

# ANNUAL REPORT

April 2006 — March 2007



*Fighting Disease with Electronics*

 **NIHON KOHDEN**

# Company Profile

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

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

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

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

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

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



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

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

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

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# Consolidated Financial Highlights

Nihon Kohden Corporation and Consolidated Subsidiaries

Years ended March 31, 2007, 2006, 2005, 2004, and 2003

	Millions of yen					Thousands of U.S. dollars <sup>(1)</sup>
	2007	2006	2005	2004	2003	2007
Net sales	¥96,679	¥90,368	¥ 83,808	¥ 83,133	¥ 75,739	\$ 818,966
Operating profit	7,974	7,415	7,189	5,968	3,357	67,547
Income before income taxes and minority interests	8,311	8,261	7,608	5,421	2,502	70,402
Net income	5,053	5,788	6,563	3,678	2,082	42,804
Total assets	75,894	73,511	67,478	64,278	60,321	642,897
Net assets <sup>(2)</sup>	48,865	45,878	40,415	34,716	31,070	413,935

Amounts per share <sup>(3)</sup> :	Yen					U.S. dollars <sup>(1)</sup>
	2007	2006	2005	2004	2003	2007
Net income-basis	¥114.12	¥128.56	¥ 145.21	¥ 80.90	¥ 45.26	\$ 0.97
Cash dividends	30.00	26.00	20.00	12.00	8.00	0.25

Notes : (1) U.S. dollar amounts are translated from yen, for convenience only, at the rate of ¥118.05 = US\$1.

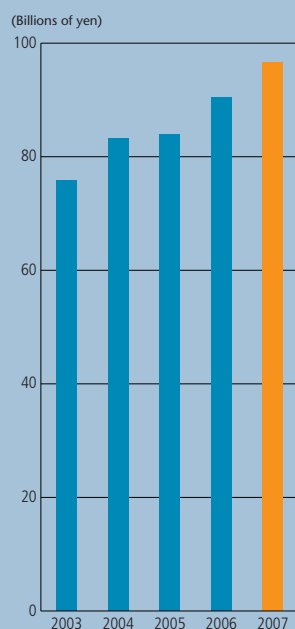
(2) Certain retroactive adjustments of previously reported net assets have been made to conform to the presentation used as of and for the year ended March 31, 2007.

(3) Computation of net income and dividends per share was based on the average number of shares of common stock outstanding during each fiscal year.

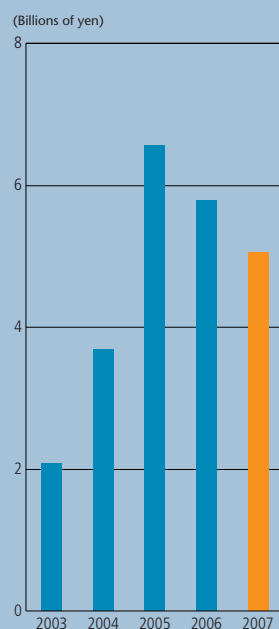
Cash dividends per share are dividends applicable to the respective years including dividends to be paid after the end of the year.

See Note 10 and 13 of Consolidated Financial Statements.

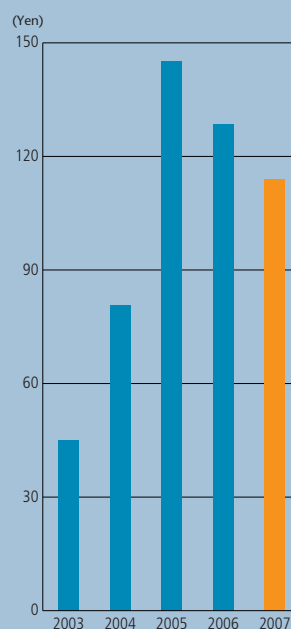
## Net sales



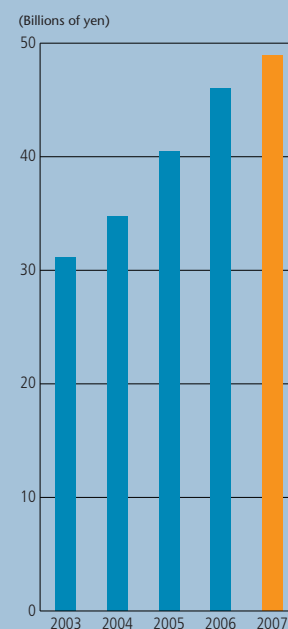
## Net income



## Net income per share



## Net assets





# Preside

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

For more than half a century we have enthusiastically continued our original mission of “fighting disease with electronics” and Nihon Kohden has continued to move forward as a top manufacturer of medical electronic equipment. In that period, with a particular eye toward the connection between human and machine, we have concentrated our efforts on developing human-machine interface technologies and turned them into practical reality in many excellent medical electronic products. Nihon Kohden developed the basis of SpO<sub>2</sub> which is indispensable in modern medicine. We have become the world’s leading manufacturer of electroencephalographs and our electrocardiographs, evoked potential / electromyogram measuring systems, patient monitors, defibrillators, automatic hematology analyzers and other medical equipment have earned an excellent reputation among users around the world.

With our 1995 ISO9001 certification, the international standard of quality assurance, and CE marking in 1996, based on the EU Medical Device Directive, Nihon Kohden has constructed a consistent quality assurance system covering all areas, from development to after sales service. Based on our quality policy that “Customers shall always be assured that they have made the right decision by selecting Nihon Kohden products,” we are

# nt's Message

continually striving to develop the highest quality products.

As environmental issues are getting widespread international attention, our company is aiming to implement business operations that are gentle on the earth. In October 2000 we established an environmental policy and our six offices, including our head office in Tokyo and our main production facility at Tomioka, received integrated ISO 14001 certification.

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

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

Nihon Kohden drew up a new mid-term business plan, SPEED UP II, covering the 3 year period until FY2009 (ending March 2010)

with the aim of sustaining group growth and enhancing corporate value of the Company. Our target in fiscal 2009, the final year of this plan, is sales of ¥113 billion, operating profit of ¥10.2 billion, and increasing international sales to 27% of the total. In the new plan, Nihon Kohden continues the management vision of "increasing Nihon Kohden's global brand awareness for medical electronic equipment." The Company also set a new long-term management goal of sales of ¥140 billion, operating margin of 10%, and ratio of overseas sales of 30% by FY2012.

In international business, we established an international sales network based on three axis organizations, the Americas, Europe and Asia. We are currently in the process of expanding after sales service and training programs for local distributors.

We will continue our contribution to fighting disease and improving the health of all people in the world.

This is the common wish of all people that transcends beliefs and national borders. In this, we request your continued support.



Kazuo Ogino  
President and Chief Executive Officer

## New Mid-term Business Plan SPEED UP II

Based on its corporate philosophy of “fighting disease and enhancing health care with advanced technology in order to contribute to the world as well as create an affluent life for employees,” Nihon Kohden launched a new 3-year business plan, SPEED UP II, for the period until FY2009 (ending March 2010) with the aim of sustaining group growth and enhancing corporate value of the Company.

In the previous mid-term plan (FY 2004 to 2006), Nihon Kohden implemented various measures to increase corporate value under the theme of “establish high-profit structure by strengthening management structure and management base.” In the domestic market, the Company emphasized development of products with high market demand, such as system network products that support hospitals in introducing IT to their operations, in order to respond to medical system reform. The Company also worked to increase market share in the acute hospital market and promoted AED (automatic external defibrillator) in the emerging market of PAD (public access defibrillation). In overseas markets, the Company established a three axis sales organization based on the Americas, Europe and Asia.

As a result, the Company exceeded its original target for consolidated sales, consolidated ordinary profit and ratio of overseas sales in FY2006, the final year of

### Management Vision

Increase Nihon Kohden’s global brand awareness for medical electronic equipment

### Long-term Management Goal

Achieve by FY2012 (ending March 2013)

Net sales	¥140 billion
Operating margin	10%
Ratio of overseas sales	30%

### SPEED UP II Target

Target for FY2009 (ending March 2010)

Net sales	¥113.0 billion
Operating profit	¥10.2 billion
Ratio of overseas sales	27%
Inventory turnover rate	7.4 times
ROE	12.0%

the previous plan. The targets of ROE and inventory reduction remain to be met.

In the new mid-term business plan, Nihon Kohden continues the previous plan’s theme of “establish high-profit structure by strengthening management structure and management base” and the management vision of “increasing Nihon Kohden’s global brand awareness for medical electronic equipment.”

The Company also set a new long-term management goal of sales of ¥140 billion, operating margin of 10%,

## Our AEDs support Tokyo Marathon

One of the biggest marathons in Asia, the Tokyo Marathon 2007, was held on February 18, 2007. 30,000 runners including top athletes, city runners and participants from foreign countries enjoyed traversing various tourist spots in the city with the cheers of 1,780,000 spectators along the course near the Imperial Palace, Tokyo Tower and Ginza.

Nihon Kohden supported this big event by providing AEDs for the runners’ safety.

An AED, or Automated External Defibrillator, is an electronic device that treats a heart attack victim by delivering an electrical shock which stops the arrhythmia and allows the heart to resume its normal



rhythm.

In July 2004, the MHLW (Ministry of Health, Labour and Welfare) officially recognized the use of AED by ordinary citizens. Awareness of AED has grown quickly and these devices are being placed in a wide variety of locations including airports, railway stations, sports clubs, community centers, schools, and companies in addition to hospitals, clinics, and ambulances.

For the Tokyo Marathon 2007, Nihon Kohden deployed 44 AEDs and 25 volunteers along the course to prepare for any contingency. Mobile AED Teams on bicycle were also organized for fast rescue of any fallen runners.

Two runners in the race collapsed, but this emergency medical support and AEDs saved their lives. We are proud to have contributed to make Tokyo Marathon a safer event.

and ratio of overseas sales of 30% by FY2012. Nihon Kohden aims to increase its corporate value and common interests of its stockholders by steadily implementing various measures in the new SPEED UP II mid-term business plan.

#### Product Strategy:

- Strengthen our business foundation, such as framework for technology development and product supply system, in order to respond to globalization
- Strengthen our core technologies, such as sensors, biosignal processing, wireless, IT and networking, to provide high value-added products on a timely basis
- Strengthen technical development and enhance our product lineup in growth areas such as specialized medical checkups, medical safety, and solutions for hospital-clinic cooperation systems in order to respond to medical system reform

#### Production and Logistics Strategy:

- Strengthen our production system while ensuring quality in order to support a global business
- Promote cost savings by improving production efficiency and procurement
- Shorten delivery time, reduce inventories and reduce logistics cost by optimizing logistics and overseas production

#### Domestic Sales Strategy:

- Expand market share in the field of acute hospitals and primary care doctors
- Strengthen our after sales service business
- Promote AED and enhance our after sales service business to expand PAD business

#### International Sales Strategy:

- Establish a strong international sales network based on three axis organizations, the Americas, Europe and Asia, by building closer and more cooperative relations between our direct marketing network and distributors' networks
- Strengthen our service structure by enhancing regional service networks and improving the quality of our technical service system

#### Reorganize Management System and Enhance Human Resource Development

- Enhance corporate governance
- Strengthen our internal control system and promote CSR (corporate social responsibility)
- Cultivate and recruit human resources capable of global business operations

## A new compact EEG-Neurofax

Neurofax EEG-1214 is a portable digital electroencephalograph featuring a compact and lightweight body with a new type of casters which provide high mobility. Neurofax has a high performance input box with USB connection that ensures noise-free EEG recording even in the electrically noisy OR or ICU or general ward. Neurofax also provides easy screen navigation for EEG examination and 3-D

voltage maps. EEG data can be stored on a variety of media in addition to paper records.



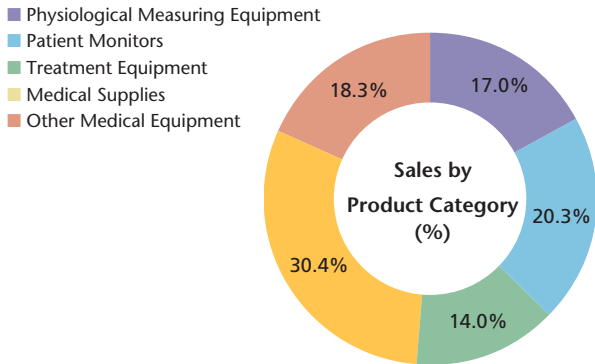
## New ECG series cardiofax M / cardiofax S

Nihon Kohden introduced two new electrocardiographs, cardiofax M ECG-1250 and cardiofax S ECG-1350. ECG-1250 has 6-channel recording and ECG-1350 has 12-channel recording.

Both models have a vivid color LCD screen, USB or LAN data transfer, and alphanumeric keys for data entry. Both models are also compact, nearly the width and length of A4 paper. An SD card allows mass data storage.



# At a Glance



## Physiological Measuring Equipment

Electroencephalographs, evoked potential and electromyogram measuring systems, electrocardiographs, polygraphs, respiratory measuring devices, diagnostic information systems and other equipment

ECG-1250 EEG-1214

# 17.0%

## Patient Monitors

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

CNS-9700 BSM-9101

# 20.3%

## Treatment Equipment

Defibrillators, pacemakers, ventilators, patient warming systems and other instruments

TEC-7731 AED-9231

# 14.0%

## Medical Supplies

Recording paper, electrodes, reagents, catheters, maintenance parts and other consumables

TL-271T TL-272T

# 30.4%

## Other Medical Equipment

Automated hematology analyzers, emergency transmitters, hand held emergency monitors, ultrasound diagnostic equipment, transformers and other equipment

MEK-6400 CRP-3100

# 18.3%

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

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

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

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



# Review of Operations

During the term under review (April 1, 2006 to March 31, 2007), as part of the National Health Insurance (NHI) reform in Japan, NHI price was cut drastically in April 2006 and more hospitals introduced the DPC (Diagnosis Procedure Combination) system. In June 2006, this was followed by passage of bills to reform the medical system. During this system reform, medical facilities are facing the need to provide safe, high-quality, and efficient health care. One result is that community health care networks between hospitals and clinics, active use of IT, and early detection and prevention of lifestyle-related diseases have been attracting attention. Medical institutions have been actively pursuing business efficiency which has led to intensified competition among medical equipment suppliers. At the same time, there are trends toward capital investments for functional enhancement in large-scale hospitals and an increase in private practice startups.

Outside Japan, competition intensified as M&A activities have accelerated among the large-scale western companies, while new entrants from Asia and other developing regions have broken into developed countries' markets with attractive products.

Under these circumstances, to strengthen our organization and business structures, Nihon Kohden has implemented a 3-year Mid-term Business Plan of which the final year is the term under review.

We enhanced our product lineup especially in physiological measuring equipment and launched various products such as a new diagnostic information system, Prime Vita.

Two subsidiaries were liquidated to promote further efficiency and optimize group business.

Nihon Kohden made Beneficks Corporation, a medical information system vendor, its subsidiary by acquiring its third-party allotment. We also established Nihon Kohden Firenze, s.r.l. to manufacture hematology analyzer reagents in Italy.

As a result, sales during the term under review grew 7.0%, to ¥96,679 million and operating profit rose 7.5%, to ¥7,974 million. Net income decreased 12.7%, to ¥5,053 million, mainly due to the absence of tax payment reduction related to the liquidation of a group subsidiary in the previous fiscal year.

# Management's Discussion and Analysis

## Sales

In the term under review, sales increased ¥6,311 million, or 7.0%, to ¥96,679 million.

### Sales by Product Category

**Physiological Measuring Equipment:** In Japan, increased sales of ECG, electrophysiology workstations and portable pulse oximeters favorably impacted domestic Physiological Measuring Equipment sales. This was partially offset by lower sales of neurology products. Outside Japan, increased sales of neurology products and ECG favorably impacted international sales of Physiological Measuring Equipment. Overall, sales increased 7.0% over the previous fiscal year to ¥16,482 million.

**Patient Monitors:** Domestic sales of Patient Monitors decreased from the previous fiscal year when we had large-scale orders. Sales growth in all regions outside Japan, especially bedside monitors, favorably impacted international Patient Monitors sales. Overall, sales increased 4.4% over the previous fiscal year to ¥19,673 million.

**Treatment Equipment:** Increased sales of defibrillators in medical facilities and ambulances as well as increased sales of AED in the PAD market led to increased domestic sales of Treatment Equipment. This was partially offset by lower sales of pacemakers and ventilators. Internationally, sales of defibrillators in medical institutions showed strong growth. Overall, sales increased 8.2% over the previous fiscal year to ¥13,489 million.

**Medical Supplies:** Increased sales of consumables such as sensors, catheters and reagents favorably impacted domestic Medical Supplies sales. Maintenance service sales also increased. International consumables sales increased, including a large-scale order in Latin America. Overall, sales increased 6.5% over the previous fiscal year to ¥29,408 million.

**Other Medical Equipment:** Increased sales of hematology analyzers, Toshiba ultrasound measuring instruments and products related to medical information systems favorably impacted domestic Other Medical Equipment sales.

Internationally sales of hematology analyzers increased. Overall, sales increased 9.9% over the previous fiscal year to ¥17,627 million.

### Sales by Region

**Japan:** Sales in the university market and public hospital market increased, primarily supported by the sales growth of physiological measuring equipment and system network products. Sales in private hospital market slightly decreased. Sales in the clinic market increased, reflecting our focus on consulting business for private practice startups. Strong sales growth of AED was driven by its accelerated penetration in the PAD market. As a result, sales increased 4.1% over the previous year, to ¥74,750 million.

**International:** Effective this fiscal year, financial figures for Turkey are included in Europe; they were previously included in Asia. This change resulted in a slight sales decline in Asia. Sales growth in the Americas and Europe drove an international sales increase of 17.9% over the previous year, to ¥21,929 million. Percentage of overseas sales to consolidated sales reached 22.7%.

## Cost of Sales, SGA Expenses and Operating Income

In the term under review, sales costs were ¥49,246 million. Gross profit ratio rose 160 basis points to 49.1%, primarily due to favorable product mix, including increased sales of our own products, as well as manufacturing efficiencies. Gross profit on sales increased ¥4,473 million, or 10.4%, to ¥47,433 million.

Selling, general, and administrative expenses increased mainly due to enhancement of our human resources as well as the increase of accrued bonuses based on company performance in order to optimize periodic income. The ratio of SGA expenses to sales increased 160 basis points to 40.9%. Research and development costs, included in cost of sales and SGA expenses, were ¥4,757 million (4.9% of sales).

As a result, operating profits increased ¥559 million, or 7.5%, to ¥7,974 million.

## Other Income and Expenses, Net Income

Net other income (expenses) totaled ¥337 million as compared with ¥846 million in the previous fiscal year. We recorded ¥429 million of exchange gain and ¥172 million of head office relocation expenses in this fiscal year, ¥416 million of exchange gain and ¥204 million of gain on sale of investments in securities in the previous fiscal year.

Income before income tax and minority interests increased ¥50 million to ¥8,311 million from ¥8,261 million in the previous fiscal year.

Net income decreased ¥735 million to ¥5,053 million from ¥5,788 million in the previous fiscal year. Net income per share was ¥114.12.

## Cash Flows

Net cash provided by operating activities during the year under review decreased ¥1,918 million to ¥5,883 million. It includes ¥8,311 million of income before income taxes and minority interests, ¥1,773 million of depreciation and amortization, and ¥3,681 million of income taxes paid.

Net cash used in investing activities increased ¥1,536 million to ¥3,050 million. We used ¥2,242 million for capital expenditure, ¥484 million for purchase of intangible fixed assets, and ¥461 million for securities investment.

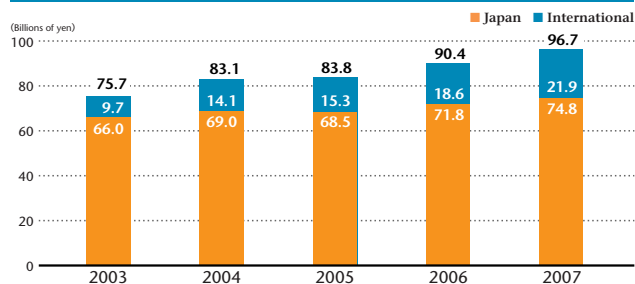
As a result of these factors, free cash flow decreased ¥3,454 million to ¥2,833 million.

Net cash used in financing activities decreased ¥6 million to ¥2,592 million. We paid ¥1,239 million for stockholders dividends and used ¥741 million to purchase treasury stock and ¥539 million to repay short-term loans.

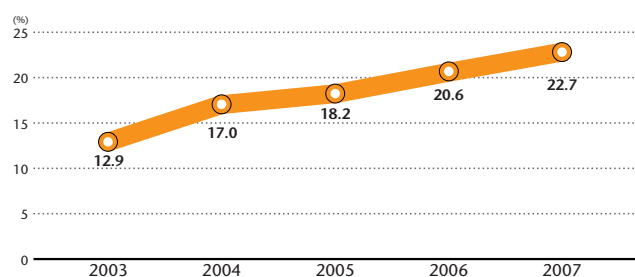
As a result, cash and cash equivalents as of March 31, 2007 increased ¥223 million to ¥11,028 million.

Years ended March 31

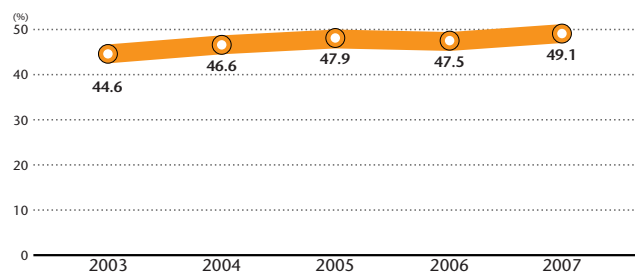
### Net sales by region



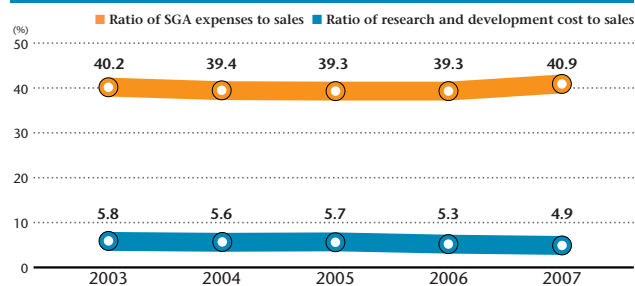
### Percentage of international sales



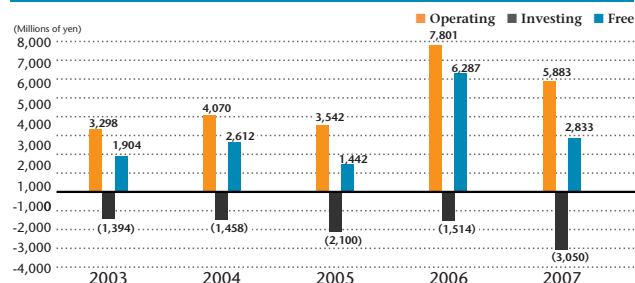
### Gross profit ratio



### SGA expenses/R&D expenses to net sales



### Cash flows



## Consolidated Balance Sheets

March 31, 2007 and 2006

Assets	Millions of yen		Thousands of U.S. dollars (note 2)
	2007	2006	2007
Current assets:			
Cash (note 3)	¥11,060	¥10,848	\$ 93,689
Trade notes and accounts receivable	28,806	29,569	244,015
Inventories	15,009	14,082	127,141
Deferred income taxes (note 8)	3,215	3,010	27,234
Other current assets	947	1,064	8,022
Less allowance for doubtful receivables	128	122	1,084
Total current assets	58,909	58,451	499,017
Property, plant and equipment, net of accumulated depreciation; ¥16,635 million (\$140,915 thousand) in 2007 and ¥16,068 million in 2006:			
Buildings and structures	3,189	2,915	27,014
Machinery, equipment and vehicles	698	717	5,913
Tools, furniture and fixtures	2,640	2,126	22,363
Land	2,499	2,499	21,169
Construction in progress	288	284	2,440
Net property, plant and equipment	9,314	8,541	78,899
Intangible assets, net	1,043	698	8,835
Investments and other assets:			
Investments in securities (notes 4 and 5)	4,910	4,680	41,592
Deferred income taxes (note 8)	19	23	161
Other investments and other assets (note 7)	2,065	1,498	17,493
Less allowance for doubtful receivables	366	380	3,100
Total investments and other assets	6,628	5,821	56,146
<b>Total assets</b>	<b>¥75,894</b>	<b>¥73,511</b>	<b>\$642,897</b>

See accompanying notes to consolidated financial statements.

Liabilities and Net Assets	Millions of yen		Thousands of U.S. dollars (note 2)
	2007	2006	2007
Current liabilities:			
Trade notes and accounts payable	¥16,122	¥17,350	\$136,569
Short-term debt and current installments of long-term debt (note 6)	2,522	3,002	21,364
Other payables	859	672	7,277
Accrued income taxes (note 8)	1,923	2,359	16,290
Accrued expenses	1,938	1,761	16,417
Accrued bonuses	1,807	1,067	15,307
Accrued bonuses to directors and corporate auditors	77	—	652
Other current liabilities	1,128	1,085	9,555
Total current liabilities	26,376	27,296	223,431
Non-current liabilities:			
Long-term debt (note 6)	111	17	940
Liabilities for retirement and severance benefits (note 7)	282	255	2,389
Deferred income taxes (note 8)	222	45	1,880
Other non-current liabilities	38	20	322
Total non-current liabilities	653	337	5,531
Total liabilities	27,029	27,633	228,962
Stockholders' equity:			
Common stock (note 9):	7,545	7,545	63,914
Authorized 98,986,000 shares; issued 45,765,490 shares in 2007 and 2006			
Additional paid-in capital (note 9)	10,485	10,485	88,818
Retained earnings (note 10)	30,710	26,990	260,144
Treasury stock, at cost; 1,439,613 shares in 2007 and 1,727,745 shares in 2006	(1,756)	(1,015)	(14,875)
Total stockholders' equity	46,984	44,005	398,001
Valuation and translation adjustments:			
Net unrealized gain on other securities (note 4)	1,469	1,597	12,444
Deferred gains on hedges	1	—	8
Foreign currency translation adjustments	50	(62)	424
Total valuation and translation adjustments	1,520	1,535	12,876
Minority interests	361	338	3,058
Total net assets	48,865	45,878	413,935
Commitments and contingencies (note 15)			
Total liabilities and net assets	¥75,894	¥73,511	\$642,897

## Consolidated Statements of Income

March 31, 2007 and 2006

	Millions of yen		Thousands of U.S. dollars (note 2)
	2007	2006	2007
Net sales	¥96,679	¥90,368	\$818,966
Cost of sales (note 12)	49,246	47,408	417,162
Gross profit	47,433	42,960	401,804
Selling, general and administrative expenses (notes 11 and 12)	39,459	35,545	334,257
Operating profit	7,974	7,415	67,547
Other income (deductions):			
Interest income	27	19	229
Dividend income	56	70	474
Interest expenses	(92)	(70)	(779)
Equity in earnings of affiliates	46	41	390
Exchange gain	429	416	3,634
Loss on disposal of property, plant and equipment	(68)	(55)	(576)
Gain on sale of investments in securities (note 4)	20	204	169
Other, net	(81)	221	(686)
	337	846	2,855
Income before income taxes and minority interests	8,311	8,261	70,402
Income taxes (note 8):			
Current	3,138	2,935	26,582
Prior years	—	227	—
Deferred	65	(733)	550
	3,203	2,429	27,132
Income before minority interests	5,108	5,832	43,270
Minority interests	55	44	466
Net income	¥ 5,053	¥ 5,788	\$ 42,804

See accompanying notes to consolidated financial statements.

# Consolidated Statements of Changes in Net Assets

Years ended March 31, 2007 and 2006

Millions of yen

	Stockholders' equity					Valuation and translation adjustments				Minority interests	Total net assets
	Common stock (note 9)	Additional paid-in capital (note 9)	Retained earnings (note 10)	Treasury stock	Total	Net unrealized gain on other securities (note 4)	Deferred gains on hedges	Foreign currency translation adjustments	Total		
Balance at March 31, 2005	¥7,545	¥10,484	¥22,398	¥ (958)	¥39,469	¥ 848	¥ —	¥(195)	¥ 653	¥293	¥40,415
Changes arising during year:											
Cash dividends			(1,153)		(1,153)						(1,153)
Bonuses to directors and corporate auditors			(83)		(83)						(83)
Net income			5,788		5,788						5,788
Increase resulting from exclusion of an affiliate accounted for by the equity method			40		40						40
Increase resulting from sale of treasury stock		1			1						1
Other, net				(57)	(57)	749		133	882	45	870
Total changes during the year	—	1	4,592	(57)	4,536	749	—	133	882	45	5,463
Balance at March 31, 2006	7,545	10,485	26,990	(1,015)	44,005	1,597	—	(62)	1,535	338	45,878
Changes arising during year:											
Cash dividends			(1,241)		(1,241)						(1,241)
Bonuses to directors and corporate auditors			(92)		(92)						(92)
Net income			5,053		5,053						5,053
Purchase of treasury stock				(741)	(741)						(741)
Disposition of treasury stock		0		0	0						0
Net changes other than stockholders' equity						(128)	1	112	(15)	23	8
Total changes during the year	—	0	3,720	(741)	2,979	(128)	1	112	(15)	23	2,987
Balance at March 31, 2007	¥7,545	¥10,485	¥30,710	¥(1,756)	¥46,984	¥1,469	¥ 1	¥ 50	¥1,520	¥361	¥48,865

Thousands of U.S. dollars (note 2)

	Stockholders' equity					Valuation and translation adjustments				Minority interests	Total net assets
	Common stock	Additional paid-in capital	Retained earnings	Treasury stock	Total	Net unrealized gain on other securities	Deferred gains on hedges	Foreign currency translation adjustments	Total		
Balance at March 31, 2006	\$63,914	\$88,818	\$228,632	\$ (8,598)	\$372,766	\$13,528	\$ —	\$(525)	\$13,003	\$2,863	\$388,632
Changes arising during year:											
Cash dividends			(10,513)		(10,513)						(10,513)
Bonuses to directors and corporate auditors			(779)		(779)						(779)
Net income			42,804		42,804						42,804
Purchase of treasury stock				(6,277)	(6,277)						(6,277)
Disposition of treasury stock		0		0	0						0
Net changes other than stockholders' equity						(1,084)	8	949	(127)	195	68
Total changes during the year	—	0	31,512	(6,277)	25,235	(1,084)	8	949	(127)	195	25,303
Balance at March 31, 2007	\$63,914	\$88,818	\$260,144	\$(14,875)	\$398,001	\$12,444	\$ 8	\$ 424	\$12,876	\$3,058	\$413,935

See accompanying notes to consolidated financial statements.

## Consolidated Statements of Cash Flows

March 31, 2007 and 2006

	Millions of yen		Thousands of U.S. dollars (note 2)
	2007	2006	2007
Cash flows from operating activities:			
Income before income taxes and minority interests	¥ 8,311	¥ 8,261	\$70,402
Adjustments to reconcile income before income taxes and minority interests to net cash provided by operating activities:			
Depreciation and amortization	1,773	1,592	15,019
Loss on disposal of property, plant and equipment	100	55	847
Allowance for doubtful receivables	(8)	273	(68)
Increase in accrued bonuses	739	83	6,260
Increase in accrued bonuses to directors and corporate auditors	77	—	652
Decrease in liabilities for retirement and severance benefits	(541)	(899)	(4,583)
Interest and dividend income	(83)	(89)	(703)
Interest expenses	92	70	779
Loss on devaluation of investments in securities	18	—	153
Gain on sale of investments in securities	(20)	(204)	(169)
(Increase) decrease in trade notes and accounts receivable	1,600	(909)	13,554
(Increase) decrease in inventories	(926)	553	(7,844)
Increase (decrease) in trade notes and accounts payable	(1,229)	511	(10,411)
Equity in earnings of affiliates	(46)	(41)	(390)
Other, net	(291)	(38)	(2,465)
Sub total	9,566	9,218	81,033
Interest and dividend received	85	153	720
Interest paid	(87)	(70)	(737)
Income taxes paid	(3,681)	(1,500)	(31,181)
Net cash provided by operating activities	5,883	7,801	49,835
Cash flows from investing activities:			
Proceeds from sale of investments in securities	61	1,332	516
Purchase of investments in securities	(461)	(946)	(3,905)
Capital expenditures	(2,242)	(1,442)	(18,992)
Purchase of intangible assets	(484)	(316)	(4,100)
Other, net	76	(142)	644
Net cash used in investing activities	(3,050)	(1,514)	(25,837)
Cash flows from financing activities:			
Decrease in short-term debt	(539)	(1,345)	(4,566)
Payments on long-term debt	(42)	(6)	(356)
Dividends paid to stockholders	(1,239)	(1,151)	(10,495)
Purchase of treasury stock	(741)	(55)	(6,277)
Other, net	(31)	(41)	(263)
Net cash used in financing activities	(2,592)	(2,598)	(21,957)
Effect of exchange rate changes on cash and cash equivalents	(18)	403	(152)
Net increase in cash and cash equivalents	223	4,092	1,889
Cash and cash equivalents at beginning of year	10,805	6,713	91,529
Cash and cash equivalents at end of year (note 3)	¥11,028	¥10,805	\$93,418

See accompanying notes to consolidated financial statements.



# Notes to Consolidated Financial Statements

Years ended March 31, 2007 and 2006

## 1 Summary of Significant Accounting Policies

### (a) Basis of Presenting Consolidated Financial Statements

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

The accompanying consolidated financial statements have been prepared in accordance with the provisions set forth in the Japanese Securities and Exchange Law and its related accounting regulations, and in conformity with accounting principles and practices generally accepted in Japan, which may differ in certain respects from accounting principles and practices generally accepted in countries and jurisdictions other than Japan.

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

### (b) Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Company and its subsidiaries (25 subsidiaries for both 2007 and 2006).

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

Investments in affiliates are accounted for by the equity method.

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

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

The unallocated portion of the difference, which is recognized as goodwill or negative goodwill, is amortized over 5 years, or if the amount is immaterial, it is charged to income in the year of investments.

In prior years, the excess of cost over the underlying net assets at the dates of investment in subsidiaries was charged to income in the year of acquisition. The effect of the change was nil.

### (c) Cash and Cash Equivalents

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

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

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

### (e) Inventories

Inventories are stated principally at cost. Cost is determined principally by the moving average method for finished products, principally by the specific identification method for work in process, and principally by the latest purchase cost method for raw materials and supplies.

### (f) Property, Plant and Equipment

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

The estimated useful lives are as follows:

Buildings and structures	4-50 years
Machinery, equipment and vehicles	2-15 years

#### **(g) Intangible Assets**

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

#### **(h) Allowance for Doubtful Receivables**

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

#### **(i) Retirement and Severance Benefits**

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

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

The Company and its subsidiaries have unfunded defined benefit pension plans for directors and corporate auditors. The provision for the plans has been made in the accompanying consolidated financial statements for the vested benefits to which directors and corporate auditors are entitled if they were to retire or sever immediately at the balance sheet dates.

#### **(j) Leases**

Finance leases, except for those where the legal title of the underlying property are transferred from the lessor to the lessee at the end of the lease term, are accounted for similarly to operating leases.

#### **(k) Foreign Currency Translation**

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

#### **(l) Income Taxes**

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

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

#### **(m) Directors' Bonus**

Effective from the year ended March 31, 2007, the Company and its domestic consolidated subsidiaries adopted the "Accounting Standard for Directors' bonus" (Accounting Standards Board of Japan Statement No. 4, issued on November 29, 2005).

According to the Standard, directors' bonuses are accounted for as an expense when such bonuses are accrued, instead of being accounted for as an appropriation of retained earnings upon approval at general meeting of stockholders. The effect of adoption of the new standard was to decrease income before income taxes and minority interests by ¥77 million (\$652 thousand).

#### **(n) Presentation of Net Assets on Balance Sheet**

Effective from the year ended March 31, 2007, the Company adopted the "Accounting Standard for Presentation of Net Assets in the Balance Sheet" (Accounting Standards Board of Japan Statement No. 5, issued on December 9, 2005) and the "Guidance on Accounting Standard for Presentation of Net Assets in the Balance Sheet" (Accounting Standards Board of Japan Guidance No. 8, issued on December 9, 2005).

According to the Standards, former "Stockholders' equity" is presented as "Net assets" and classified into "Stockholders' equity," "Valuation and translation adjustments" and "Minority interests." "Minority interests" formerly listed after "Liabilities" is included in "Net Assets." The stockholders' equity amounted to ¥48,503 million (\$410,868 thousand) based on the former classification.

### (o) Impairment of Long-lived Assets

Effective April 1, 2005, the Company and its domestic consolidated subsidiaries adopted a new accounting standard for the impairment of fixed assets ("Opinion Concerning the Establishment of an Accounting Standard for the Impairment of Fixed Assets" issued by the Business Accounting Deliberation Council on August 9, 2002) and the "Implementation Guidance on the Accounting Standard for the Impairment of Fixed Assets" (Business Accounting Standard Implementation Guidance No. 6 issued on October 31, 2003). The effect of adoption of these new standards was nil.

### (p) Reclassifications

Certain reclassifications have been made to the prior years' consolidated financial statements to conform to the presentation used as of and for the year ended March 31, 2007.

## 2 Financial Statement Translation

The consolidated financial statements are expressed in Japanese yen. However, solely for the convenience of the reader, the consolidated financial statements as of and for the year ended March 31, 2007 have been translated into United States dollars at the rate of ¥118.05=U.S.\$1, the approximate exchange rate on the Tokyo Foreign Exchange Market on March 30, 2007. This translation should not be construed as a representation that the amounts shown could be converted into U.S. dollars at such rate.

## 3 Cash and Cash Equivalents

Reconciliation between "Cash" in the accompanying consolidated balance sheets and "Cash and cash equivalents" in the accompanying consolidated statements of cash flows at March 31, 2007 and 2006 is follows:

	Millions of yen		Thousands of U.S. dollars	
	2007	2006	2007	2006
Cash	¥11,060	¥10,848	\$93,689	
Time deposits with maturities of over three months	(32)	(43)	(271)	
Cash and cash equivalents	¥11,028	¥10,805	\$93,418	

## 4 Investments in Securities

Acquisition cost, balance sheet amount, gross unrealized gain and gross unrealized loss of other securities with fair value as of March 31, 2007 and 2006 are summarized as follows:

	Millions of yen			
	Acquisition cost	Gross unrealized gain	Gross unrealized loss	Balance sheet amount
<b>March 31, 2007</b>				
Equity securities	¥1,889	¥2,481	¥(4)	¥4,366
	¥1,889	¥2,481	¥(4)	¥4,366
<b>March 31, 2006</b>				
Equity securities	¥1,620	¥2,695	¥(2)	¥4,313
	¥1,620	¥2,695	¥(2)	¥4,313

	Thousands of U.S. dollars			
	Acquisition cost	Gross unrealized gain	Gross unrealized loss	Balance sheet amount
<b>March 31, 2007</b>				
Equity securities	\$16,002	\$21,016	\$(34)	\$36,984
	\$16,002	\$21,016	\$(34)	\$36,984

It is not practicable to estimate the fair value of securities as of March 31, 2007 and 2006 described below because of lack of market price and difficulty in estimating fair value.

	Millions of yen		Thousands of U.S. dollars	
	2007	2006	2007	2006
Other securities:				
Unlisted equity securities	¥375	¥278	\$3,177	
Investments in limited partnership and similar partnership	81	46	686	

For the years ended March 31, 2007 and 2006, proceeds from sale of other securities were ¥61 million (\$517 thousand) and ¥1,092 million, the gross realized gains were ¥24 million (\$203 thousand) and ¥191 million, the gross realized losses were ¥4 million (\$34 thousand) and nil, respectively.

## 5 Investments in Affiliates

The aggregate carrying amounts of investments in affiliates as of March 31, 2007 and 2006 are ¥88 million (\$745 thousand) and ¥43 million, respectively.

## 6 Short-term and Long-term Debt

Short-term debt is represented by bank loans which are due within one year. The weighted average interest rates of short-term debt are 3.4% and 1.6% at March 31, 2007 and 2006, respectively.

Long-term debt as of March 31, 2007 and 2006 is summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Loans from banks, unsecured, maturing in installments through 2016; bearing weighted average interest of 2.0% and 1.5% at March 31, 2007 and 2006, respectively	¥113	¥19	\$957
Less current installments	2	2	17
	¥111	¥17	\$940

The aggregate annual maturities of long-term debt after March 31, 2008 are as follows:

Year ending March 31:	Millions of yen	Thousands of U.S. dollars
	2009	¥2
2010	2	17
2011	1	8
2012	1	8

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

## 7 Retirement and Severance Benefits

The Company and its domestic subsidiaries have defined benefit retirement and pension plans, which consist of a contributory benefit plan provided under the Welfare Pension Insurance Law of Japan and tax qualified noncontributory pension plans. The welfare pension plan consisted of two tiers, the substitution portion of Japanese Welfare Pension Insurance and the corporate portion which was established at the discretion of the Pension Fund of Japan Electronics Information Technology Industry as an industry-wide multi-employer noncontributory plan. Certain foreign subsidiaries have defined contribution pension plans.

The funded status of the pension plans at March 31, 2007 and 2006 is outlined as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Projected benefit obligation	¥(13,403)	¥(13,446)	\$(113,537)
Plan assets at fair value	15,289	14,390	129,513
Funded status	1,886	944	15,976
Unrecognized actuarial gain	(1,262)	(887)	(10,690)
Amount recognized in the consolidated balance sheets	624	57	5,286
Prepaid retirement and severance benefits	(624)	(57)	(5,286)
Accrued retirement and severance benefits	¥ —	¥ —	\$ —

- Note:
1. The plan assets of the welfare pension fund cannot be specifically allocated to the individual participants or to the substitution and corporate portions. However, based on the Company's proportion of the contribution to the aggregate pension contributions, the plan assets of the welfare pension fund at March 31, 2007 and 2006 are estimated to be ¥6,397 million (\$54,189 thousand) and ¥5,761 million, respectively, and they are not included in the above table.
  2. Prepaid retirement and severance benefits as of March 31, 2007 and 2006 are included in "Investments and other assets - Other investments and other assets" in the accompanying consolidated balance sheets.

Net periodic pension cost for the years ended March 31, 2007 and 2006 consists of the following components:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Service cost	¥806	¥779	\$6,828
Interest cost	269	258	2,279
Expected return on plan assets	(288)	(258)	(2,440)
Amortization of actuarial gain	(327)	(334)	(2,770)
Net periodic pension cost	¥460	¥445	\$3,897

Note: For the years ended March 31, 2007 and 2006, the amount of "Service cost" excludes contributions to the welfare pension fund of ¥564 million (\$4,778 thousand) and ¥537 million, respectively.

Significant assumptions of pension plans used to determine these amounts in fiscal 2007 and 2006 are as follows:

	2007	2006
Periodic allocation method for projected benefit	Straight-line	Straight-line
Discount rate	2.0%	2.0%
Expected rate of return on plan assets	2.0%	2.0%
Period for amortization of unrecognized actuarial (gain) loss *	5 years	5 years

\*Amortized on a declining-balance method over certain period within the average remaining period of employees

Directors and corporate auditors are not covered by the plans described above. For such persons, the Company has unfunded defined benefit pension plan. Under the plan, directors and corporate auditors are entitled to lump-sum payments based on the current rate of pay and length of service when they leave the Company. The Company provides for the amount of the vested benefits to which directors and corporate auditors are entitled if they were to retire or sever immediately at the balance sheet dates. As of March 31, 2007 and 2006, the liabilities for retirement and severance benefits related to the plan were ¥282 million (\$2,389 thousand) and ¥255 million, respectively.

## 8 Income Taxes

The Company and its domestic subsidiaries are subject to Japanese corporate, inhabitant and business taxes based on income which, in the aggregate, result in a statutory tax rate of approximately 40.7% in 2007 and 2006.

A reconciliation of the statutory tax rate and the effective tax rate as a percentage of income before income taxes and minority interests for the years ended March 31, 2007 and 2006 is follows:

	2007	2006
Statutory tax rate	40.7%	40.7%
Change in valuation allowance	0.4	(4.1)
Expenses not deductible for tax purposes	1.2	0.7
Income not credited for tax purposes	(0.1)	(0.5)
Utilization of tax loss carryforward	(0.7)	(0.3)
Per capita tax	0.5	0.4
Difference in statutory tax rates of subsidiaries	(0.4)	(0.6)
Tax credits primarily for research and development costs	(5.2)	(4.6)
Settlement of unrecognized deferred income tax liabilities	—	(5.4)
Other	2.1	3.0
Effective tax rate	38.5%	29.4%

Significant components of deferred tax assets and liabilities at March 31, 2007 and 2006 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
<b>Deferred tax assets:</b>			
Valuation loss for inventories	¥ 643	¥ 626	\$ 5,447
Accrued business tax	176	202	1,491
Accrued bonuses	725	430	6,141
Allowance for doubtful receivables	185	169	1,567
Depreciation and amortization	776	621	6,574
Intercompany profits on inventories, and property, plant and equipment	1,548	1,566	13,113
Other	722	874	6,116
	4,775	4,488	40,449
Valuation allowance	(471)	(344)	(3,990)
	4,304	4,144	36,459
<b>Deferred tax liabilities:</b>			
Allowance for doubtful receivables	(32)	(33)	(271)
Net unrealized gain on other securities	(1,005)	(1,096)	(8,513)
Prepaid retirement and severance benefits	(255)	(27)	(2,160)
	(1,292)	(1,156)	(10,944)
<b>Net deferred tax assets</b>	<b>¥3,012</b>	<b>¥2,988</b>	<b>\$25,515</b>

Net deferred tax assets and liabilities as of March 31, 2007 and 2006 are reflected in the accompanying consolidated balance sheets under the following captions:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Current assets - Deferred income taxes	¥3,215	¥3,010	\$27,234
Investments and other assets - Deferred income taxes	19	23	161
Non-current liabilities - Deferred income taxes	(222)	(45)	(1,880)
<b>Net deferred tax assets</b>	<b>¥3,012</b>	<b>¥2,988</b>	<b>\$25,515</b>

## 9 Common Stock

On May 1, 2006, a new corporation law (the "Corporation Law") became effective, which reformed and replaced the Commercial Code of Japan with various revisions that would, for the most part, be applicable to events or transactions which occur on or after May 1, 2006 and for the fiscal years ending on or after May 1, 2006. Under the Corporation Law, the entire amount of the issue price of shares is required to be designated as stated common stock account although a company in Japan may, by resolution of its Board of Directors, account for an amount not exceeding 50% of the issue price of new shares as additional paid-in capital.

## 10 Retained Earnings and Dividends

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

Cash dividends charged to retained earnings for the years ended March 31, 2007 and 2006 represent dividends paid out during those years. The amount available for dividends is based on the amount recorded in the Company's non-consolidated books of account in accordance with the Corporation Law.

Dividends paid during the year ended March 31, 2007 which was approved by the general meeting of stockholders held on June 29, 2006 are as follows:

(a) Total dividends	¥576 million (\$4,879 thousand)
(b) Cash dividends per common share	¥13 (\$0.11)
(c) Record date	March 31, 2006
(d) Effective date	June 30, 2006

Dividends paid during the year ended March 31, 2007 which was approved by the Board of Directors held on November 20, 2006 are as follows:

(a) Total dividends	¥665 million (\$5,633 thousand)
(b) Cash dividends per common share	¥15 (\$0.13)
(c) Record date	September 30, 2006
(d) Effective date	December 12, 2006

Dividends to be paid after the balance sheet date but the record date for the payment belongs to the year ended March 31, 2007 which was approved by the general meeting of stockholders held on June 28, 2007 are as follows:

(a) Total dividends	¥661 million (\$5,599 thousand)
(b) Dividend source	Retained earnings
(c) Cash dividends per common share	¥15 (\$0.13)
(d) Record date	March 31, 2007
(e) Effective date	June 29, 2007

## 11 Selling, General and Administrative Expenses

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

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Salaries	¥16,685	¥15,241	\$141,338
Pension costs	432	407	3,659
Depreciation	978	842	8,285
Legal welfare	2,718	2,476	23,024
Transportation	1,941	1,724	16,442

## 12 Research and Development Costs

Research and development costs charged to manufacturing costs and selling, general and administrative expenses for the years ended March 31, 2007 and 2006 are ¥4,757 million (\$40,296 thousand) and ¥4,813 million, respectively.

## 13 Net Income per Share Information

### (a) Net Income per Share

Basic net income per share, and reconciliation of the numbers and the amounts used in the basic net income per share computations for the years ended March 31, 2007 and 2006 are as follows:

	Yen		U.S. dollars
	2007	2006	2007
Basic net income per share	¥114.12	¥128.56	\$0.97

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Net income	¥5,053	¥5,788	\$42,804
Net income not applicable to common stockholders:			
Directors' and Corporate auditors' bonuses	—	88	—
Net income applicable to common stockholders	¥5,053	¥5,700	\$42,804

	Number of shares (Thousands)	
	2007	2006
Weighted average number of shares outstanding on which basic net income per share is calculated	44,277	44,337

## (b) Net Assets per Share

Net assets per share, and reconciliation of the numbers and the amounts used in the net assets per share computations at March 31, 2007 are as follows:

	Yen	U.S. dollars
Net assets per share	¥ 1,101.41	\$9.33

	Millions of yen	Thousands of U.S. dollars
Total net assets	¥48,864	\$413,926
Amount deducted from total net assets:		
Minority interests	361	3,058
Net assets applicable to common stockholders	¥48,503	\$410,868

	Number of shares
Number of shares outstanding at end of year on which net assets per share is calculated	44,038

## 14 Leases

A summary of assumed amounts of acquisition cost which includes interest portion, accumulated depreciation and net book value at March 31, 2007 and 2006 are as follows:

	Millions of yen		
	Machinery, equipment and vehicles	Tools, furniture and fixtures	Total
<b>March 31, 2007</b>			
Acquisition cost	¥114	¥ 85	¥ 199
Accumulated depreciation	56	54	110
Net book value	¥ 58	¥ 31	¥ 89
<b>March 31, 2006</b>			
Acquisition cost	¥ 92	¥ 91	¥ 183
Accumulated depreciation	55	43	98
Net book value	¥ 37	¥ 48	¥ 85

	Thousands of U.S. dollars		
	Machinery, equipment and vehicles	Tools, furniture and fixtures	Total
<b>March 31, 2007</b>			
Acquisition cost	\$965	\$720	\$1,685
Accumulated depreciation	474	457	931
Net book value	\$491	\$263	\$ 754

Future minimum payments which include interest portion required under finance leases at March 31, 2007 and 2006 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Within one year	¥43	¥39	\$364
Over one year	46	46	390
	¥89	¥85	\$754

Lease payments for the years ended March 31, 2007 and 2006 amounted to ¥49 million (\$415 thousand) and ¥60 million, respectively.



Future minimum payments required under noncancellable operating leases at March 31, 2007 and 2006 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Within one year	¥110	¥ 92	\$ 932
Over one year	143	217	1,211
	¥253	¥309	\$2,143

## 15 Commitments and Contingencies

It is common practice in Japan for companies, in the ordinary course of business, to receive promissory notes in settlement of trade accounts receivable and to subsequently discount such notes at banks or to transfer them by endorsement to suppliers in the settlement of accounts payable. At March 31, 2007 and 2006, the Company was contingently liable with respect to trade notes receivable discounted in the amounts of ¥345 million (\$2,922 thousand) and ¥944 million, respectively. Notes discounted are accounted for as sales and removed from the balance sheets.

## 16 Derivative Financial Instruments

The Company does not hold or issue derivative financial instruments for the purpose of trading. Derivative financial instruments held by the Company comprise forward exchange contracts and used to hedge the risk of changes in foreign currency exchange rates associated with assets and liabilities denominated in foreign currencies.

If certain criteria were met, receivables or payables denominated in foreign currency hedged with forward exchange contracts were translated using the forward rate and such forward exchange contracts were not stated at fair value.

The counterparties to these derivative transactions are financial institutions with high credit ratings and consequently, the Company does not anticipate credit-related losses from non-performance by the counterparties to transactions involving derivative financial instruments.

The accounting department has executed and controlled derivative transactions and controlled the risks, and the accounting manager has reported the transaction records to the executive management meeting, if necessary.

In fiscal 2007 and 2006, the information relating to fair value of derivative transactions to which hedge accounting is applied is not subject to disclosure.

## 17 Segment Information

### (a) Industry segments

Sales, operating income and assets of medical electronic equipments business are over 90% of those of all segments for the years ended March 31, 2007 and 2006.

### (b) Geographic segments

Segment information by geographic area for the year ended March 31, 2007 and 2006 is summarized as follows:

Millions of yen							
2007							
	Japan	Americas	Europe	Asia	Total	Elimination / corporate	Consolidated
Sales to outside customers	¥83,535	¥6,394	¥6,020	¥ 730	¥96,679	¥ —	¥96,679
Inter-segment sales	6,850	341	—	882	8,073	(8,073)	—
	90,385	6,735	6,020	1,612	104,752	(8,073)	96,679
Operating expenses	82,968	6,537	5,837	1,436	96,778	(8,073)	88,705
Operating income	¥ 7,417	¥ 198	¥ 183	¥ 176	¥ 7,974	¥ —	¥ 7,974
Assets	¥66,243	¥3,648	¥3,928	¥1,225	¥75,044	¥ 850	¥75,894

Millions of yen							
2006							
	Japan	Americas	Europe	Asia	Total	Elimination / corporate	Consolidated
Sales to outside customers	¥79,846	¥5,660	¥4,155	¥ 707	¥90,368	¥ —	¥90,368
Inter-segment sales	4,426	90	—	824	5,340	(5,340)	—
	84,272	5,750	4,155	1,531	95,708	(5,340)	90,368
Operating expenses	77,378	5,482	4,061	1,372	88,293	(5,340)	82,953
Operating income	¥ 6,894	¥ 268	¥ 94	¥ 159	¥ 7,415	¥ —	¥ 7,415
Assets	¥62,044	¥3,302	¥3,116	¥1,189	¥69,651	¥3,860	¥73,511

Thousands of U.S. dollars							
2007							
	Japan	Americas	Europe	Asia	Total	Elimination / corporate	Consolidated
Sales to outside customers	\$707,624	\$54,163	\$50,995	\$ 6,184	\$818,966	\$ —	\$818,966
Inter-segment sales	58,026	2,889	—	7,471	68,386	(68,386)	—
	765,650	57,052	50,995	13,655	887,352	(68,386)	818,966
Operating expenses	702,821	55,375	49,445	12,164	819,805	(68,386)	751,419
Operating income	\$ 62,829	\$ 1,677	\$ 1,550	\$ 1,491	\$ 67,547	\$ —	\$ 67,547
Assets	\$561,144	\$30,902	\$33,274	\$10,377	\$635,697	\$ 7,200	\$642,897

The major countries or regions other than Japan in the respective divisions are as follows:

Americas:	U.S.A.
Europe:	Germany, Italy, Spain and France
Asia:	China, Singapore and Korea

Corporate assets of ¥6,495 million (\$55,019 thousand) and ¥7,183 million as of March 31, 2007 and 2006 in the Elimination / corporate line consist primarily of assets relating to the administrative operations and investments in securities etc.

### (c) Overseas sales

Information for overseas sales for the years ended March 31, 2007 and 2006 is summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Overseas sales:			
Americas	¥ 8,942	¥ 7,732	\$ 75,747
Europe	6,898	4,634	58,433
Asia	5,317	5,379	45,040
Other	772	849	6,540
	¥21,929	¥18,594	\$185,760
Consolidated sales	¥96,679	¥90,368	\$818,967
Percentage of overseas sales to consolidated sales	22.7%	20.6%	22.7%

The major countries or regions in the respective divisions are as follows:

Americas:	U.S.A., Venezuela, Colombia and Mexico
Europe:	Germany, Italy, Spain, France, Russia and Turkey
Asia:	China, Korea, Iraq, Vietnam and India

The sales to Turkey which was included in Asia in prior years is included in Europe from the year ended March 31, 2007.

### 18 Supplemental Cash Flow Information

Assets and liabilities of the newly consolidated subsidiary in 2007 by acquisition at the inception of consolidation, and net proceeds from acquisition were as follows:

	Millions of yen	Thousands of U.S. dollars
Current assets	¥ 73	\$ 618
Non-current assets	14	119
Current liabilities	(13)	(110)
Non-current liabilities	(139)	(1,177)
Goodwill	75	635
Acquisition cost of stock	10	85
Cash and cash equivalents held by acquired subsidiary	40	339
Net proceeds from acquisition	¥ 30	\$ 254

## Independent Auditors' Report

March 31, 2007 and 2006



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www.toyo.or.jp

To the Board of Directors of  
Nihon Kohden Corporation

We have audited the accompanying consolidated balance sheets of Nihon Kohden Corporation and consolidated subsidiaries as of March 31, 2007 and 2006, and related consolidated statements of income, changes in net assets and cash flows for the years then ended, all expressed in Japanese yen. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Nihon Kohden Corporation and consolidated subsidiaries as of March 31, 2007 and 2006, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

The accompanying consolidated financial statements as of and for the year ended March 31, 2007 have been translated into United States dollars solely for the convenience of the reader. We have recomputed the translation and, in our opinion, the consolidated financial statements expressed in yen have been translated into United States dollars on the basis described in Note 2 to the consolidated financial statements.

*Toyo Horwath*

Toyo Horwath  
Tokyo, Japan  
June 28, 2007

# Corporate Directory

As of June 28, 2007

## Board of Directors, Corporate Auditors and Operating Officers

### President and Chief Executive Officer

Kazuo Ogino

### Corporate Directors

Hideaki Nakata  
Fumio Suzuki  
Kunio Shinozaki  
Eishi Harasawa  
Kenji Hakuta  
Toshifumi Kamihirata  
Takeshi Akahane

### Corporate Auditors

Yoshitake Ijichi  
Hisashi Saito

### Outside Corporate Auditors

Kuniyasu Aoki  
Osamu Kato

### Operating Officers

Masami Sugiyama  
Haruto Doi  
Sunao Takeda  
Toshio Kumada  
Hiroshi Aida  
Takeshi Yamazaki  
Toshitsugu Izawa  
Masaharu Arakane  
Tatsuya Nakagawa  
Yoshito Tsukahara  
Takashi Tamura

## Corporate Data

### Date of Incorporation

August 7, 1951

### Paid-in Capital\*

¥7,544 million

### Shares of Common Stock Issued and Outstanding\*

45,765 thousand

### Number of Employees\*

3,120 (group)

\*As of March 31, 2007

### Head Office

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

### International Division

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

Beijing Representative Office (Beijing, China)  
Shanghai Representative Office (Shanghai, China)  
Guangzhou Representative Office (Guangzhou, China)  
Latin America Representative Office (Miami, FL, USA)  
Middle East Representative Office (Dubai, U.A.E)

### Web Site

www.nihonkohden.com

## Major Stockholders\*

Stockholders	No. of Shares (thousands)	Percentage Ownership
Japan Trustee Service Bank, Ltd.	3,285	7.46%
The Master Trust Bank of Japan, Ltd.	2,390	5.43%
Saitama Resona Bank, Ltd.	2,096	4.76%
Toshiba Medical Systems Corporation	1,990	4.52%
THE CHASE MANHATTAN BANK, N.A. LONDON SECS LENDING OMNIBUS ACCOUNT	1,254	2.85%
Fujitsu Ltd.	1,063	2.41%
NIPPONKOA Insurance Co., Ltd.	974	2.21%
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	862	1.96%
MELLON BANK, N.A. AS AGENT FOR ITS CLIENT MELLON OMNIBUS US PENSION	737	1.67%
Japan Trustee Service Bank, Ltd. (CMTB Equity Investments Co., Ltd. trust account re-entrusted by Mitsui Asset Trust and Banking Company, Limited)	600	1.36%
Subtotal	15,256	
Total Outstanding Issue	45,765	

\* As of March 31, 2007

## Subsidiaries

### ■ Japan

#### Sales

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

#### Production

Nihon Kohden Tomioka Corporation

#### Other

E-Staff Corporation  
Nihon Kohden Service Corporation  
Beneficks Corporation

### ■ International

#### Sales

##### USA

Nihon Kohden America, Inc. (Foothill Ranch, CA, USA)

##### Europe

Nihon Kohden Europe GmbH (Rosbach, v.d.H, Germany)

Nihon Kohden France Sarl (Cachan, France)

Nihon Kohden Italia S.r.l. (Bergamo, Italy)

Nihon Kohden Iberica S.L. (Madrid, Spain)

##### Asia

Nihon Kohden Singapore Pte Ltd. (Harbour Front Center, Singapore)

Nihon Kohden Korea, Inc. (Seoul, Korea)

#### R&D

##### USA

NK US Lab (Irvine, CA, USA)

##### China (software)

Medinet Kohden Shanghai Corporation (Shanghai, China)

#### Production

##### China

Shanghai Kohden Medical Electronic Instrument Corporation (Shanghai, China)

##### Italy

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



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