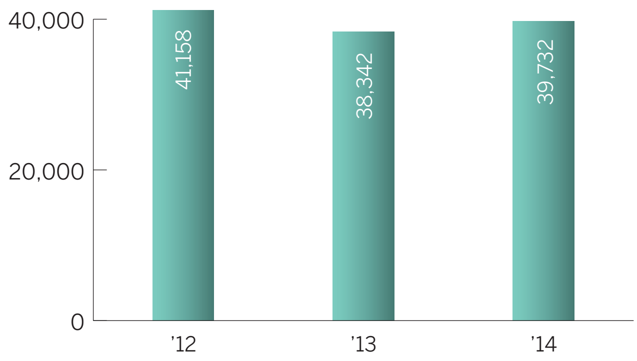
Share of Net Sales



Railway Signal Systems

Sales: ¥39,732 million (+3.6% year on year)

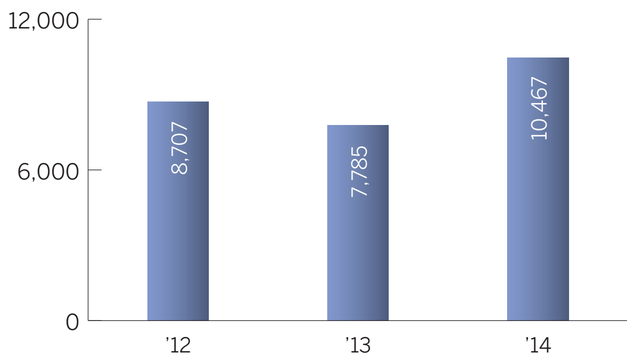
This business posted orders and sales for various types of signal safety devices such as ATC (automatic train control), CTC (centralized traffic control) for repair Shinkansen and conventional lines, and relay interlocking devices.



Traffic Information Systems

Sales: ¥10,467 million (+34.4% year on year)

In addition to orders and sales of control center devices for prefectural police headquarters, orders and sales of emergency electricity supply units as a solution for power outages made a large contribution to the performance of this business.




LED traffic light


Relay interlocking equipment


Bus rapid transit (BRT)


Local controller and emergency electricity supply unit


Automatic train control (ATC)

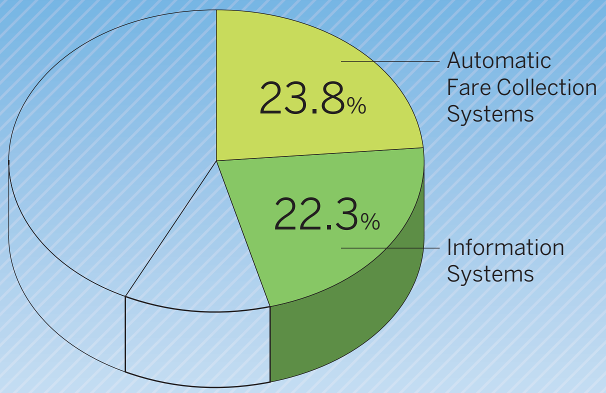

Traffic control center

ICT Solutions
DIVISION

This business recorded sales growth, buoyed by the renewal of systems as well as the update of automated fare collection and ticket sales machines in response to the consumption tax rate change, and also by the continued demand for updates from parking area operators.

Sales: ¥43,018 million (+9.7% year on year)

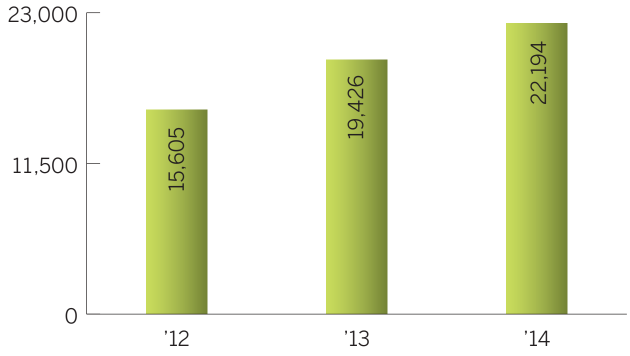
Share of Net Sales



Automatic Fare Collection Systems

Sales: ¥22,194 million (+14.2% year on year)

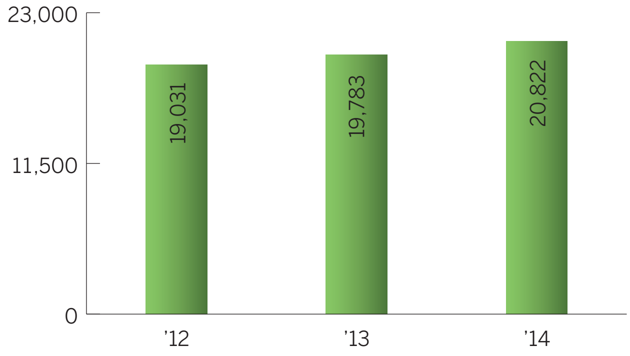
In addition to system updates due to the consumption tax rate change, automated fare collection and ticket sales machines, etc., were renewed by various railway operators such as those in the Kanto region and the Kansai region.



Information Systems

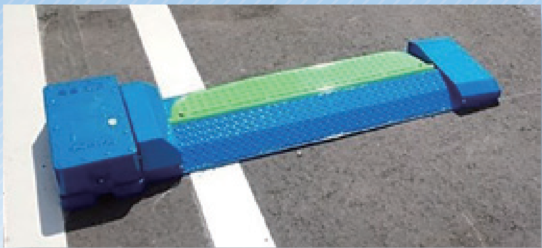
Sales: ¥20,822 million (+5.3% year on year)

The demand by parking area operators continued for renewals has remained strong. In addition, this business was boosted by sales of information display systems such as displays for the Fukuoka City Transportation Bureau.



Automatic ticket vending machine


Automatic passenger gate


PARK-LOC® System


Compact style gate

Passenger information display

■ Group Overview

The Nippon Signal Group comprises the Company, its 12 consolidated subsidiaries and seven other companies to which the equity method is not applied (six non-consolidated subsidiaries and one affiliated company). The Group is engaged in the manufacture and sale of railway signaling systems, traffic information systems, automatic fare collection (AFC) systems and control equipment, as well as related business operations.

■ Results for the Fiscal Year Ended March 31, 2014

Below is an overview of the Nippon Signal Group for the current fiscal year (ended March 31, 2014): the Railway Signal Business accepted orders for a project for Delhi Metro No. 8 of India, and a project for city railways in Gimpo, Korea, by means of our wireless train control system SPARCS. In addition, with regard to the AFC Business (centered on equipment for automating station operations), there have been noticeably more

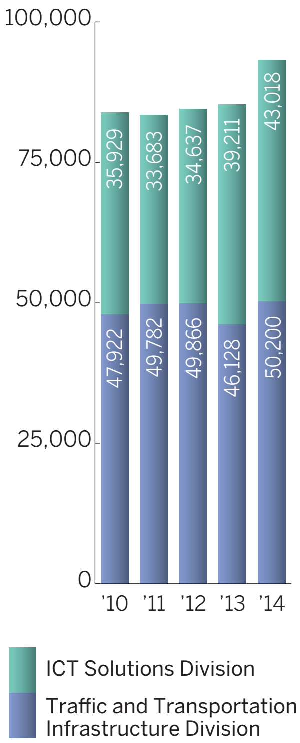
Consolidated Five-Year Summary

The Nippon Signal Co., Ltd. and Consolidated Subsidiaries
Years ended March 31

	Millions of yen				
For the fiscal year	2010	2011	2012	2013	**2014**
Net sales	¥83,851	¥ 83,465	¥ 84,503	¥ 85,339	**¥ 93,218**
Operating income	5,735	4,809	3,296	5,082	**5,943**
Income before income taxes and minority interests	6,307	5,300	3,576	5,985	**7,039**
Net income	3,305	2,643	1,628	3,135	**3,667**
Amounts per share of common stock (in yen):					
Net income	¥ 52.96	¥ 42.35	¥ 26.09	¥ 50.25	**¥ 58.32**
Cash dividends applicable to the year	13.00	13.00	10.00	13.00	**16.00**
At fiscal year-end					
Total net assets	¥53,372	¥ 54,904	¥ 57,126	¥ 62,955	**¥ 66,886**
Total assets	98,902	108,578	105,591	111,059	**113,141**

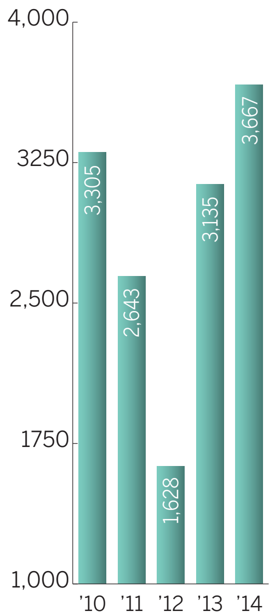
Net Sales by Business Segment

Millions of yen



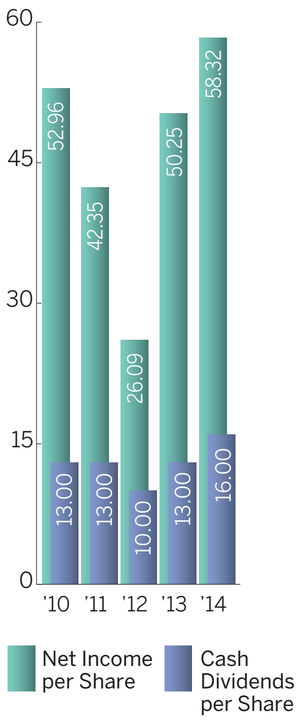
Net Income

Millions of yen



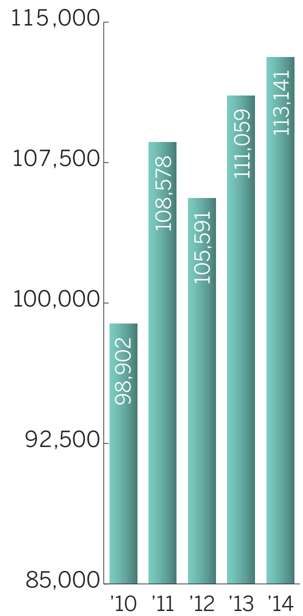
Net Income per Share/ Cash Dividends per Share

Yen



Total Assets

Millions of yen



overseas projects, such as the delivery of automatic ticket checkers to Chennai Metro of India.

Looking at the domestic markets, there have been updates on automatic fare collecting systems, automatic ticket vending machines, etc., by various railway operators, in addition to system updates due to the consumption tax rate change. Furthermore, we delivered security gates mainly to commercial facilities such as Abeno Harukas, opened in March 2014, as well as to office buildings that require high-level security.

As a result, orders posted ¥105,475 million (+13.2% year on year), and net sales posted ¥93,218 million (+9.2% year on year), both of which showed positive growth. In addition, operating income posted ¥5,943 million (+16.9% year on year) and current net income posted ¥3,667 million (+17.0% year on year), resulting in an increase in both sales and profits.

Also note that we acquired Nisshin Electronics Service Co., Ltd., which was a listed subsidiary of our Company, as a wholly owned subsidiary by means of share exchange as of March 1, 2014. Due to this share exchange, capital stock rose to ¥10 billion.

■ Financial Position

Total assets at the end of the current fiscal year were ¥113,141 million, an increase of ¥2,082 million from the end of the previous fiscal year. This was mainly due to increases in bills receivable, accounts receivable, and investment securities.

On the other hand, total debt at the end of the current fiscal year was ¥46,255 million, a decrease of ¥1,849 million from the end of the previous fiscal year. This was mainly due to decreases in short-term debt, income taxes payable, etc.

Total net assets increased by ¥3,931 million from the end of the previous fiscal year to ¥66,886 million. This was mainly due to an increase in valuation difference on marketable securities. Capital ratio at the end of the current fiscal year rose from 51.5% to 58.8%.

■ Analysis of Cash Flows

Cash flows from operating activities posted a surplus of ¥10,657 million, an increase of ¥4,810 million year on year, due to factors such as recording of net income before income taxes and minority interests.

Cash flows from investing activities posted a deficit of ¥1,745 million, with the paid amount decreasing by ¥1,004 million year on year, due to expenditures such as acquisition of tangible fixed assets and intangible assets.

Cash flows from financing activities posted a deficit of ¥7,237 million, a decrease of ¥4,801 million year on year, due to payment of dividends and repayment of short-term debt.

As a result of the above, cash and cash equivalents at the end of the current fiscal year grew to ¥11,058 million, an increase of ¥1,699 million year on year.

■ Outlook for the Fiscal Year Ending March 31, 2015

Looking at the status of the next fiscal year (ending March 2015), the Traffic and Transportation Infrastructure Business is intended to promote expansion of sales channels to emerging countries in Asia and other regions, by making use of the track records of SPARCS orders for overseas countries, as well as respond to increases in renewal of facilities such as interlocking devices for railway signals and CTC. This business is expected to post sales of ¥50,500 million (up 0.6% from the subject year) and operating income of ¥6,500 million (down 12.8%). The ICT Solutions Business will promote expansion of sales of new security gates while responding to the renewal of station service devices that are expected especially in the Kanto region. Furthermore, this business will focus on large-scale parking areas, while continuing to respond to the steady demand of the coin parking market. This business is expected to post sales of ¥45,500 million (up 5.8%) and operating income of ¥3,600 million (up 197.4%).

The Nippon Signal Group as a whole is expecting sales of ¥96,000 million (up 3.0%), operating income of ¥7,100 million (up 19.5%), and current net income of ¥4,500 million (up 22.7%).

■ Basic Policy on Distribution of Profits

The Group will continue to pay stable dividends to our shareholders, as well as return profits based on performance. Based on this policy, a consolidated dividend ratio of 25% is our immediate target.

We decided to pay year-end dividends for the year ended March 31, 2014 at a rate of ¥11, in appreciation for our 85th anniversary in February 2014 and for the long-standing support and patronage of our shareholders. As a result, dividends for the current fiscal year are ¥16 per annum (interim: ¥5, year-end: ¥11). The consolidated dividend ratio is 27.4%.

Consolidated Balance Sheets

The Nippon Signal Co., Ltd. and Consolidated Subsidiaries
March 31, 2013 and 2014

	Millions of yen		Thousands of U.S. dollars (Note 1)
ASSETS	2013	**2014**	**2014**
Current assets:			
Cash and time deposits (Notes 3 and 13)	¥ 9,456	**¥ 11,147**	**$ 108,228**
Notes and accounts receivable (Note 3)	44,275	**46,936**	**455,686**
Marketable securities (Notes 3, 4 and 13)	26	**34**	**329**
Inventories (Notes 2 and 5)	21,656	**17,345**	**168,401**
Deferred tax assets (Note 7)	3,825	**3,573**	**34,691**
Other current assets	797	**581**	**5,643**
Allowance for doubtful accounts (Note 3)	(11)	**(17)**	**(168)**
Total current assets	80,024	**79,599**	**772,810**
Property, plant and equipment:			
Land (Note 16)	5,782	**5,419**	**52,613**
Buildings and structures (Note 16)	11,708	**11,801**	**114,578**
Machinery and equipment	17,365	**17,914**	**173,920**
Construction in progress	18	**83**	**805**
Lease assets (Note 12)	21	**21**	**203**
	34,894	**35,238**	**341,922**
Accumulated depreciation	(23,215)	**(23,711)**	**(230,010)**
Total property, plant and equipment	11,679	**11,527**	**111,912**
Intangible assets	1,370	**1,280**	**12,424**
Investments and other assets:			
Investment securities (Notes 3 and 4)	15,503	**16,902**	**164,096**
Lease deposits	759	**748**	**7,264**
Other investments	417	**838**	**8,139**
Asset for retirement benefits (Note 10)	—	**1,888**	**18,328**
Deferred tax assets (Note 7)	187	**248**	**2,407**
Other assets	1,170	**157**	**1,523**
Allowance for doubtful accounts	(50)	**(46)**	**(449)**
Total investments and other assets	17,986	**20,735**	**201,308**
Total assets	¥111,059	**¥113,141**	**$1,098,454**

See accompanying notes.

LIABILITIES AND NET ASSETS	Millions of yen 2013	2014	Thousands of U.S. dollars (Note 1) 2014
Current liabilities:			
Notes and accounts payable (Note 3)	¥ 14,027	**¥ 17,137**	**$ 166,379**
Short-term bank loans (Notes 3 and 6)	12,500	**6,656**	**64,624**
Lease obligations (Note 12)	4	**2**	**17**
Advances received	784	**1,404**	**13,627**
Accrued expenses	1,919	**1,808**	**17,551**
Income taxes payable (Note 7)	2,592	**2,001**	**19,431**
Accrued employees' bonuses	2,472	**2,430**	**23,592**
Accrued bonuses to directors	136	**155**	**1,503**
Accrued contract losses (Note 2)	524	**948**	**9,204**
Other current liabilities	3,096	**2,781**	**26,999**
Total current liabilities	38,054	**35,322**	**342,927**
Long-term liabilities:			
Long-term payable	192	**169**	**1,645**
Lease obligations (Note 12)	2	**—**	**—**
Deferred tax liabilities (Note 7)	2,414	**3,330**	**32,328**
Employees' severance and retirement benefits (Note 10)	7,304	**—**	**—**
Liability for retirement benefits (Note 10)	—	**7,238**	**70,266**
Directors' and corporate auditors' retirement benefits	138	**152**	**1,476**
Other long-term liabilities	—	**44**	**432**
Total long-term liabilities	10,050	**10,933**	**106,147**
Total liabilities	48,104	**46,255**	**449,074**
Contingent liabilities (Note 11)			
Net assets:			
Shareholders' equity (Note 9):			
Common stock:			
Authorized—200,000,000 shares			
Issued—62,448,052 in 2013 and 68,339,704 shares in 2014	6,846	**10,000**	**97,087**
Capital surplus	5,303	**7,458**	**72,410**
Retained earnings	38,136	**40,990**	**397,968**
Treasury stock, at cost: 48,481 shares in 2013 and 126,847 shares in 2014	(24)	**(56)**	**(548)**
Total shareholders' equity	50,261	**58,392**	**566,917**
Accumulated other comprehensive income			
Valuation difference on availabe-for-sale securities	6,969	**7,766**	**75,395**
Accumulated adjustments for retirement benefits	—	**412**	**4,001**
Total accumulated other comprehensive income	6,969	**8,178**	**79,396**
Minority interests	5,725	**316**	**3,067**
Total net assets	62,955	**66,886**	**649,380**
Total liabilities and net assets	¥111,059	**¥113,141**	**$1,098,454**

See accompanying notes.

Consolidated Statements of Income and Comprehensive Income
For the Years Ended March 31, 2012, 2013 and 2014

The Nippon Signal Co., Ltd. and Consolidated Subsidiaries
Years ended March 31, 2012, 2013 and 2014

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2012	2013	**2014**	**2014**
Net sales (Note 14)	¥84,503	¥85,339	**¥93,218**	**$905,025**
Cost of sales (Notes 2,5 and 10)	68,111	67,358	**73,317**	**711,813**
Gross profit	16,392	17,981	**19,901**	**193,212**
Selling, general and administrative expenses (Notes 10 and 15)	13,096	12,899	**13,958**	**135,509**
Operating income (Note 14)	3,296	5,082	**5,943**	**57,703**
Other income (expenses):				
Interest and dividend income	329	325	**338**	**3,283**
Interest expenses	(42)	(68)	**(27)**	**(259)**
Gain on sales of marketable and investment securities (Note 4)	5	—	**—**	**—**
Life insurance dividend	209	196	**174**	**1,687**
Gain on negative goodwill (Notes 14 and 17)	—	—	**436**	**4,235**
Loss on sales and disposals of property, plant and equipment, net	(9)	(13)	**(11)**	**(110)**
Loss on devaluation of investment securities (Note 4)	(6)	(19)	**—**	**—**
Gain on termination of defined benefit plans (Notes 2 and 10)	34	—	**—**	**—**
Special retirement expenses	(268)	—	**—**	**—**
Other, net	28	482	**186**	**1,805**
	280	903	**1,096**	**10,641**
Income before income taxes and minority interests	3,576	5,985	**7,039**	**68,344**
Income taxes (Note 7)**:**				
Current	977	2,802	**2,430**	**23,597**
Deferred	799	(325)	**467**	**4,531**
	1,776	2,477	**2,897**	**28,128**
Income before minority interests	1,800	3,508	**4,142**	**40,216**
Minority interests in net income of consolidated subsidiaries	(172)	(373)	**(475)**	**(4,611)**
Net income	¥ 1,628	¥ 3,135	**¥ 3,667**	**$ 35,605**
Minority interests in net income of consolidated subsidiaries	(172)	(373)	**(475)**	**(4,611)**
Income before minority interests	1,800	3,508	**4,142**	**40,216**
Other comprehensive income (Note 8)**:**				
Valuation difference on available-for-sale securities	1,201	3,227	**790**	**7,664**
Total other comprehensive income	1,201	3,227	**790**	**7,664**
Comprehensive income	¥ 3,001	¥ 6,735	**¥ 4,932**	**$ 47,880**
Comprehensive income attributable to:				
Comprehensive income attributable to owners of the parent	¥ 2,815	¥ 6,297	**¥ 4,464**	**$ 43,338**
Comprehensive income attributable to minority interests	¥ 186	¥ 438	**¥ 468**	**$ 4,542**

	Yen			U.S. dollars (Note 1)
Amounts per share of common stock:				
Net income	¥ 26.09	¥ 50.25	**¥ 58.32**	**$ 0.57**
Cash dividends applicable to the year	10.00	13.00	**16.00**	**0.16**

See accompanying notes.

Consolidated Statements of Changes in Net Assets

The Nippon Signal Co., Ltd. and Consolidated Subsidiaries
Years ended March 31, 2012, 2013 and 2014

	Thousands	Millions of yen							
	Number of shares of common stock	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Valuation difference on available-for-sale securities	Remeasurements of defined benefit plans	Minority interests	Total net assets
Balance at March 31, 2011 ..	62,448	¥6,846	¥5,303	¥34,807	¥(24)	¥2,621	¥ —	¥5,351	¥54,904
Net income	—	—	—	1,628	—	—	—	—	1,628
Cash dividends paid	—	—	—	(686)	—	—	—	—	(686)
Increase in treasury stock	—	—	—	—	(0)	—	—	—	(0)
Other, net	—	—	—	—	—	1,187	—	93	1,280
Balance at March 31, 2012 ..	62,448	6,846	5,303	35,749	(24)	3,808	—	5,444	57,126
Net income	—	—	—	3,135	—	—	—	—	3,135
Cash dividends paid	—	—	—	(748)	—	—	—	—	(748)
Increase in treasury stock	—	—	—	—	(0)	—	—	—	(0)
Disposal of treasury stock	—	—	(0)	—	0	—	—	—	0
Other, net	—	—	—	—	—	3,161	—	281	3,442
Balance at March 31, 2013 ..	62,448	6,846	5,303	38,136	(24)	6,969	—	5,725	62,955
Net income	**—**	**—**	**—**	**3,667**	**—**	**—**	**—**	**—**	**3,667**
Changes by share exchanges	**5,892**	**3,154**	**2,155**	**—**	**(32)**	**—**	**—**	**(5,757)**	**(480)**
Cash dividends paid	**—**	**—**	**—**	**(813)**	**—**	**—**	**—**	**—**	**(813)**
Increase in treasury stock	**—**	**—**	**—**	**—**	**(0)**	**—**	**—**	**—**	**(0)**
Other, net	**—**	**—**	**—**	**—**	**—**	**797**	**412**	**348**	**1,557**
Balance at March 31, 2014	**68,340**	**¥10,000**	**¥7,458**	**¥40,990**	**¥(56)**	**¥7,766**	**¥412**	**¥ 316**	**¥66,886**

	Thousands of U.S. dollars (Note 1)							
Balance at April 1, 2013	$66,470	$51,489	$370,239	$(230)	$67,662	$ —	$55,580	$611,210
Net income	—	—	35,605	—	—	—	—	35,605
Changes by share exchanges....	30,617	20,921	—	(317)	—	—	(55,893)	(4,672)
Cash dividends paid	—	—	(7,876)	—	—	—	—	(7,876)
Increase in treasury stock	—	—	—	(1)	—	—	—	(1)
Other, net	—	—	—	—	7,733	4,001	3,380	15,114
Balance at March 31, 2014.....	**$97,087**	**$72,410**	**$397,968**	**$(548)**	**$75,395**	**$4,001**	**$ 3,067**	**$649,380**

See accompanying notes.

Consolidated Statements of Cash Flows

The Nippon Signal Co., Ltd. and Consolidated Subsidiaries
Years ended March 31, 2012, 2013 and 2014

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2012	2013	**2014**	**2014**
Cash flows from operating activities:				
Income before income taxes and minority interests	¥ 3,576	¥ 5,985	**¥ 7,039**	**$ 68,344**
Adjustments to reconcile income before income taxes and minority interests to net cash provided by operating activities:				
Depreciation and amortization	1,916	1,635	**1,554**	**15,092**
Gain on negative goodwill	—	—	**(436)**	**(4,235)**
Interest and dividend income	(329)	(325)	**(338)**	**(3,283)**
Interest expenses	42	68	**27**	**259**
Loss on sales and disposals of property, plant and equipment, net	9	13	**11**	**110**
Decrease (increase) in notes and accounts receivable	(3,257)	(2,348)	**(2,661)**	**(25,843)**
Decrease (increase) in inventories	1,578	4,436	**4,311**	**41,848**
Increase (decrease) in notes and accounts payable	(6,525)	(1,755)	**3,025**	**29,367**
Increase (decrease) in employees' severance and retirement benefits	(349)	(589)	**—**	**—**
Increase (decrease) in net defined benefit liability	—	—	**(106)**	**(1,025)**
Increase (decrease) in advances received	(1,719)	103	**620**	**6,018**
Other, net	(303)	(624)	**335**	**3,247**
Sub total	(5,361)	6,599	**13,380**	**129,899**
Interest and dividends received	329	325	**338**	**3,283**
Interest paid	(42)	(68)	**(27)**	**(259)**
Income taxes paid	(1,969)	(1,009)	**(3,034)**	**(29,462)**
Net cash provided by (used in) operating activities	(7,043)	5,847	**10,657**	**103,461**
Cash flows from investing activities:				
Payments into time deposits	(192)	(81)	**(43)**	**(418)**
Proceeds from withdrawal of time deposits	192	127	**42**	**410**
Expenditure for purchase of property, plant and equipment	(1,301)	(734)	**(892)**	**(8,660)**
Proceeds from sale of property, plant and equipment	24	0	**0**	**1**
Expenditure for purchase of intangible assets	(352)	(140)	**(470)**	**(4,560)**
Expenditure for purchase of marketable and investment securities	(58)	(15)	**(199)**	**(1,933)**
Proceeds from sale of marketable and investment securities	206	—	**—**	**—**
Other, net	12	102	**(183)**	**(1,785)**
Net cash used in investing activities	(1,469)	(741)	**(1,745)**	**(16,945)**
Cash flows from financing activities:				
Net increase (decrease) in short-term bank loans	5,000	(1,500)	**(5,888)**	**(57,168)**
Proceeds from deposits received from an affiliated company	20	(100)	**(30)**	**(291)**
Proceeds from deposits received from an unaffiliated company	—	—	**(400)**	**(3,883)**
Cash dividends paid	(686)	(741)	**(804)**	**(7,806)**
Cash dividends paid for minority shareholders	(91)	(89)	**(111)**	**(1,080)**
Other, net	(6)	(6)	**(4)**	**(39)**
Net cash provided by (used in) financing activities	4,237	(2,436)	**(7,237)**	**(70,267)**
Effect of exchange rate changes on cash and cash equivalents	5	86	**24**	**245**
Net increase (decrease) in cash and cash equivalents	(4,270)	2,756	**1,699**	**16,494**
Cash and cash equivalents at beginning of year	10,873	6,603	**9,359**	**90,867**
Cash and cash equivalents at end of year (Note 13)	¥ 6,603	¥ 9,359	**¥11,058**	**$107,361**

See accompanying notes.

1

BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS

The Nippon Signal Co., Ltd. (the "Company") and its consolidated subsidiaries (together the "Companies") maintain their official accounting records in Japanese yen, in accordance with the provisions set forth in the Japanese Financial Instruments and Exchange Law and its related accounting regulations, and in conformity with accounting principles generally accepted in Japan ("Japanese GAAP"), which are different in certain respects as to application and disclosure requirements from International Financial Reporting Standards.

The accompanying consolidated financial statements have been restructured and translated into English (with some expanded descriptions) from the consolidated financial statements of the Company prepared in accordance with Japanese GAAP and filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Financial Instruments and Exchange Law. Some supplementary information included in the statutory Japanese language consolidated financial statements, but not required for fair presentation, is not presented in the accompanying consolidated financial statements.

The translations of the Japanese yen amounts into U.S. dollars are included solely for the convenience of readers outside Japan, using the prevailing exchange rate as of March 31, 2014, which was ¥103 to U.S. $1. The translations included for convenience should not be construed as representations that the Japanese yen amounts have been, could have been, or could in the future be, converted into U.S. dollars at this or any other rate of exchange.

2

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Consolidation

The consolidated financial statements include the accounts of the Company and its significant subsidiaries. Intercompany accounts and transactions have been eliminated.

In the elimination of investments in subsidiaries, the assets and liabilities of the subsidiaries, including the portion attributable to minority shareholders, are evaluated using the fair value at the time the Company acquired control of the respective subsidiaries.

In the year ended March 31, 2013, the number of subsidiaries included in the consolidated financial statements increased by one (Nisshin IT Field Service Co., Ltd.), due to Incorporation-type Company Split.

As a result, the number of subsidiaries included in the consolidated financial statements was 11, 12 and 12 for the years ended March 31, 2012, 2013 and 2014, respectively.

Equity method

Investments in unconsolidated subsidiaries and affiliates are stated at cost since they are considered immaterial in the aggregate. Earnings of these companies are recorded in the Company's books only to the extent that cash dividends are received.

Statements of cash flows

In preparing the consolidated statements of cash flows, cash on hand, readily-available deposits and short-term highly liquid investments with maturities of not exceeding three months at the time of purchase are considered to be cash and cash equivalents.

Marketable securities and investment securities

The Companies examine the intent of holding each security and classify those securities as (a) securities held for trading purposes (hereafter, "trading securities"), (b) debt securities intended to be held to maturity (hereafter, "held-to-maturity debt securities"), (c) equity securities issued by subsidiaries and affiliated companies, and (d) all other securities that are not classified in any of the above categories (hereafter, "available-for-sale securities").

Held-to-maturity debt securities are stated at amortized cost. Equity securities issued by subsidiaries and affiliates which are not consolidated or accounted for using the equity method are stated at moving-average cost. Available-for-sale securities with available fair market values are stated at fair market value. Unrealized gains and losses on these securities are reported, net of applicable income taxes, as a separate component of net assets. Realized gains and losses on sale of such securities are computed using moving-average cost. The Companies have no trading securities.

As well the equity to the income and expenses concerning anonymous associations is recorded under non-operating profit and loss and the amount is included in investment securities.

Inventories

Inventories are stated at cost, being determined principally by the following methods:

- Finished goods and raw materials—Moving average method (The method of write-down based on decrease in profitability is applied in order to calculate the inventory value on the balance sheet.)
- Goods in process—Specific identification method per each order (The method of write-down based on decrease in profitability is applied in order to calculate the inventory value on the balance sheet.)
- Supplies—Mainly last purchase price method

Depreciation

Buildings, structures, machinery and equipment are carried at cost. Depreciation is computed primarily using the declining-balance method. Buildings acquired after March 31, 1998 are depreciated using the straight-line method.

Software costs

The Companies include software in intangible assets and depreciate it using the straight-line method over the estimated useful lives (three to five years).

Accounting for lease transactions
Finance leases which do not transfer ownership are capitalized as the lease assets and depreciated by the straight-line method over lease periods, supposing estimated residual value to be zero.

Allowance for doubtful accounts
Allowance for doubtful accounts is provided in amounts sufficient to cover possible losses on collection by estimating individually uncollectible amounts and applying a percentage based on collection experience in the past to the remaining accounts.

Accrued employees' bonuses
The Companies accrue the estimated amounts of employees' bonuses to be paid in the subsequent period.

Accrued bonuses to directors
The Companies accrue directors' bonuses based on the estimated amounts to be paid in the subsequent period.

Accrued contract losses
Accrued contract losses are provided at the fiscal year-end when losses are anticipated in the future and such losses can be reasonably estimated.

The inventories and accrued contract losses are represented in current assets and liabilities respectively, without offset. As of March 31, 2013 and 2014, accrued contract losses corresponding to inventories are ¥232 million (Goods-in-process: ¥232 million) and ¥207 million ($2,006 thousand) (Goods-in-process: ¥207 million ($2,006 thousand)).

For the years ended March 31, 2013 and 2014, provision for accrued contract losses included in cost of sales are ¥504 million and ¥916 million ($8,896 thousand).

Calculation method of Liability for retirement benefits
Liability for retirement benefits is calculated based on Straight-line attribution.

Unrecognized prior service obligation is being amortized by the straight-line method within the specific period (15 years) in the remaining period of the employees' average working period.

Actuarial differences incurred are recognized on a one-time basis in the following years' income statement, while two consolidated subsidiaries recognize actuarial differences using the declining-balance method over the average of the estimated remaining service life (15 years) commencing with the following year.

<Additional Information>
At October 1, 2011, Nisshin Industry Co., Ltd., which is a consolidated subsidiary of the Company, changed its pension plan from a tax-qualified retirement pension plan to a smaller and medium enterprise retirement allowance cooperative plan. The unfunded lump-sum payment plan remains the same.

Additionally, Sendai Nisshin Electronics Co., Ltd. which is a consolidated subsidiary of the Company, changed from a tax-qualified retirement pension plan to an unfunded lump-sum payment plan and a defined contribution pension plan at October 1, 2011.

As a result, in the year ended March 31, 2012, the Companies recorded gain on termination of defined benefit plans of ¥34 million.

In these changes, the Companies adopted "Guidance on Accounting Standard for Transfers between Retirement Benefit Plans" (ASBJ Guidance No1, issued on January 14, 2002).

Directors' and corporate auditors' retirement benefits
Certain consolidated subsidiaries accrue directors' and corporate auditors' retirement benefits which are required if they retire at the balance sheet date.

Recognition of revenue and costs of construction contracts
Revenue and costs of construction contracts, the outcome of which can be estimated reliably during the accounting period, are recognized by using the percentage-of-completion method. The percentage of completion at the end of the reporting period is measured by the percentage of the cost incurred to the estimated total costs.

Revenue and costs of other constructions are recognized by using the completed-contract method.

Translation of foreign currencies
Monetary assets and liabilities denominated in foreign currencies are translated into Japanese yen at the exchange rates at the balance sheet date with the resulting gain or loss included in the current statements of income.

Income taxes
The Companies provide tax effects of temporary differences between the carrying amounts and the tax basis of assets and liabilities. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences.

Per share data
Computations of net income per share are based on the weighted average number of shares of common stock outstanding during each year.

Diluted net income per share for the years ended March 31, 2012, 2013 and 2014 is not presented since the Company had no securities with dilutive effect to net income per share.

Cash dividends per share presented in the consolidated statements of income and comprehensive income represent the cash dividends declared applicable to each respective year.

Reclassifications

Certain prior year amounts have been reclassified to conform to the current year presentation. These reclassifications had no impact on previously reported results of operations or total net assets.

Changes in accounting principles and accounting estimates

(1) Accounting changes and error corrections

The Companies adopted "Accounting Standard for Accounting Changes and Error Corrections" (ASBJ Statement No.24, issued on December 4, 2009) and "Guidance on Accounting Standard for Accounting Changes and Error Corrections" (ASBJ Guidance No. 24, issued on December 4, 2009) for accounting changes and corrections of prior period errors which are made from the fiscal year beginning on April 1, 2011.

(2) Change in depreciation method

From the year ended March 31, 2013, in accordance with the amendment in the corporate tax law, the Companies have changed its depreciation method for property, plant and equipment. Assets acquired on or after April 1, 2012 are depreciated using the method prescribed in the amended corporate tax law.

The effect of this change on the Companies' profits and losses is immaterial.

(3) Accounting Standard for Retirement Benefits

Effective from the year ended March 31, 2014, the Company and its consolidated domestic subsidiaries have applied the Accounting Standard for Retirement Benefits (ASBJ Statement No. 26, May 17, 2012 (hereinafter, the "Statement No.26")) and Guidance on Accounting Standard for Retirement Benefits (ASBJ Guidance No. 25, May 17, 2012 (hereinafter, the "Guidance No.25")) except the article 35 of the Statement No.26 and the article 67 of the Guidance No.25 and actuarial gains and losses and past service costs that are yet to be recognized have been recognized and the difference between retirement benefit obligations and plan assets has been recognized as a liability for retirement benefits.

In accordance with the article 37 of the Statement No.26, the effect of the change in accounting policies arising from initial application has been recognized in accumulated adjustments for retirement benefit in accumulated other comprehensive income.

As a result of the application, an asset and liability for retirement benefits in the amount of ¥1,888 million ($18,328 thousand) and ¥7,238 million ($70,266 thousand) have been recognized respectively, and accumulated other comprehensive income has increased by ¥412 million ($4,001 thousand) at the end of the current fiscal year.

Net assets per share has increased by ¥6.04.

(4) Change in estimation method of the percentage-of-completion method

From the year ended March 31, 2013, the Companies have changed the estimation method in measuring the percentage-of-completion in construction.

Until the year ended March 31, 2012, the estimated percentage-of-completion in construction at the end of the reporting period was measured by the proportion of the estimated cost of the finished process to the estimated total cost of the whole process. However, from the year ended March 31, 2013, such method was changed to the percentage-of-cost method. The percentage-of-completion at the end of the reporting period is measured by the percentage of cost incurred by the estimated total costs.

This change was made to have become possible to estimate more accurately the percentage-of-completion in line with the actual condition by improving the project control function incorporated into ERP, that enabled to obtain the costs incurred of each project under construction more comprehensively.

As a result, net sales increased by ¥705 million and operating income and income before income taxes and minority interests each increased by ¥179 million for the year ended March 31, 2013 as compared with the amounts which would have been calculated under the former method.

Effects of this change on segment information are disclosed in Note 14

New accounting pronouncements

"Accounting Standard for Retirement Benefits" (ASBJ Statement No.26, issued on May 17, 2012) and "Guidance on Accounting Standard for Retirement Benefits" (ASBJ Guidance No.25, issued on May 17, 2012) have been issued (together, the "New Retirement Benefits Standard").

Major changes are as follows:

1. Summary

   For determining method of attributing expected benefit to periods, the New Retirement Benefits Standard and method for determination of discount rate has been amended.

2. Effective dates

   Amendments relating to determination of retirement benefit obligations and current service costs are effective from the beginning of annual periods ending on or after March 31, 2015. However, no retrospective application of the New Retirement Benefits Standard to the consolidated financial statements in prior periods will be required.

3. Effect of application of the standard

   The Companies are currently in the process of determining the effects of the New Retirement Benefits Standard on the consolidated financial statements.

3 FINANCIAL INSTRUMENTS

(1) Qualitative information on financial instruments

- Policies for using financial instruments

  The Companies procure capital required (mainly from finance institutions) based on investing plan.

  Temporary idle funds are operated mainly to highly liquid financial instruments, and the Companies procure short-term operating money by loaning from banks.

- Details of financial instruments used and the exposures to risk and policies and processes for managing risk

  Notes and accounts receivable are exposed to the credit risk of customers. The Companies control this risk by credit exposure management based on operating management rule, term and credit balance management for every customer, and early recognition and management of doubtful receivables which occur after stimulation by worsening financial conditions. In addition, some receivables are exposed to the foreign currency risk, but the Companies control due date and manage credit balance.

  Investment securities, obtained mainly through business relationships, are exposed to the market risk, but the Companies regularly recognize their fair value.

  Notes and accounts payable are due within one year.

  The Companies have no long-term bank loans as of March 31, 2013 and 2014. Short-term bank loans are used for temporary operating money, and the interest rate is fixed.

  Notes and accounts payable and bank loans are exposed to the liquidity risk. The Companies control this risk by monthly cash management etc.

(2) Fair values of financial instruments

Book values, fair values, and differences of the financial instruments included in the consolidated balance sheets as of March 31, 2013 and 2014 are as follows:

March 31, 2013	Millions of yen		
	Book values	Fair values	Differences
Cash and time deposits	¥ 9,456	¥ 9,456	¥ —
Notes and accounts receivable	44,275		
Allowance for doubtful accounts	(11)		
	44,264	44,261	(3)
Marketable securities and investment securities	14,492	14,492	—
Assets	68,212	68,209	(3)
Notes and accounts payable	14,027	14,027	—
Short-term bank loans	12,500	12,500	—
Liabilities	26,527	26,527	—

March 31, 2014	Millions of yen		
	Book values	Fair values	Differences
Cash and time deposits	**¥11,147**	**¥11,147**	**¥ —**
Notes and accounts receivable	**46,936**		
Allowance for doubtful accounts	**(17)**		
	46,919	**46,915**	**(4)**
Marketable securities and investment securities	**15,901**	**15,901**	**—**
Assets	**73,967**	**73,963**	**(4)**
Notes and accounts payable	**17,137**	**17,137**	**—**
Short-term bank loans	**6,656**	**6,656**	**—**
Liabilities	**23,793**	**23,793**	**—**

March 31, 2014	Thousands of U.S. dollars		
	Book values	Fair values	Differences
Cash and time deposits	**$108,228**	**$108,228**	**$ —**
Notes and accounts receivable	**455,686**		
Allowance for doubtful accounts	**(168)**		
	455,518	**455,479**	**(39)**
Marketable securities and investment securities	**154,377**	**154,377**	**—**
Assets	**718,123**	**718,084**	**(39)**
Notes and accounts payable	**166,379**	**166,379**	**—**
Short-term bank loans	**64,624**	**64,624**	**—**
Liabilities	**231,003**	**231,003**	**—**

(3) Method of calculating fair value of financial instruments and securities

Assets

Cash and time deposits:

Book value is considered to be a fair value, because it is settled within short terms.

Notes and accounts receivable:

Fair value means the current value discounting receivable which is periodically sorted out by the rate at which credit risk is taken into consideration.

Marketable securities and investment securities:

As for the stocks of available-for-sale securities, fair value means market price, and as for the bonds of available-for-sale securities, fair value means market price or price presented by financial institutions.

As for Money management fund, book value is considered to be a fair value, because it is settled within short terms.

Liabilities

Notes and accounts payable and Short-term bank loans:

Book value is considered to be a fair value, because it is settled within short terms.

(4) The following tables summarize book values of securities with difficulty in calculating fair values as of March 31, 2013 and 2014.

	Millions of yen		Thousands of U.S. dollars
	2013	**2014**	**2014**
Non-listed equity securities	¥635	**¥634**	**$6,159**
Preferred subscription certificate	97	**97**	**940**
Investment in anonymous association	36	**35**	**335**
Securities of unconsolidated subsidiaries and affiliated companies	269	**269**	**2,614**

(5) Expected repayment of monetary assets and investment securities with maturities as of March 31, 2013 and 2014 are as follows:

March 31, 2013	Millions of yen	
	Within one year	Over one year but within five years
Cash and time deposits	¥ 9,456	¥ —
Notes and accounts receivable	42,294	1,981
	¥51,750	¥1,981

March 31, 2014	Millions of yen	
	Within one year	Over one year but within five years
Cash and time deposits	**¥11,147**	**¥ —**
Notes and accounts receivable	**44,097**	**2,839**
	¥55,244	**¥2,839**

March 31, 2014	Thousands of U.S. dollars	
	Within one year	Over one year but within five years
Cash and time deposits	**$108,228**	**$ —**
Notes and accounts receivable	**428,121**	**27,565**
	$536,349	**$27,565**

4 SECURITIES

(1) The following tables summarize book values and acquisition costs of securities with fair value as of March 31, 2013 and 2014:

Available-for-sale securities

March 31, 2013	Millions of yen		
	Book value	Acquisition cost	Difference
Securities with book values (fair value) exceeding acquisition costs:			
Equity securities	¥14,136	¥3,308	¥10,828
	¥14,136	¥3,308	¥10,828
Securities with book values (fair value) not exceeding acquisition costs:			
Equity securities	¥330	¥388	¥ (58)
Money management fund	¥26	¥26	—
	¥356	¥414	¥ (58)

March 31, 2014	Millions of yen		
	Book value	Acquisition cost	Difference
Securities with book values (fair value) exceeding acquisition costs:			
Equity securities	**¥15,711**	**¥3,701**	**¥12,010**
	¥15,711	**¥3,701**	**¥12,010**
Securities with book values (fair value) not exceeding acquisition costs:			
Equity securities	**¥ 156**	**¥ 194**	**¥ (38)**
Money management fund	**¥ 34**	**¥ 34**	**—**
	¥ 190	**¥ 228**	**¥ (38)**

March 31, 2014	Thousands of U.S. dollars		
	Book value	Acquisition cost	Difference
Securities with book values (fair value) exceeding acquisition costs:			
Equity securities	**$152,535**	**$35,936**	**$116,599**
	$152,535	**$35,936**	**$116,599**
Securities with book values (fair value) not exceeding acquisition costs:			
Equity securities	**$ 1,513**	**$ 1,877**	**$ (364)**
Money management fund	**$ 329**	**$ 329**	**—**
	$ 1,842	**$ 2,206**	**$ (364)**

(2) Sales of securities classified as available-for-sale securities
Sales and aggregate gain and loss on sales of securities classified as available-for-sale securities for the years ended March 31, 2012, 2013 and 2014 are summarized as follows:

	Millions of yen			Thousands of U.S. dollars
	2012	2013	**2014**	**2014**
Sales proceeds	¥6	¥—	**¥—**	**$—**
Gain	5	—	**—**	**—**
Loss	—	—	**—**	**—**

(3) Impairment losses of investment securities
Impairment losses of ¥6 million and ¥19 million were recognized in the consolidated statements of income as "Loss on devaluation of investment securities", for available-for-sale securities for the years ended March 31, 2012 and 2013 respectively. There is no impairment loss for the year ended March 31, 2014.

Where the fair market value of available-for-sale securities has declined by more than 50% from their acquisition costs, the value of those securities is considered to have "substantially declined" and the impairment losses are recognized in the consolidated statements of income on those securities, unless the value is considered recoverable.

5 INVENTORIES

Inventories as of March 31, 2013 and 2014 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2013	**2014**	**2014**
Finished goods	¥ 5,641	**¥ 4,472**	**$ 43,415**
Goods in process	12,044	**9,958**	**96,685**
Raw materials and supplies	3,971	**2,915**	**28,301**
	¥21,656	**¥17,345**	**$168,401**

Loss on valuation of inventories for the years ended March 31, 2012 and 2013 are ¥464 million and ¥1,035 million, and gain on valuation of inventories for the year ended March 31, 2014 is ¥572million ($5,555 thousand), and they are included in cost of sales.

6 SHORT-TERM BANK LOANS

Short-term bank loans outstanding bore interest at average rates of 0.5% and 0.6% as of March 31, 2013 and 2014, respectively.

7 INCOME TAXES

The Companies are subject to a number of taxes based on income, which consist of corporate taxes, inhabitants taxes and enterprise taxes. As a result, the normal statutory income tax rate is approximately 40.0% for the year ended March 31, 2012 and 38.0% for the year ended March 31, 2013 and 2014 respectively.

The following table summarizes the significant differences between the statutory tax rates and the Companies' effective tax rates for financial statement purposes for the years ended March 31, 2012, 2013 and 2014.

	2012	2013	**2014**
Statutory tax rate	40.0%	38.0%	**38.0%**
Non-taxable income including dividends	(2.1)	(1.1)	**(1.0)**
Non-deductible expenses including entertainment	3.0	1.5	**1.7**
Per capita inhabitants taxes	2.9	1.8	**1.5**
Tax credit on research and development costs, etc.	(0.5)	(0.2)	**(1.0)**
Valuation allowance	(2.7)	(0.2)	**(1.0)**
Adjustment of deferred tax assets for enacted changes in tax laws and rates	8.6	—	**4.5**
Other	0.5	1.6	**(1.5)**
Effective tax rate	49.7%	41.4%	**41.2%**

Significant components of deferred tax assets and liabilities of the Companies as of March 31, 2013 and 2014 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	**2014**	**2014**
Deferred tax assets:			
Depreciation	¥ 484	**¥ 418**	**$ 4,056**
Impairment loss of fixed assets	1,006	**1,006**	**9,764**
Bonuses accrued	938	**812**	**7,890**
Employees' severance and retirement benefits	2,234	**—**	**—**
Liability for retirement benefits	—	**2,541**	**24,667**
Directors' and corporate auditors' retirement benefits	43	**46**	**452**
Non-deductible inventory losses	2,260	**1,988**	**19,300**
Accrued contract losses	199	**332**	**3,221**
Enterprise taxes	211	**149**	**1,448**
Valuation allowance	(1,562)	**(1,489)**	**(14,454)**
Other	696	**763**	**7,407**
Total deferred tax assets	6,509	**6,566**	**63,751**
Deferred tax liabilities:			
Tax deferment for capital gain on property	(1,180)	**(1,180)**	**(11,458)**
Asset for retirement benefits	—	**(646)**	**(6,269)**
Reserve for special depreciation	—	**(107)**	**(1,041)**
Net unrealized holding gains on securities	(3,724)	**(4,136)**	**(40,153)**
Other	(7)	**(6)**	**(60)**
Total deferred tax liabilities	(4,911)	**(6,075)**	**(58,981)**
Net deferred tax assets	¥ 1,598	**¥ 491**	**$ 4,770**

<Additional Information>
Following the promulgation on March 31, 2014 of the "Act for Partial Revision of the Income Tax Act" (Act No. 10 of 2014), a surtax for reconstruction funding after the Great East Japan Earthquake was abolished for the fiscal year beginning on or after April 1, 2014. In line with this revision, the Company changed the statutory tax rate to calculate deferred tax assets and liabilities from 38.0% to 35.6%.

Due to these changes in statutory income tax rates, net deferred tax assets decreased by ¥314 million and income taxes increased by ¥314 million as of March 31, 2014.

8 COMPREHENSIVE INCOME

Amounts reclassified to net income in the current period that were recognized in other comprehensive income in the current or previous period and tax effects for each component of other comprehensive income are as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	**2014**	**2014**
Unrealized gains on available-for-sale securities:			
Increase during the year	¥ 4,873	**¥1,202**	**$11,666**
Reclassification adjustments	—	**—**	**—**
Sub total, before tax	4,873	**1,202**	**11,666**
Tax effect	(1,646)	**(412)**	**(4,002)**
Sub total, net of tax	3,227	**790**	**7,664**
Total other comprehensive income	¥ 3,227	**¥ 790**	**$ 7,664**

9 SHAREHOLDERS' EQUITY

Under Japanese laws and regulations, the entire amount paid for new shares is required to be designated as common stock. However, a company may, by a resolution of the Board of Directors, designate an amount not exceeding one-half of the price of the new shares as additional paid-in capital, which is included in capital surplus.

Under the Law, in cases where a dividend distribution of surplus is made, the smaller of an amount equal to 10% of the dividend or the excess, if any, of 25% of common stock over the total of additional paid-in capital and legal earnings reserve must be set aside as additional paid-in capital or legal earnings reserve. Legal earnings reserve is included in retained earnings in the accompanying consolidated balance sheets.

Under the Code, legal earnings reserve and additional paid-in capital could be used to eliminate or reduce a deficit by a resolution of the shareholders' meeting or could be capitalized by a resolution of the Board of Directors. Under the Law, both of these appropriations generally require a resolution of the shareholders' meeting.

Additional paid-in capital and legal earnings reserve may not be distributed as dividends. Under the Code, however, on condition that the total amount of legal earnings reserve and additional paid-in capital remained equal to or exceeded 25% of common stock, they were available for distribution by resolution of the shareholders' meeting. Under the Law, all legal earnings reserve may be transferred to other capital surplus and retained earnings, respectively, which are potentially available for dividends.

The maximum amount that the Company can distribute as dividends is calculated based on the non-consolidated financial statements of the Company in accordance with Japanese laws and regulations.

At the annual shareholders' meeting held on June 25, 2014, the shareholders approved cash dividends of ¥11.00 per share. Total amounts of dividends paid to shareholders were ¥750 million ($7,285 thousand). Such appropriations have not been accrued in the consolidated financial statements as of March 31, 2014.

Such appropriations are recognized in the period in which they are approved by the shareholders.

Changes in number of shares issued and treasury stocks outstanding during the years ended March 31, 2012, 2013 and 2014 are as follows:

Common stock issued

	2012	2013	**2014**
Balance at beginning of year	62,448,052	62,448,052	**62,448,052**
Increase by share exchanges	—	—	**5,891,652**
Balance at end of year	62,448,052	62,448,052	**68,339,704**

Treasury stock outstanding

	2012	2013	**2014**
Balance at beginning of year.	48,326	48,475	**48,481**
Increase due to purchase of odd stock	149	44	**126**
Increase by share exchanges	—	—	**78,240**
Decrease due to disposal of odd stock	—	(38)	**—**
Balance at end of year	48,475	48,481	**126,847**

10 EMPLOYEES' SEVERANCE AND RETIREMENT BENEFITS

The liabilities for employees' severance and retirement benefits included in the consolidated balance sheets as of March 31, 2013 consist of the following:

	Millions of yen
	2013
Projected benefit obligation	¥12,525
Unrecognized actuarial differences	(267)
Unrecognized prior service obligation	814
Fair value of pension assets	(6,889)
Prepaid pension cost	1,121
Liabilities for severance and retirement benefits	**¥ 7,304**

Included in the consolidated statements of income and comprehensive income for the years ended March 31, 2012 and 2013 are employees' severance and retirement benefit expenses comprised of the following:

	Millions of yen	
	2012	2013
Service costs - benefits earned during the year	¥ 677	¥ 663
Interest cost on projected benefit obligation	229	218
Expected return on pension assets	(26)	(109)
Amortization of actuarial differences	49	(57)
Amortization of prior service obligation	(73)	(73)
Severance and retirement benefit expenses	856	642
Premiums paid to defined contribution pension plan	505	495
Total	**¥1,361**	**¥1,137**

Severance and retirement benefits expenses of consolidated subsidiaries using the simplified method are included in the service costs above.

Other than the items listed on the above table, in the year ended March 31,2012, gain on termination of defined benefit plans of ¥34 million was recognized on the consolidated statement of income and comprehensive income.

The discount rate used by the Companies is 2.0% for the years ended March 31, 2012 and 2013. The expected rates of return on pension assets for the year ended March 31, 2012 are 0.6% and 0.43%, and for the year ended March 31, 2013 are 0.6% and 2.33%, respectively.

The estimated amount of all retirement benefits to be paid at a future retirement date will be allocated equally to each service year using the estimated number of total service years. Unrecognized prior service obligation is being amortized by the straight-line method within the specific period (15 years) in the remaining period of the employees' average working period.

Actuarial differences incurred by the Company are recognized at one-time in the following years' income statement, while two consolidated subsidiaries recognize the actual gains or losses using the declining-balance method over 15 years, commencing with the following year.

1. Summary of Retirement Benefit Plans Adopted

The Company and its consolidated subsidiaries have adopted funded and unfunded defined benefit plans and defined contribution plans.

Under the defined benefit corporate pension plans (which are all funded plans), payments are made as lump-sum or as pension payments based on the salary and service period.

Notably, liability for retirement benefits and retirement benefit costs under defined benefit corporate pension plans and lump-sum retirement plans adopted by some subsidiaries are calculated by the simplified method.

2. Defined benefit plans

(1) Movement in retirement benefit obiligations, except plans for which the simplified method has been applied	Millions of yen	Thousands of U.S. dollars
	2014	**2014**
Balance at April 1, 2013	**¥10,734**	**$104,211**
Service cost	**490**	**4,758**
Interest cost	**192**	**1,867**
Actuarial loss (gain)	**(47)**	**(458)**
Past service costs	**(572)**	**(5,553)**
Balance at March 31, 2014	**¥10,797**	**$104,825**
(2) Movements in pension assets, except plans for which the simplified method has been applied		
Balance at April 1, 2013	**¥5,790**	**$56,214**
Expected return on pension assets	**116**	**1,128**
Actuarial loss (gain)	**132**	**1,280**
Contributions paid by the employer	**200**	**1,942**
Benefits paid	**(127)**	**(1,239)**
Balance at March 31, 2014	**¥6,111**	**$59,325**
(3) Movement in liability for retirement benefits of plans for which the simplified method has been applied		
Balance at April 1, 2013	**¥786**	**$7,631**
Eetirement benefit costs	**104**	**1,013**
Benefits paid	**(96)**	**(938)**
Contributions paid by the employer	**(27)**	**(261)**
Balance at March 31, 2014	**¥767**	**$7,445**
(4) Reconciliation from retirement benefit obligations and pension assets to liability (asset) for retirement benefits, including plans for which the simplified method has been applied		
Funded retirement benefit obiligations	**5,729**	**55,616**
Pension assets	**(7,268)**	**(70,558)**
	(1,539)	**(14,942)**
Unfunded retirement benefit obligations	**6,889**	**66,880**
Total Net liability (asset) for retirement benefits at March 31, 2014	**¥5,350**	**$51,938**
Liability for retirement benefits	**7,238**	**70,266**
Asset for retirement benefits	**(1,888)**	**(18,328)**
Total Net liability (asset) for retirement benefits at March 31,2014	**¥5,350**	**$51,938**
(5) Retirement benefit costs		
Service cost	**490**	**4,758**
Interest cost	**192**	**1,867**
Expected return on pension assets	**(116)**	**(1,128)**
Net actuarial loss amortization	**(13)**	**(130)**
Past service costs amortization	**(73)**	**(707)**
Retirement benefit costs applying the simplified method	**145**	**1,404**
Total retirement benefit costs for the fiscal year ended March 31, 2014	**¥ 625**	**$ 6,064**

(6) Accumulated adjustments for retirement benefit

Actual gains and losses that are yet to be recognized	**101**	**983**
Past service costs that are yet to be recognized	**(741)**	**(7,199)**
Total	**¥(640)**	**$(6,216)**

(7) Pension assets
The ratios of each calssification for total pention assets are as follows:

General account	**58%**
Equity securities	**24%**
Bonds	**11%**
Cash and deposits	**3%**
Others	**4%**
Total	**100%**

The discount rate used by the Companies for the years ended March 31, 2014 is 1.3% to 2.0%. The expected long-term rates of return on pension assets for the year ended March 31, 2014 is 0.6% to 2.33%.

3. Defined contribution pension plan
Amount of contribution for the company and its consolidated subsidiaries is ¥485 million ($4,708 thousand).

11 CONTINGENT LIABILITIES

The Company is contingently liable under guarantees for bank borrowings of employees, etc., in the amount of ¥187 million and ¥ 161million ($1,567 thousand) as of March 31, 2013 and 2014, respectively.

12 INFORMATION ON LEASE TRANSACTIONS

Assets capitalized under finance leases consist of equipments for board production (machinery and equipment) and software (intangible assets). Depreciation method was discussed in Note 2.

Finance leases which commenced prior to April 1, 2009 and have been accounted for as operating leases continue to be accounted for as operating leases. Their information was as follows:

(1) A summary of assumed amounts of acquisition cost, accumulated depreciation and net book value as of March 31, 2013 and 2014

March 31, 2013	Millions of yen		
	Acquisition cost	Accumulated depreciation	Net book value
Machinery and equipment	¥ 31	¥ 26	¥4

March 31, 2014	Millions of yen		
	Acquisition cost	Accumulated depreciation	Net book value
Machinery and equipment	**¥ 27**	**¥ 26**	**¥ 1**

March 31, 2014	Thousands of U.S. dollars		
	Acquisition cost	Accumulated depreciation	Net book value
Machinery and equipment	**$260**	**$249**	**$11**

(2) Lease obligations under such leases, including finance charges, as of March 31, 2013 and 2014 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	**2014**	**2014**
Payments due within one year	¥5	**¥1**	**$11**
Payments due after one year	1	**—**	**—**
	¥6	**¥1**	**$11**

(3) Lease payments under such leases for the years ended March 31, 2012, 2013 and 2014 were ¥30 million, ¥10 million and ¥3 million ($29 thousand), respectively.

In addition, lease obligations under operating leases, including finance charges, as of March 31, 2013 and 2014 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	**2014**	**2014**
Payments due within one year	¥105	**¥106**	**$1,032**
Payments due after one year	160	**154**	**1,491**
	¥265	**¥260**	**$2,523**

13 CASH AND CASH EQUIVALENTS

Reconciliations of cash and time deposits shown in the consolidated balance sheets and cash and cash equivalents shown in the consolidated statements of cash flows as of March 31, 2012, 2013 and 2014 are as follows:

	Millions of yen			Thousands of U.S. dollars
	2012	2013	**2014**	**2014**
Cash and time deposits	¥6,751	¥9,456	**¥11,147**	**$108,228**
Add: Marketable securities	19	26	**34**	**329**
Less: Time deposits with maturities exceeding three months	(167)	(123)	**(123)**	**(1,196)**
Less: Bonds with maturities exceeding three months	—	—	**—**	**—**
Cash and cash equivalents	¥6,603	¥9,359	**¥11,058**	**$107,361**

14 SEGMENT INFORMATION

[General information about reportable segments]

The Companies report separated financial information for each segment, and management periodically validate each segment to decide management resource allocation to evaluate the performance.

The Companies have two reportable segments, "Traffic and Transportation Infrastructure Division" and "ICT Solutions Division" which are related to its products and services.

The "Traffic and Transportation Infrastructure Division" provides services for the manufacture, sale and maintenance of products relating to Railway signals and Traffic systems.

The "ICT Solutions Division" provides services for the manufacture, sale and maintenance of products relating to Automatic fare collection, Automatic control systems and Parking systems.

[Basis of measurement about reported segment profit or loss, segment assets, segment liabilities and other material items]

The accounting method of reportable segments are almost the same as those described in Note 2.

Segment profit is based on operating income.

[Information about reportable segment profit or loss, segment assets, segment liabilities and other material items]

Information by reportable segment as of and for the years ended March 31, 2012, 2013 and 2014 is summarized as follows:

	Millions of yen				
	Traffic and Transportation Infrastructure Division	ICT Solutions Division	Total	Adjustments	Consolidated
Year ended March 31, 2012:					
Net sales:					
Customers	¥49,866	¥34,637	¥84,503	¥ —	¥ 84,503
Segment profit	¥ 5,978	¥ 66	¥ 6,044	¥ (2,748)	¥ 3,296
Segment assets	¥57,390	¥33,947	¥91,337	¥14,254	¥105,591
Depreciation and amortization	¥ 826	¥ 585	¥ 1,411	¥ 505	¥ 1,916
Increase of property, plant, equipment and intangible assets	699	359	1,058	492	1,550
Year ended March 31, 2013:					
Net sales:					
Customers	¥46,128	¥39,211	¥85,339	¥ —	¥ 85,339
Segment profit	¥ 4,743	¥ 3,026	¥ 7,769	¥ (2,687)	¥ 5,082
Segment assets	¥52,443	¥36,391	¥88,834	¥22,225	¥111,059
Depreciation and amortization	¥ 679	¥ 472	¥ 1,151	¥ 484	¥ 1,635
Increase of property, plant, equipment and intangible assets	447	375	822	11	833
Year ended March 31, 2014:					
Net sales:					
Customers	**¥50,200**	**¥43,018**	**¥93,218**	**¥ —**	**¥ 93,218**
Segment profit	**¥ 7,453**	**¥ 1,177**	**¥ 8,630**	**¥ (2,687)**	**¥ 5,943**
Segment assets	**¥52,191**	**¥35,445**	**¥87,636**	**¥25,505**	**¥113,141**
Depreciation and amortization	**¥ 603**	**¥ 482**	**¥ 1,085**	**¥ 469**	**¥ 1,554**
Increase of property, plant, equipment and intangible assets	**597**	**891**	**1,488**	**212**	**1,700**

	Thousands of U.S. dollars				
	Traffic and Transportation Infrastructure Division	ICT Solutions Division	Total	Adjustments	Consolidated
Year ended March 31, 2014:					
Net sales:					
Customers	**$487,382**	**$417,643**	**$905,025**	**$ —**	**$ 905,025**
Segment profit	**$ 72,359**	**$ 11,426**	**$ 83,785**	**$ (26,082)**	**$ 57,703**
Segment assets	**$506,706**	**$344,125**	**$850,831**	**$247,623**	**$1,098,454**
Depreciation and amortization	**$ 5,852**	**$ 4,682**	**$ 10,534**	**$ 4,558**	**$ 15,092**
Increase of property, plant, equipment and intangible assets	**5,811**	**8,641**	**14,452**	**2,053**	**16,505**

Adjustments of segments profits are corporate cost allocated to no segments. They are mainly related with the management departments of the Company.

Segment profits have been adjusted for operating income of consolidated statements of income.

Adjustments of segment assets are principally cash and time deposits, marketable securities and investment securities, and are related with management departments of the Company.

<Change in accounting policies>
As discussed in Note 2, the Companies have changed the estimation method in measuring the percentage-of-completion in construction from the year ended March 31, 2013.

Until the year ended March 31, 2012, the estimated percentage-of-completion in construction at the end of the reporting period was measured by the proportion of the estimated cost of the finished process to the estimated total cost of the whole process. However, from the year ended march 31, 2013, such method was changed to the percentage-of-cost method.

As a result, segment net sales increased by ¥659 million and segment profit increased by ¥168 million in the Traffic and Transportation Infrastructure Division, and segment net sales increased by ¥46 million and segment profit increased by ¥11 million in the ICT Solutions Division, compared with the amounts which would have been calculated under the former method.

<Related information>

<Information about products and services>

Information about products and services is not shown since the information is provided previously in this section.

<Information about geographic area>

<Revenues>

Information of revenues is not shown since domestic sales of the Companies for the years ended March 31, 2012, 2013 and 2014 was more than 90% of net sales of Consolidated Statements of Income and Comprehensive income.

<Property, plant and equipment>

The information of property, plant and equipment is not shown since the amount of property, plant and equipment that located Japan as of March 31, 2012, 2013 and 2014 was more than 90% of the amount of property, plant and equipment of Consolidated Balance Sheets.

<Information about major customers>

Information about major customers is not shown since net sales to every customer for the year ended March 31, 2014 was less than 10 % of the amount of net sales of Consolidated Statements of Income and Comprehensive income.

<Information about negative goodwill>

For the year ended March 31, 2013, information about gain on negative goodwill is not shown since the total amount there of was immaterial.

For the year ended March 31, 2014, gain on negative goodwill is ¥436 million ($4,235 thousand) as a result of business combination through an exchange of stock to make Nisshin Electronics Service Co., Ltd. a wholly owned subsidiary. Notably, such gain on negative goodwill is special gain of all the companies not belonging to any reporting segment.

15 RESEARCH AND DEVELOPMENT EXPENSES

Research and development expenses of the Companies for the years ended March 31, 2012, 2013 and 2014 were ¥2,221 million, ¥2,363 million and ¥3,125 million ($30,339 thousand), respectively, and are included in selling, general and administrative expenses.

16 FAIR VALUE OF INVESTMENT AND RENTAL PROPERTY

The Companies rent a part of the land in Saitama Prefecture and other areas.

The main property is the site of the former Yono plant and Companies rent the property as Fixed Term Land Lease for Business Purpose, based on Article 23 of the Act on Land and Building Leases.

For the period ended March 31, 2012, 2013 and 2014, the net loss of the rental properties is ¥37 million, ¥44 million and ¥15 million ($145 thousand). Rental revenue is ¥20 million, ¥21 million and ¥46 million ($446 thousand), and rental cost is ¥57 million, ¥65 million and ¥61 million ($591 thousand) each year. The maintenance cost for rental land is ¥80 million for the period ended March 31, 2014.

Information about fair value of investment and rental property included in the consolidated financial statements as of March 31, 2013 and 2014 is as follows:

March 31, 2014	Millions of yen		Thousands of U.S. dollars
	2013	**2014**	**2014**
Book value at the end of prior fiscal year	¥ 474	**¥ 471**	**$ 4,571**
Increase (decrease) in the fiscal year	(3)	**0**	**(3)**
Book value	471	**471**	**4,568**
Fair value	¥6,920	**¥6,920**	**$67,187**

The fair value of major real estate is computed based on the appraised amount valued by real estate appraisers from outside of the Companies and others are computed based on fair value and appraised value.

17 BUSINESS COMBINATIONS

1. Summary of Transaction

(1) Names of the combined party and description of its business

(a) Names of the combined party

Nisshin Electronics Service Co., Ltd.

(b) Description of the combined party

Nisshin Electronics Service Co., Ltd. is mainly engaged in the maintenance of electrical equipment manufactured by the Company.

(2) Purpose of stock exchange

To further promote the enhancement and reinforcement of the NIPPON SIGNAL Group's management and to further improve the Group's corporate value.

(3) Date of combination (Day regarded as the acquisition date)

March 31, 2014.

(4) Legal form of the business combination

Stock exchange to make Nisshin Electronics Service a wholly owned subsidiary.

(5) Name of company after business combination

No change.

2. Summary of Accounting Treatment

The stock exchange has been accounted for as a transaction of minority stockholders among "Transaction under Common Control " in accordance with the "Accounting Standards for Business Combinations" (ASBJ Statement No.21, as revised by on December 26, 2008) and "Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures" (ASBJ Guidance No.10, as revised on December 26, 2008).

3. Information concerning Additional Acquisition of Subsidiary Stock

(1) Acuisition cost and breakdown there of

	Millions of yen	Thousands of U.S. dollars
	2013	**2014**
Payment for acquisition (Note)	¥5,308	**$51,538**
Direct expence for acquisition	53	**508**
Acquisition cost	¥5,361	**$52,046**

Note: The ¥40 million ($388 thousand) in common stock that was allocated to Nisshin Electronics Service Co., Ltd. which is owned by our consolidated subsidiary, Nisshin Tokki Co.,Ltd. is excluded.

(2) Details of share exchange ratio and number of shares submitted

(a) Type of stock and exchange ratio

Common share: 1 share of Nippon Signal to 2 shares of Nisshin Electronics Service Co., Ltd.

(b) Number of shares submitted: 5,891,652 shares

Note: The 96,000 shares of common stock that was allocated to Nisshin Electronics Service Co., Ltd.'s stock owned by our consolidated subsidiary, Nisshin Tokki Co.,Ltd. is excluded.

(3) Computation method of share exchange ratio

To ensure that the ratio for the exchange stock is fair and proper, the Company selected Mizuho Securities Co., Ltd., and Nisshin Electronics Service Co., Ltd. selected SMBC Nikko Securities Inc. as independent third parties to calculate the exchange ratio. For each company, Mizuho Securities Co., Ltd. made the calculations based on the market price method,comparable peer company analysis and disounted cash flow analysis, and SMBC Nikko Securities Inc. made the calculation based on the market price method and disounted cash flow method.

The Company and Nisshin Electronics Service Co., Ltd. made their decision carefully through the process of mutual negotiation and consultation considering the results of the third party analysis and their advice and both companies' financial condition, performance trend and movement of share price. As a result, the share exchange ratio for the stock exchange was decided upon at each company's Board of Directors Meeting held on November 12, 2013.

(4) Amount of and Reason for Negative Goodwill

(a) Amount
¥436million ($4,235 thousand)
(b) Reason for the recognition
The cost for additional acquisition of subsidiary's shares was less than the amount of decrease in minority interests associated with the additional acuisition.

18 SUBSEQUENT EVENT

At the annual shareholders' meeting held on June 25, 2014, the shareholders approved cash dividends of ¥11.00 per share. Total amounts of dividends paid to shareholders were ¥750 million ($7,285 thousand). Such appropriations have not been accrued in the consolidated financial statements as of March 31, 2014.

Such appropriations are recognized in the period in which they are approved by the shareholders.

19 PER SHARE DATA

Net assets worth per share and net income per share as of and for the years ended March 31, 2013 and 2014 were as follows:

	Yen		U.S. dollars
	2013	**2014**	**2014**
Net assets worth per share of common stock	917.15	**975.92**	**9.47**
Basic net income per share of common stock	50.25	**58.32**	**0.57**

Diluted net income per share is not presented for the year ended March 31, 2013 and 2014, because the Company has not had dilutive potential share.

As described in "Changes in Accounting Policies," the Accounting Standard for Retirement Benefits are applied, inaccordance with the provisions on transitional implementation indicated in Paragraph 37 of the Accounting Standard for Retirement Benefits.

As a result, net assets per share at the end of the fiscal year increased by ¥6.04.

(1) Basis of net assets per share of common stock for the years ended March 31, 2013 and 2014 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	**2014**	**2014**
Net assets	¥62,955	**¥66,886**	**$649,380**
Amounts deducted from net assets	5,725	**316**	**3,067**
Minority interests	5,725	**316**	**3,067**
Net assets applicable to common stock	57,230	**66,570**	**646,313**
Number of share of common stock at end of year (in thousands of shares)	62,400	**68,213**	**68,213**

(2) Basis of net income per share of common stock for the years ended March 31, 2013 and 2014 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	**2014**	**2014**
Net income	¥ 3,135	**¥ 3,667**	**$35,605**
Net income not available to common stock holders	—	**—**	**—**
Net income available to common stock	3,135	**3,667**	**35,605**
Average common stock outstanding (in thousands of shares)	62,400	**62,884**	**62,884**

KPMG

Independent Auditor's Report

To the Board of Directors of The Nippon Signal Co., Ltd.:

We have audited the accompanying consolidated financial statements of The Nippon Signal Co., Ltd. and its consolidated subsidiaries , which comprise the consolidated balance sheets as of March 31, 2014 and 2013, and the consolidated statements of income and comprehensive income, statements of changes in net assets and statements of cash flows for the years ending March 31, 2014, 2013 and 2012 , 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 misstatements, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we comply with ethical requirements and 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 our judgement, 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, we consider 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, while the objective of the financial statement audit is 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 The Nippon Signal Co., Ltd. and its consolidated subsidiaries as of March 31, 2014 and 2013, and their financial performance and cash flows for the years ending March 31, 2014, 2013 and 2012 in accordance with accounting principles generally accepted in Japan.

Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2014 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

KPMG AZSA LLC

KPMG AZSA LLC
July 22, 2014
Tokyo, Japan

BOARD OF DIRECTORS AND AUDIT & SUPERVISORY BOARD MEMBERS

As of July 1, 2014

President

Yohei Furuhata

Senior Executive Officer

Hisatoshi Horiuchi

Executive Officers

Yoshinori Azuma
Hideo Oshima
Kazumi Shimizu
Yoji Shimizu
Makoto Tanno
Kazuhiko Hirano
Masaki Samukawa

Director and Deputy Chief Executive Officer

Yasuo Saito

Director and Deputy Chief Executive Officer

Yoshitaka Tokubuchi

Director and Deputy Chief Executive Officer

Hidehiko Tsukamoto

Director and Senior Executive Officer

Takeshi Fujiwara

Director and Senior Executive Officer

Toshio Takano

Director

Yoshiteru Yoneyama

Audit & Supervisory Board Member

Shoji Kawada

Audit & Supervisory Board Member

Yukio Yoshikawa

Audit & Supervisory Board Member

Keiichiro Sue

Audit & Supervisory Board Member

Ryoichi Tahara

CORPORATE DATA

As of March 31, 2014

THE NIPPON SIGNAL CO., LTD.

Date of Establishment
December 27, 1928

Number of Employees
1,207

Paid-in Capital
¥10,000 million

Number of Shares of Common Stock Issued
68,339,704

Number of Stockholders
10,126

Securities Traded
Tokyo Stock Exchange (First Section)

Transfer Agent and Registrar
The Mizuho Trust & Banking Co., Ltd.
Mizuho Investors Securities Co., Ltd.

Independent Certified Public Accountant
KPMG AZSA LLC

Head Office
1-5-1, Marunouchi, Chiyoda-ku, Tokyo 100-6513, Japan
Tel: +81-3-3217-7200
Fax: +81-3-3217-7300

Osaka Branch
3-6-3, Awaji-machi, Chuo-ku,
Osaka 541-0047, Japan
Tel: +81-6-6202-2021

Kuki Plant
1836-1, Ooya, Aza, Ezura, Kuki,
Saitama 346-8524, Japan
Tel: +81-480-28-3000

Utsunomiya Plant
11-2, Hiraide Kogyo Danchi, Utsunomiya,
Tochigi 321-8651, Japan
Tel: +81-28-660-3000

SUBSIDIARIES

Consolidated Subsidiaries

■ ***Manufacturing***
Nisshin Electrics Construction Co., Ltd.
Nisshin Industry Co., Ltd.
Tochigi Nisshin Co., Ltd.
Nisshin Software Engineering Co., Ltd.
Yamagata Nisshin Electronics Co., Ltd.
Nisshin Tokki Co., Ltd.

■ ***Servicing***
Nisshin Electronics Service Co., Ltd.
Sapporo Nisshin Electronics Co., Ltd.
Fukuoka Nisshin Electronics Co., Ltd.
Mie Nisshin Electronics Co., Ltd.
Sendai Nisshin Electronics Co., Ltd.
Nisshin IT Field Service Co., Ltd.

Non-Consolidated Subsidiaries

■ ***Manufacturing***
Asahi Electronics Co., Ltd.

■ ***Servicing***
Nisshin Enterprise Co., Ltd.
Nisshin TECHNO Service Co., Ltd.
Nisshin Career Service Co., Ltd.
Circuit Technology Inc.
Beijing Nippon Signal Co., Ltd.

ORGANIZATION

As of July 1, 2014

- Audit & Supervisory Board
  - Audit & Supervisory Board members
- Board of Directors — President — Committee of Directors
  - Internal Audit Dept.
  - Quality & Environmental Management Dept.
  - IT Strategy Dept.
  - Research & Development Center
  - **Business Administration Division**
    - Vision-2020 3E (Corporate Strategy) Office
    - General Affairs Dept.
    - Personnel Dept.
    - Finance Dept.
    - Accounting Dept.
  - **Business Head Office**
    - Business Control Dept.
    - **Traffic and Transportation Infrastructure Business**
      - Railway Signal Systems Division
      - Traffic Information Systems Division
    - **ICT Solutions Business**
      - Automatic Fare Collection Systems Division
      - Information Systems Division
    - Traffic and Transportation Infrastructure System Engineering Division
    - ICT Solutions Engineering Division
  - **Monodukuri Division**
    - General Affairs Dept. at Plant
    - Kuki Plant
    - Utsunomiya Plant
  - Overseas Division
  - Visionary Business Center
  - Osaka Branch Office
  - Hokkaido Branch Office
  - Tohoku Branch Office
  - Kitakanto Branch Office
  - Chubu Branch Office
  - Kyushu Branch Office
- Risk Management Committee

PRODUCT OUTLINE

As of March 31, 2014

1. Railway Signaling Systems

Automatic Train Supervision System
Automatic Train Protection System (ATP)
Automatic Train Operation System (ATO)
Train Detection Equipment
Transponder
Maintenance Management System
Relay Interlocking Equipment
Train Information Processing System
Electronic Interlocking Equipment
Electronic Block System
Railway Crossing System
Train Navigation System (TNS)
Other Signal Equipment

2. Traffic Control Systems

Universal Traffic Management System
Centralized Area Traffic Control System
Local Controllers
Traffic Signal-Integrated Street Lights
Ultrasonic Vehicle Detector
Vehicle-Type Classifying Detector
Image Processing Vehicle Detector
Road Traffic Information System
Traffic Information Board
Traffic Flow Data Counter

3. Automatic Fare Collection Systems

Automatic Passenger Gate
Automatic Ticket Vending Machine
Automatic Fare Adjustment Machine
Data Processing Equipment
Station Controller
Coupon Vending Machine
Automatic Coupon Vending Machine
Automatic Prepaid Card Vending Machine
Centralized Card Encoder
Ticket Issuing Machine for Station Staff
Centralized Monitoring Equipment

4. Integrated Airport Passenger Systems

Boarding Pass Printer
Boarding Pass Reader

5. Parking Control Systems

Parking Fee Collection System (ISP)
PARK-LOC® System (P/L)
Parking Management and Control System
Intelligent PARK-LOC® (IPL)
Centralized Monitoring System
Parking Management Support System
Bicycle Parking Lot Management Support System
Information Port System (IPOS)

6. Electronics Information and Control Equipment

(1) Card Systems

Visible Magnetic Card (VISMAC)
Point Card System
Contact-Less IC Card
Various Card Writers and Readers

(2) Entry/Exit Control Systems

Security Gate System
Security Control System for Buildings
Automatic Card Vending Machine

(3) Information Display Systems

LED Display System
Passenger Information System

7. RFID

8. MEMS

NIPPON SIGNAL
THE NIPPON SIGNAL CO., LTD.

1-5-1, Marunouchi,
Chiyoda-ku, Tokyo 100-6513, Japan
Tel: +81-3-3217-7200
Fax: +81-3-3217-7300
URL: http://www.signal.co.jp/

VEGETABLE OIL INK
This publication has been printed using eco-friendly vegetable oil ink.

FSC www.fsc.org
MIX
Paper from responsible sources
FSC™ C015482

Printed in Japan