Annual Report

April 2009 · · · March 2010

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, AEDs (automated external defibrillators), hematology analyzers, and other physiological measuring equipment and sensors.

Nihon Kohden intends to continue growing as a global organization. In line with this aim, the Company has subsidiaries in 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 offices including our head office and all production factories in Japan.

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

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

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

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

Contents

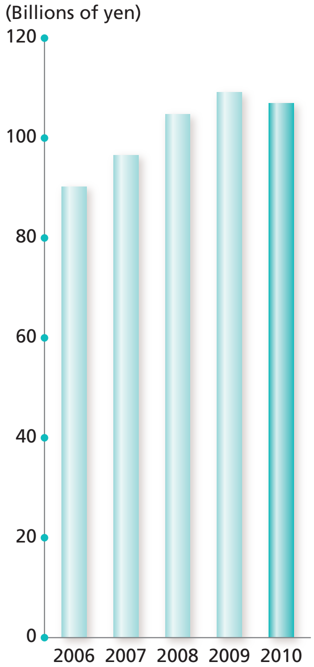
Consolidated Financial Highlights

Nihon Kohden Corporation and Consolidated Subsidiaries
Years ended March 31, 2010, 2009, 2008, 2007, and 2006

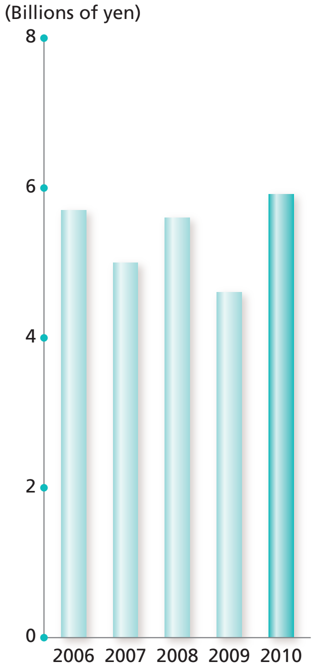
	Millions of yen					Thousands of U.S. dollars(1)
	2010	2009	2008	2007	2006	**2010**
Net sales	**¥107,014**	¥109,124	¥104,826	¥96,679	¥90,368	**$1,150,194**
Operating income	**9,321**	8,106	9,818	7,974	7,415	**100,183**
Income before income taxes and minority interests	**9,148**	7,694	9,640	8,311	8,261	**98,323**
Net income	**5,917**	4,611	5,632	5,053	5,788	**63,596**
Total assets	**88,001**	80,480	80,630	75,894	73,511	**945,840**
Net assets(2)	**57,949**	53,570	51,814	48,865	45,878	**622,840**
Amounts per share(3):			yen			U.S. dollars
Net income-basic	**¥134.68**	¥104.94	¥128.01	¥114.12	¥128.56	**$1.45**
Cash dividends	**37.00**	37.00	37.00	30.00	26.00	**0.40**

Notes : (1) U.S. dollars amounts are translated from yen, for convenience only, at the rate of ¥93.04 = US$1.
(2) Certain retroactive adjustments of previously reported net assets have been made to conform to the presentation used from the year 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.

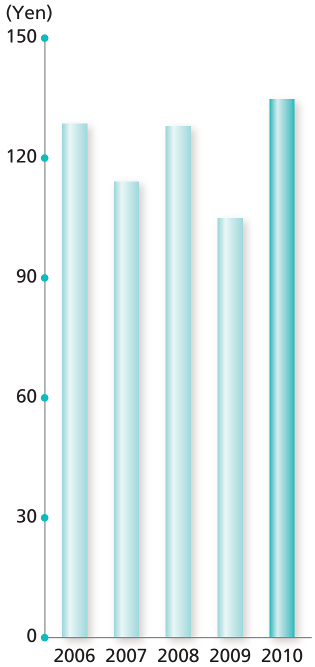
Net sales



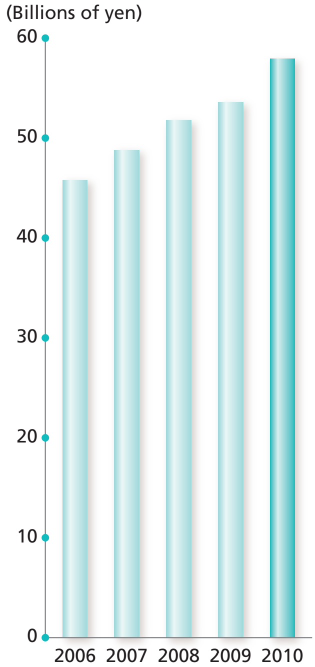
Net income



Net income per share



Net assets



To our stockholders

First of all we 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_2 which is indispensable in modern medicine. We have become the world's leading manufacturer of electroencephalographs and our electrocardiographs, evoked potential and electromyogram measuring systems, patient monitors, defibrillators, 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 "The good quality of our product must be maintained to keep our customer satisfied for a long time," we are continually striving to develop the highest quality products.

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

We have a strong product development capability in human-machine interface technologies such as sensors and biosignal processing. We believe 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.

FY2009 was a very difficult year due to the weak demand for AEDs in Japan and for medical devices in the international market. However, we have achieved a significant earnings growth with successful outcome of a profitability improvement program across the Nihon Kohden Group, including cost reduction, inventory optimization, sales expansion of in-house products and company-wide expense reduction.

In August 2011, the Company will celebrate its 60th anniversary. On the occasion of this important milestone in the Company's history, we have set out a long-term vision for the next ten years through to 2020 and a new mid-term business plan covering fiscal years 2010 to 2012.

We remain wholly committed to increasing the value of the company and ask for your continued support.

Kazuo Ogino
Chairman and CEO

Fumio Suzuki
President and COO

Topics

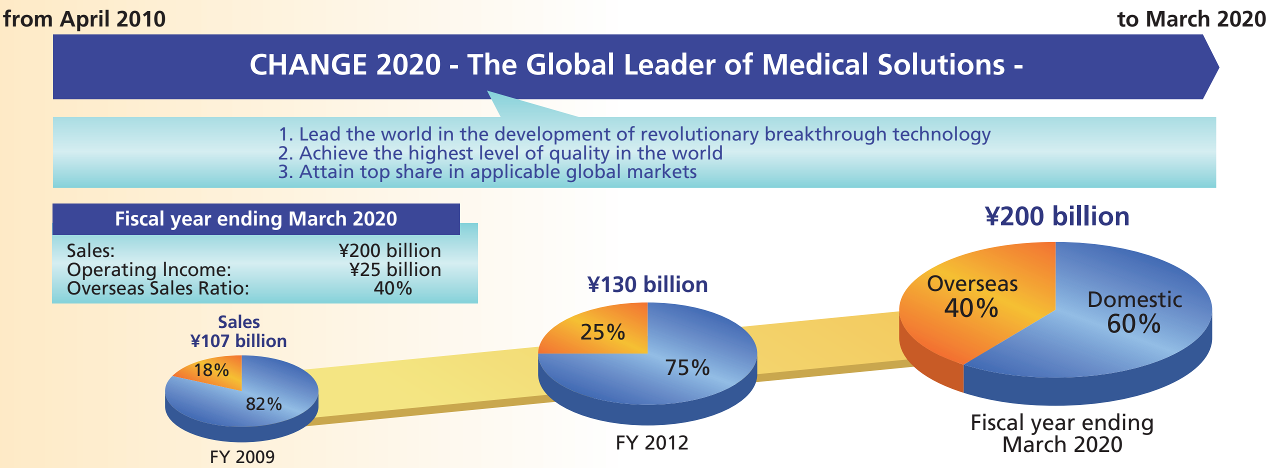
New Mid-term Business Plan SPEED UP III

Nihon Kohden launched a new 3-year business plan "SPEED UP III" covering fiscal years 2010 to 2012 with the aims of sustaining group growth and enhancing corporate value of the Company.

1.Long-term vision

In August 2011, the Company will celebrate its 60th anniversary. On the occasion of this important milestone in the Company's history, we have set out a long-term vision for the next ten years through to 2020.

Long-term vision



2. SPEED UP III

SPEED UP III represents the first stage towards achieving the Company's long-term vision. Nihon Kohden is committed to contributing to society while ensuring the sustained group growth and enhancing its corporate value by meeting the challenges of healthcare through the development of technologies closely connected with clinical practice as well as providing customers with the highest standards of product safety and security.

Key strategies

(1) Promote quality improvement activities

Nihon Kohden is committed to assuring high level of quality for all of our customers through to the end of the product life cycle and attaining a higher reliability as a medical equipment manufacturer. To this end, all departments and divisions in the Nihon Kohden Group strive to maintain the highest standards of safety and reliability in all processes, from design and development, manufacturing to sales and service.

(2) Strengthen technological development capacity

- We are continuously striving to enhance our technological strength and speed of development processes. To this end, we will strengthen our R&D organization in close collaboration with end users in clinical practice, while also pursuing joint development initiatives with research organizations and business partners in Japan and overseas.

- Our overseas R&D facilities develop products and system solutions that are tailored to the demands of local markets.

(3) Expand and strengthen core business areas

-Nihon Kohden is expanding and consolidating the four core business areas: Patient Monitors, Physiological Measuring Equipment, Treatment equipment, and Consumables and maintenance services, in Japan and overseas with the aim of achiving a stable earnings growth.

SPEED UP III Target Target for FY2012 (ending March 2013)

		FY2012
Sales		¥130.0 billion
	Domestic	¥97.5 billion
	Overseas	¥32.5 billion
Operating Income		¥13.0 billion
ROE		12.0%

Breakdown of overseas sales by region

Americas	¥9.4 billion
Europe	¥8.8 billion
Asia	¥13.0 billion
Other	¥1.3 billion

Note: Americas include North, Central and South America.

- The Company reinforces the operations in China and the emerging economies to seize the growth opportunity.

(4) Accelerate the globalization of the Company

Nihon Kohden group companies will strengthen their organizations in order to speed up decision-making processes, while the Head Office is working to optimize the management of the whole Nihon Kohden group. These initiatives will be complemented by promotion of employee autonomy and leadership in global operations.

(5) Develop new business

Nihon Kohden aims to develop new core businesses as early as possible. We will pursue the development and introduction of innovative medical equipment designed to improve medical safety and security, support longer and healthier lives, and alleviate intractable disease.

(6) Consolidate corporate fundamentals

Nihon Kohden remains committed to corporate social responsibility (CSR). At the same time, we aim to achieve higher levels of profitability and more speedy operations in order to overcome the severe global competition.

Patient Safety Study indicates Defensive Monitoring system can improve quality of care and avoid cost in the U.S.

A recently completed 1,270 patient, two-year study offers dramatic implications for hospitals seeking to improve quality of care and avoid millions in costs that accompany unplanned transfers of patients to ICU and other stepdown transfers.

The study took place at Vanderbilt University Medical Center from March 2008 to March 2010. VUMC staff recruited 1,270 patients from a total floor population of 13,000 and provided continuous surveillance to the recruited patients with Nihon Kohden's Defensive Monitoring system. The study took place on hospital floors where patients are not continuously monitored, but rather monitored, following a set standard of care, every four hours by nurses manually taking the patients' vital signs.

The recruited patients received Nihon Kohden's NTX wireless telemetry transmitters that sent continuous vital sign information to the Defensive Monitoring Work Station. Researchers received thresholdbased alerts on their pagers when a patient in the alert notification group exhibited vital signs that were outside of predetermined limits. Researchers then notified the appropriate nursing staff, who checked the patient and determined if a Rapid Response Team should be notified.

While on study, the patient rate of unplanned transfers from the floor directly to an ICU unit was 85% lower than the non-study patients. The unplanned stepdown transfer rate dropped 69%. The unplanned transfers that occurred in the study resulted in an admission length of stay that was two to four times the length of non-transfer patients. Had all patients on the study floors been placed on the study, an estimated $10 million in hospital costs could have been avoided.

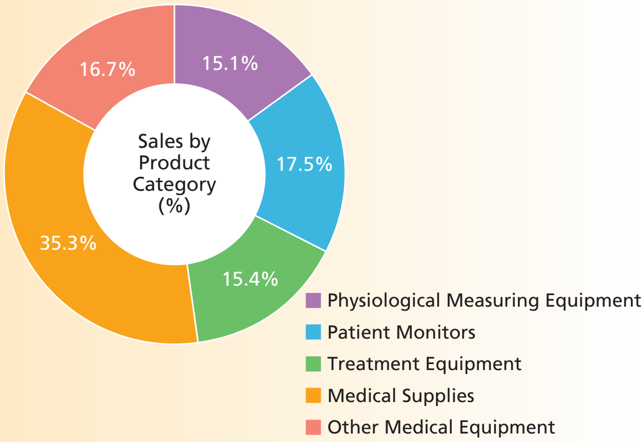
The study reaffirms that the Nihon Kohden Defensive Monitoring system can improve quality for all patients, creating a safer environment and driving down costs.

NTX

Prefense: Defensive Monitoring

Note: Defensive Monitoring system is currently in limeted release in the U.S.

At a Glance



Physiological Measuring Equipment

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

EEG-1214

15.1%

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

WEP-5200

17.5%

Treatment Equipment

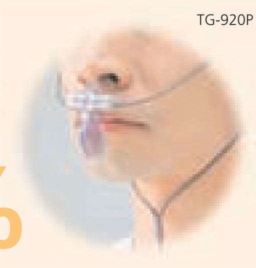
Defibrillators, AEDs (automated external defibrillators), pacemakers, ventilators, artificial ears, cardiac life support pump, warming systems, and other equipment

TEC-5500

15.4%

Medical Supplies

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



TG-920P

35.3%

Other Medical Equipment

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

MEK-6450

16.7%

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, 2009 to March 31, 2010), the global economy remained in recession through the first half of FY2009. In the second half of FY2009, the worst appeared to be over due to stimulus packages by countries and the global economy was beginning a slow recovery supported by expansion of domestic demand in emerging countries such as China. Although demand for medical equipment remained weak in Europe and the U.S. due to the economic slowdown, it showed signs of recovery in some emerging countries such as China. In the Japanese hospital market, hospitals continued to face difficult business conditions. At the same time, the new government showed the policies to solve the physician shortage and put a priority on emergency care, obstetrics, pediatrics, and surgery. In the Japanese PAD market, demand for AEDs decreased due to the economic slowdown.

Under these circumstances, the Company had implemented a 3-year Business Plan, SPEED UP II, of which the final year is the term under review. The Company also took additional measures to improve profitability and launched a "Columbus Committee" to strengthen global business.

The Company continues to introduce products that can help to improve medical safety and efficiency. In Physiological Measuring Equipment, a new EEG monitoring software including aEEG, which is receiving attention in NICU, was released. In Patient Monitors, it launched a new transmitter with color LCD display and a new vital sign monitor that targeted emerging markets. In Treatment Equipment, it launched a new value-added AED with alarm when electrode pads are expired.

AED-2100

As a result, overall sales during the term under review decreased 1.9% over FY2008 to ¥107,014 million. Because gross margin improved and SG&A expenses declined, operating income increased 15.0% to ¥9,321 million, and net income increased 28.3% to ¥5,917 million over FY2008.

As described in the press release on November 20, 2009, the impact of AED (OEM) voluntary field corrective action on earnings was minor.

Management's Discussion and Analysis

Sales

In the term under review, sales decreased ¥2,110 million, or 1.9%, to ¥107,014 million.

Sales by Product Category

Physiological Measuring Equipment: In Japan, sales of EEGs, ECGs and Polygraphs remained almost the same level as the previous fiscal year. Internationally, EEGs sales were weak in the Americas and Asia, while ECGs sales were weak in Europe. Overall, sales decreased 4.1% over the previous fiscal year to ¥16,122 million.

Patient Monitors: In Japan, Patient Monitors sales decreased due to lower sales of clinical information systems, although sales of telemetry systems and transmitters increased. Outside Japan, sales in the Americas and Europe remained weak, although sales in Asia increased. Overall, sales decreased 6.6% over the previous fiscal year to ¥18,722 million.

Treatment Equipment: In Japan, ventilators sales increased and sales of artificial ear and cardiac life support pump also increased by gaining recognition since their launch in 2006. Sales of AEDs declined sharply. Internationally, sales of defibrillators in medical facilities and ambulances in the Americas and Europe decreased, although sales in Asia increased. Overall, sales decreased 8.9% over the previous fiscal year to ¥16,490 million.

Medical Supplies: In Japan, sales of consumables such as sensors and disposable electrodes increased. Maintenance service sales also increased. Internationally, consumables sales decreased sharply in Americas, although sales in Asia increased. Overall, sales increased 8.4% over the previous fiscal year to ¥37,738 million.

Other Medical Equipment: In Japan, sales of diagnostic imaging equipment and POCT products decreased. Internationally, sales of hematology analyzers decreased in Europe and Africa. Overall, sales decreased 7.4% over the previous fiscal year to ¥17,942 million.

Sales by Region

Japan: The Company promoted genuine consumables and maintenance service for safety management of medical devices which help hospitals to improve medical safety and quality. Accordingly, sales in the hospital market increased due to higher sales of Medical Supplies. Sales in ventilators also increased in connection with the swine flu outbreak. In the PAD market, sales of AEDs declined due to the difficult economic situation. As a result, domestic sales remained the same level as the previous fiscal year at ¥87,439 million.

International: Sales in the Americas and Europe decreased, mainly due to the difficult economic situation and a negative currency translation impact. In Asia, sales in China reported higher growth as a result of the enhancement of the business structure. As a result, international sales decreased 9.9% over FY2008, to ¥19,575 million.

Cost of Sales, SG&A Expenses and Operating Income

In the term under review, sales costs were ¥52,378 million. Gross profit ratio improved 160 basis points to 51.1%, primarily due to favorable product mix. Gross profit on sales increased ¥668 million, or 1.2%, to ¥54,636 million.

Selling, general and administrative expenses decreased as the Company took a proactive action to manage expenses. The ratio of SG&A expenses to sales increased 30 basis points to 42.4%. Research and development costs, included in cost of sales and SG&A expenses, were ¥4,419 million (4.1% of sales).

As a result, operating income increased ¥1,215 million, or 15.0% to ¥9,321 million.

Other Income and Expenses, Net Income

Net other expenses decreased ¥239 million to ¥173 million, mainly due to the decrease of exchange loss.

Income before income tax and minority interests increased ¥1,454 million to ¥9,148 million.

Net income increased ¥1,306 million to ¥5,917 million from ¥4,611 million in the previous fiscal year. Net income per share was ¥134.68.

Cash Flows

Net cash provided by operating activities during the year under review increased ¥6,555 million to ¥10,679 million. It includes ¥9,148 million of income before income taxes and minority interests, ¥2,562 million of depreciation and amortization, and ¥2,804 million of income taxes paid.

Net cash used in investing activities decreased ¥3,158 million to ¥2,810 million. We used ¥1,187 million for capital expenditures and ¥1,990 million for purchase of intangible fixed assets.

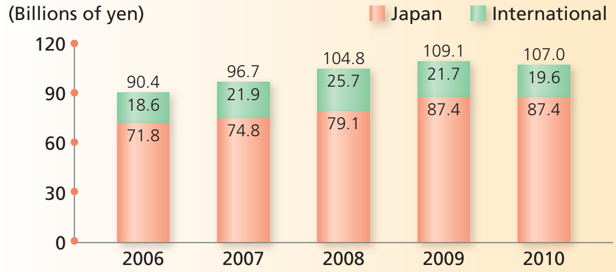
As a result of these factors, free cash flow amounted to ¥7,869 million, a substantial increase from the previous fiscal year's negative free cash flow of ¥1,844 million.

Net cash used in financing activities increased ¥2,249 million to ¥2,851 million. We paid ¥1,575 million for stockholders dividends and decreased short-term borrowings by ¥1,211 million.

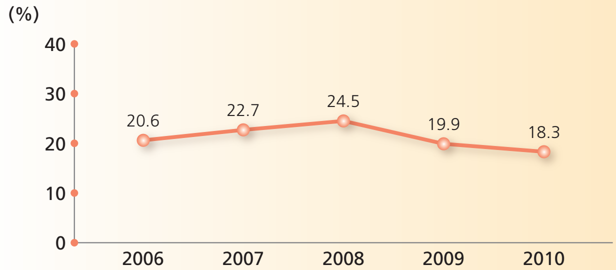
As a result, cash and cash equivalents as of March 31, 2010 increased ¥5,133 million to ¥16,331 million.

Years ended March 31

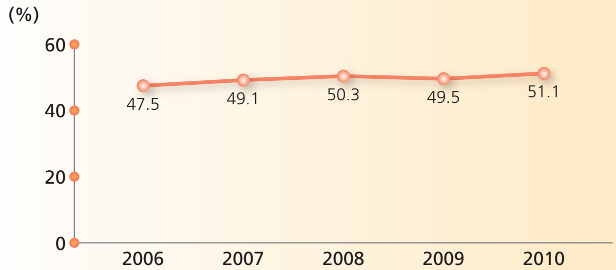
Net Sales by Region



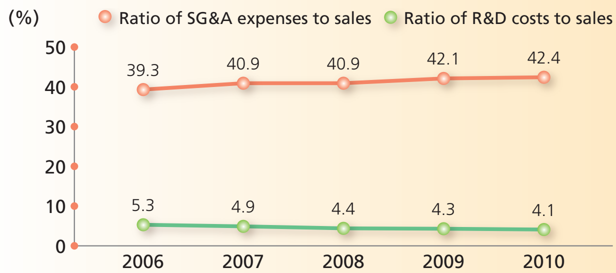
Percentage of International Sales



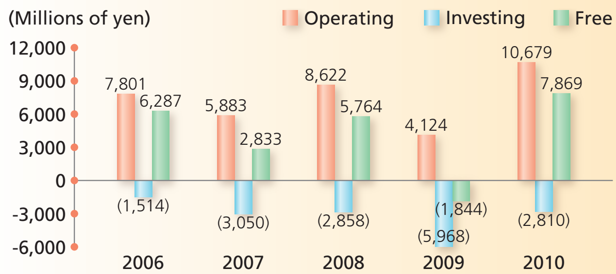
Gross Profit Ratio



SG&A Expenses/R&D Costs to Net Sales



Cash Flows



Consolidated Balance Sheets

March 31, 2010 and 2009

Assets	Millions of yen		Thousands of U.S. dollars (note 2)
	2010	2009	2010
Current Assets:			
Cash (note 3)	¥ 8,835	¥ 8,701	$ 94,959
Trade notes and accounts receivable	35,168	32,272	377,988
Short-term investments (note 4)	7,500	2,500	80,611
Inventories	13,506	14,143	145,163
Deferred income taxes (note 8)	3,775	3,180	40,574
Other current assets	1,132	857	12,167
Less allowance for doubtful receivables	230	182	2,472
Total current assets	69,686	61,471	748,990
Property, plant and equipment, net of accumulated depreciation; ¥20,248 million ($217,627 thousand) in 2010 and ¥18,844 million in 2009:			
Buildings and structures	3,465	3,731	37,242
Machinery, equipment and vehicles	782	1,017	8,405
Tools, furniture and fixtures	2,022	2,539	21,733
Land	2,681	2,681	28,815
Leased assets	98	140	1,053
Construction in progress	318	194	3,418
Net property, plant and equipment	9,366	10,302	100,666
Intangible assets, net:			
Goodwill	817	872	8,781
Other	3,535	2,160	37,994
Total intangible assets	4,352	3,032	46,775
Investments and other assets:			
Investments in securities (notes 4 and 5)	2,754	2,875	29,600
Deferred income taxes (note 8)	749	619	8,050
Prepaid retirement and severance benefits (note 7)	33	998	355
Other investments and other assets	1,113	1,422	11,963
Less allowance for doubtful receivables	52	239	559
Total investments and other assets	4,597	5,675	49,409
Total assets	¥88,001	¥80,480	$945,840

See accompanying notes to consolidated financial statements.

Liabilities and Net Assets	Millions of yen		Thousands of U.S. dollars (note 2)
	2010	2009	2010
Current liabilities:			
Trade notes and accounts payable	¥18,200	¥16,028	$195,615
Short-term debt and current installments of long-term debt (note 6)	1,167	2,418	12,543
Other payables	1,583	1,355	17,014
Accrued income taxes (note 8)	2,714	1,185	29,170
Accrued expenses	1,938	1,836	20,829
Accrued bonuses	1,989	2,217	21,378
Other current liabilities (note 6)	2,132	1,239	22,915
Total current liabilities	29,723	26,278	319,464
Non-current liabilities:			
Long-term debt (note 6)	63	108	677
Deferred income taxes (note 8)	19	279	204
Other non-current liabilities (note 6)	247	245	2,655
Total non-current liabilities	329	632	3,536
Total liabilities	30,052	26,910	323,000
Stockholders' equity:			
Common stock (note 9): Authorized 98,986,000 shares; issued 45,765,490 shares in 2010 and 2009	7,545	7,545	81,094
Additional paid-in capital (note 9)	10,487	10,487	112,715
Retained earnings (note 10)	42,308	37,972	454,729
Treasury stock, at cost; 1,831,850 shares in 2010 and 1,830,850 shares in 2009	(2,018)	(2,016)	(21,689)
Total stockholders' equity	58,322	53,988	626,849
Valuation and translation adjustments:			
Net unrealized gain on other securities (note 4)	150	66	1,612
Foreign currency translation adjustments	(546)	(495)	(5,868)
Total valuation and translation adjustments	(396)	(429)	(4,256)
Minority interests	23	11	247
Total net assets	57,949	53,570	622,840
Commitments and contingencies (note 15)			
Total liabilities and net assets	¥88,001	¥80,480	$945,840

Consolidated Statements of Income

March 31, 2010 and 2009

	Millions of yen		Thousands of U.S. dollars (note 2)
	2010	2009	2010
Net sales	¥107,014	¥109,124	$1,150,194
Cost of sales (note 12)	52,378	55,156	562,962
Gross profit	54,636	53,968	587,232
Selling, general and administrative expenses (notes 11 and 12)	45,315	45,862	487,049
Operating income	9,321	8,106	100,183
Other income (deductions):			
Interest income	31	38	333
Dividend income	79	94	849
Interest expenses	(34)	(64)	(366)
Equity in losses of affiliates	(6)	(44)	(65)
Exchange loss	(177)	(461)	(1,902)
Loss on sale/disposal of property, plant and equipment	(126)	(29)	(1,354)
Loss on devaluation of investments in securities	(51)	(29)	(548)
Reversal of allowance for doubtful receivables	108	117	1,161
Other, net	3	(34)	32
	(173)	(412)	(1,860)
Income before income taxes and minority interests	9,148	7,694	98,323
Income taxes (note 8):			
Current	4,313	2,951	46,356
Deferred	(1,093)	100	(11,748)
	3,220	3,051	34,608
Income before minority interests	5,928	4,643	63,715
Minority interests	11	32	119
Net income	¥ 5,917	¥ 4,611	$ 63,596

See accompanying notes to consolidated financial statements.

Consolidated Statements of Changes in Net Assets

March 31, 2010 and 2009

	Millions of yen									
	Stockholders' equity					Valuation and translation adjustments				
	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)	Foreign currency translation adjustments	Total	Minority interests	
Balance at March 31, 2008	¥7,545	¥10,485	¥34,932	¥(2,012)	¥50,950	¥494	¥ (26)	¥468	¥396	¥51,814
Changes arising during year:										
Cash dividends			(1,670)		(1,670)					(1,670)
Net income			4,611		4,611					4,611
Purchase of treasury stock				(7)	(7)					(7)
Disposition of treasury stock		2		3	5					5
			99		99					99
Net changes other than stockholders' equity						(428)	(469)	(897)	(385)	(1,282)
Total changes during the year	–	2	3,040	(4)	3,038	(428)	(469)	(897)	(385)	1,756
Balance at March 31, 2009	7,545	10,487	37,972	(2,016)	53,988	66	(495)	(429)	11	53,570
Changes arising during year:										
Cash dividends			(1,581)		(1,581)					(1,581)
Net income			5,917		5,917					5,917
Purchase of treasury stock				(2)	(2)					(2)
Disposition of treasury stock		0		0	0					0
Other										
Net changes other than stockholders' equity						84	(51)	33	12	45
Total changes during the year	–	0	4,336	(2)	4,334	84	(51)	33	12	4,379
Balance at March 31, 2010	¥7,545	¥10,487	¥42,308	¥(2,018)	¥58,322	¥150	¥(546)	¥(396)	¥ 23	¥57,949

	Thousands of U.S. dollars (note 2)									
	Stockholders' equity					Valuation and translation adjustments				
	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)	Foreign currency translation adjustments	Total	Minority interests	
Balance at March 31, 2009	$81,094	$112,715	$408,126	$(21,668)	$580,267	$ 709	$(5,320)	$(4,611)	$118	$575,774
Changes arising during year:										
Cash dividends			(16,993)		(16,993)					(16,993)
Net income			63,596		63,596					63,596
Purchase of treasury stock				(21)	(21)					(21)
Disposition of treasury stock		0		0	0					0
Other										
Net changes other than stockholders' equity						903	(548)	355	129	484
Total changes during the year	–	0	46,603	(21)	46,582	903	(548)	355	129	47,066
Balance at March 31, 2010	$81,094	$112,715	$454,729	$(21,689)	$626,849	$1,612	$(5,868)	$(4,256)	$247	$622,840

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

March 31, 2010 and 2009

Assets	Millions of yen		Thousands of U.S. dollars (note 2)
	2010	2009	**2010**
Cash flows from operating activities:			
Income before income taxes and minority interests	**¥ 9,148**	¥ 7,694	**$ 98,323**
Adjustments to reconcile income before income taxes and minority interests to net cash provided by operating activities:			
Depreciation and amortization	**2,562**	2,714	**27,537**
Loss on sale/disposal of property, plant and equipment	**126**	29	**1,354**
Allowance for doubtful receivables	**(138)**	(81)	**(1,483)**
(Increase) decrease in accrued bonuses	**(228)**	137	**(2,451)**
Decrease in prepaid retirement and severance benefits	**965**	187	**10,372**
Interest and dividend income	**(110)**	(132)	**(1,182)**
Interest expenses	**34**	64	**366**
Loss on devaluation of investments in securities	**98**	72	**1,053**
Increase in trade notes and accounts receivable	**(2,680)**	(1,291)	**(28,805)**
Decrease in inventories	**637**	394	**6,846**
Increase (decrease) in trade notes and accounts payable	**2,172**	(2,021)	**23,345**
Equity in losses of affiliates	**6**	44	**65**
Other, net	**797**	74	**8,566**
Sub total	**13,389**	7,884	**143,906**
Interest and dividend received	**108**	134	**1,161**
Interest paid	**(14)**	(67)	**(150)**
Income taxes paid	**(2,804)**	(3,827)	**(30,138)**
Net cash provided by operating activities	**10,679**	4,124	**114,779**
Cash flows from investing activities:			
Proceeds from sale of investments in securities	**403**	1	**4,332**
Purchase of investments in securities	**(51)**	(48)	**(548)**
Capital expenditures	**(1,187)**	(3,525)	**(12,758)**
Purchase of intangible assets	**(1,990)**	(1,205)	**(21,389)**
Payment for acquisition of investments in subsidiaries resulting in a change in the scope of consolidation	**–**	(483)	**–**
Purchase of investments in subsidiaries	**–**	(774)	**–**
Other, net	**15**	66	**161**
Net cash used in investing activities	**(2,810)**	(5,968)	**(30,202)**
Cash flows from financing activities:			
Increase (decrease) in short-term debt	**(1,211)**	1,175	**(13,016)**
Proceeds from long-term debt	**–**	2	**–**
Payments on long-term debt	**(6)**	(12)	**(65)**
Dividends paid to stockholders	**(1,575)**	(1,669)	**(16,928)**
Dividends paid to minority stockholders of subsidiaries	**–**	(32)	**–**
Purchase of treasury stock	**(1)**	(2)	**(11)**
Other, net	**(58)**	(64)	**(623)**
Net cash used in financing activities	**(2,851)**	(602)	**(30,643)**
Effect of exchange rate changes on cash and cash equivalents	**115**	(153)	**1,236**
Net increase (decrease) in cash and cash equivalents	**5,133**	(2,599)	**55,170**
Cash and cash equivalents at beginning of year	**11,198**	13,797	**120,357**
Cash and cash equivalents at end of year (note 3)	**¥16,331**	¥11,198	**$175,527**

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

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.

Previously, a company could use the financial statements of its foreign subsidiaries which have been prepared in conformity with financial accounting standards of the countries of their domicile. From the year ended March 31, 2009, the Company adopted "Practical Solution on unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements" (ASBJ Practical Issues Task Force (PITF) No. 18, May 17, 2006). This PITF requires that for the preparation of consolidated financial statements, the accounting policies and procedures applied to a parent company and its subsidiaries for similar transactions and events under similar circumstances should be unified, in principle, and financial statements prepared by foreign subsidiaries in accordance with IFRSs or the generally accepted accounting principles in the United States (U.S. GAAP) tentatively may be used for the consolidation process, however, the items listed in the PITF should be adjusted in the consolidation process so that net income is accounted for in accordance with Japan GAAP unless they are not material. The Company made necessary modification to the consolidated financial statements according to the PITF. The effect of the change on operating income and income before income taxes and minority interests was immaterial.

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 (29 subsidiaries both for 2010 and 2009).

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

Investments in affiliates are accounted for by the equity method.

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

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

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

(c) Cash and Cash Equivalents

For the purpose of the 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 measured at the lower of cost or net selling value, which is defined as the selling price less additional estimated manufacturing costs and estimated direct selling expenses, determined principally by the average method.

Inventories were previously stated principally at cost determined principally by the gross average method. From the year ended March 31, 2009, the Company adopted" Accounting Standard for Measurement of Inventories" (ASBJ Statement No. 9, July 5, 2006), and inventories are measured at the lower of cost or net selling value, which is defined as the selling price less additional estimated manufacturing costs and estimated direct selling expenses, determined principally by the average method. The effect of the change on operating income and income before income taxes and minority interests was immaterial.

(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

From the year ended March 31, 2009, the Company and its domestic consolidated subsidiaries changed the estimated useful lives of machinery as a result of review of their useful lives. The effect of this change was immaterial.

(g) Intangible Assets

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

(h) Allowance for Doubtful Receivables

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

(i) Retirement and Severance Benefits

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

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.

From the year ended March 31, 2010, the Company adopted" Partial Amendments to Accounting Standard for Retirement Benefits (Part3)" (ASBJ Statement No. 19, July 31, 2008) and the Accounting Standard is to remove the treatment, which provides that a company may use the discount rate determined taking into consideration fluctuations in the yield of bonds over a certain period, and the Company is required to use the discount rate at the each year end. There was no effect on consolidated financial statements for the year ended March 31, 2010.

The Company and certain domestic consolidated subsidiaries converted its tax qualified noncontributory pension plan into a defined benefit corporation pension plan in March 2010. As a result of these transfers, operating profit and income before income taxes and minority interests increased by ¥186 million ($1,999 thousand) for the year ended March 31, 2010.

(j) Accrued Warranty Expenses

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

From the year ended March 31, 2010, the Company changed its timing of warranty expenses booking which were previously reported at the time of expenditure, as a result of this change, warranty expenses for prior years of ¥321 million ($3,450 thousand) are reported in other income (deductions), and operating income decreased by ¥82 million ($881 thousand) and income before income taxes and minority interests decreased by ¥403 million ($4,331 thousand) for the year ended March 31, 2010.

(k) Leases

Previously, finance leases, except for those where the legal title of the underlying property is transferred from the lessor to the lessee at the end of the lease term, are accounted for similarly to operating leases. On March 30, 2007, the ASBJ issued ASBJ Statement No.13," Accounting Standard for Lease Transactions," which revised the former accounting standard for lease transactions issued on June 17, 1993, and ASBJ Guidance No.16," Guidance on Accounting Standard for Lease Transactions," which revised the former guidance issued on January 18, 1994. From the year ended March 31, 2009, the Company adopted the revised accounting standards. The revised accounting standards require that all finance lease transactions shall be capitalized.

Leased assets related to finance lease transactions without title transfer are depreciated on a straight-line basis, with the lease periods as their useful lives and no residual value. The effect of this change on operating income and income before income taxes and minority interests was immaterial.

Regarding finance leases transactions without title transfer for which the starting date for the lease transactions is prior to the initial fiscal year in which these new accounting standards apply, the Company and its domestic consolidated subsidiaries have continued recognize lease payments as expenses.

(l) Foreign Currency Translation

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

(m) Income Taxes

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

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

(n) 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, 2010.

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, 2010 have been translated into United States dollars at the rate of ¥93.04=U.S.$1, the approximate exchange rate on the Tokyo Foreign Exchange Market on March 31, 2010. 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, 2010 and 2009 is follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	**2010**
Cash	**¥ 8,835**	¥ 8,701	**$ 94,959**
Short-term investments that have maturities of three months or less	**7,500**	2,500	**80,611**
Time deposits with maturities of over three months	**(4)**	(3)	**(43)**
Cash and cash equivalents	**¥ 16,331**	¥ 11,198	**$ 175,527**

4 Short-term Investments and 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, 2010 and 2009 are summarized as follows:

	Millions of yen			
	Acquisition cost	Gross unrealized gain	Gross unrealized loss	Balance sheet amount
March 31, 2010				
Equity securities	**¥ 1,999**	**¥ 396**	**¥ (143)**	**¥ 2,252**
Bond securities	**10**	**–**	**–**	**10**
Other	**7,500**	**–**	**–**	**7,500**
	¥ 9,509	**¥ 396**	**¥ (143)**	**¥ 9,762**
March 31, 2009				
Equity securities	¥ 2,159	¥ 382	¥ (271)	¥ 2,270

	Thousands of U.S. dollars			
	Acquisition cost	Gross unrealized gain	Gross unrealized loss	Balance sheet amount
March 31, 2010				
Equity securities	**$ 21,485**	**$ 4,257**	**$ (1,537)**	**$ 24,205**
Bond securities	**107**	**–**	**–**	**107**
Other	**80,611**	**–**	**–**	**80,611**
	$ 102,203	**$ 4,257**	**$ (1,537)**	**$ 104,923**

It is not practicable to estimate the fair value of securities as of March 31, 2009 described below because of lack of market price and difficulty in estimating fair value.

	Millions of yen
Other securities:	
Unlisted equity securities	¥ 387
Certificates of deposit	2,500
Investments in limited partnership and similar partnership	186
	¥ 3,073

For the years ended March 31, 2010 and 2009, proceeds from the sale of other securities are ¥380 million ($4,084 thousand) and ¥1 million, respectively. For the year ended March 31, 2009, gross realized losses were ¥1 million. For the year ended March 31, 2010, gross realized gains are ¥195 million ($2,096 thousand).

5 Investments in Affiliates

The aggregate carrying amounts of investments in affiliates as of March 31, 2009 were ¥32 million.

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 1.0% and 1.9% at March 31, 2010 and 2009, respectively.

Long-term borrowings as of March 31, 2010 and 2009 is summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	**2010**
Loans from banks, unsecured, maturing in installments through 2016; bearing weighted average interest of 1.9% both at March 31, 2010 and 2009	**¥ 15**	¥ 21	**$ 161**
Less current installments	**4**	2	**43**
	¥ 11	¥ 19	**$ 118**

Lease liabilities as of March 31, 2010 and 2009 is summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	**2010**
Lease liabilities maturing in installments through 2015	**¥ 87**	¥ 135	**$ 935**
Less current installments	**35**	46	**376**
	¥ 52	¥ 89	**$ 559**

The aggregate annual maturities of long-term borrowings after March 31, 2011 are as follows:

	Millions of yen	Thousands of U.S. dollars
Year ending March 31:		
2012	¥ 4	$ 43
2013	3	32
2014	1	11
2015	1	11

The aggregate annual maturities of lease liabilities after March 31, 2011 are as follows:

	Millions of yen	Thousands of U.S. dollars
Year ending March 31:		
2012	¥ 31	$ 333
2013	14	150
2014	7	75
2015	1	11

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 a defined benefit corporation pension plan. The Company and certain domestic consolidated subsidiaries converted its tax qualified noncontributory pension plan into a defined benefit corporation pension plan in March 2010. 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, 2010 and 2009 is outlined as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	**2010**
Projected benefit obligation	**¥ (13,480)**	¥ (13,838)	**$ (144,884)**
Plan assets at fair value	**13,219**	11,835	**142,079**
Funded status	**(261)**	(2,003)	**(2,805)**
Unrecognized actuarial loss	**294**	3,001	**3,160**
Amount recognized in the consolidated balance sheets	**33**	998	**355**
Prepaid retirement and severance benefits	**(33)**	(998)	**(355)**
Accrued retirement and severance benefits	**¥ —**	¥ —	**$ —**

Net periodic pension cost for the years ended March 31, 2010 and 2009 consists of the following components:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	**2010**
Service cost	**¥ 881**	¥ 829	**$ 9,469**
Interest cost	**277**	271	**2,977**
Expected return on plan assets	**(237)**	(276)	**(2,547)**
Amortization of prior service benefit	**(186)**	—	**(1,999)**
Amortization of actuarial loss	**1,108**	345	**11,909**
Net periodic pension cost	**¥ 1,843**	¥ 1,169	**$ 19,809**

Note: For the years ended March 31, 2010 and 2009, the amount of" Service cost" excludes contributions to the welfare pension fund of ¥663 million ($7,126 thousand) and ¥652 million, respectively.

Significant assumptions of pension plans used to determine these amounts in fiscal 2010 and 2009 are as follows:

	2010	2009
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 prior service cost / benefit	Immediately amortized	—
Period for amortization of unrecognized actuarial loss/gain *	5 years	5 years

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

According to the" Partial Amendments to Accounting Standard for Retirement Benefits Part 2" (Accounting Standards Board of Japan Statement No.14, issued on May 15, 2007), the most recent funded status of the pension plans and the ratio of the company to the entire plans, and the supplementary description are required to be disclosed for corporate pensions under multi-employer pension plans under which the required contribution is recognized as the net pension cost, unless they are insignificant.

Funded status of the whole welfare pension plan at March 31, 2009 and 2008 is outlined as follows:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Plan assets at fair value - (1)	¥ 165,146	¥ 194,287	$1,775,000
Benefit obligation under pension funding programs - (2)	203,202	226,156	2,184,028
(1) - (2) *	¥ (38,056)	¥ (31,869)	$ (409,028)

The Company's proportion of the salaries to the whole of welfare pension plan at March 31, 2010 and 2009 are 7.1% and 6.4%, respectively, and the employer's proportion of the contribution to the total contribution for the year ended March 31, 2009 were 65.8%.

Main reason of the differences above* at March 31, 2009 is unrecognized prior service cost of the pension program of ¥21,468 million ($230,739 thousand). The unrecognized prior service cost is amortized over 20 years by the straight-line method.

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 2010 and 2009.

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, 2010 and 2009 is follows:

	2010	2009
Statutory tax rate	40.7%	40.7%
Change in valuation allowance	(1.7)	1.2
Expenses not deductible for tax purposes	0.8	1.1
Income not credited for tax purposes	(0.2)	(0.2)
Utilization of tax loss carryforward	(1.0)	(0.7)
Per capital tax	0.5	0.5
Difference in statutory tax rates of subsidiaries	(0.9)	(1.1)
Tax credits primarily for research and development costs	(4.4)	(4.6)
Other	1.4	2.8
Effective tax rate	35.2%	39.7%

Significant components of deferred tax assets and liabilities at March 31, 2010 and 2009 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	**2010**
Deferred tax assets:			
Valuation loss for inventories	**¥ 627**	¥ 612	**$ 6,739**
Accrued business tax	**233**	116	**2,504**
Accrued bonuses	**797**	905	**8,566**
Accrued warranty expenses	**164**	—	**1,763**
Allowance for doubtful receivables	**62**	122	**666**
Depreciation and amortization	**1,128**	959	**12,124**
Intercompany profits on inventories, and property, plant and equipment	**1,478**	1,299	**15,886**
Other	**822**	856	**8,835**
	5,311	4,869	**57,083**
Valuation allowance	**(678)**	(830)	**(7,287)**
	4,633	4,039	**49,796**
Deferred tax liabilities:			
Net unrealized gain on other securities	**(103)**	(46)	**(1,107)**
Prepaid retirement and severance benefits	**(9)**	(461)	**(97)**
Other	**(16)**	(12)	**(172)**
	(128)	(519)	**(1,376)**
Net deferred tax assets	**¥ 4,505**	¥ 3,520	**$ 48,420**

Net deferred tax assets and liabilities as of March 31, 2010 and 2009 are reflected in the accompanying consolidated balance sheets under the following captions:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	**2010**
Current assets - Deferred income taxes	**¥ 3,775**	¥ 3,180	**$ 40,574**
Investments and other assets - Deferred income taxes	**749**	619	**8,050**
Non-current liabilities - Deferred income taxes	**(19)**	(279)	**(204)**
Net deferred tax assets	**¥ 4,505**	¥ 3,520	**$ 48,420**

9 Common Stock

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, 2010 and 2009 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.

(a) Dividends paid during the year ended March 31, 2009

The following was approved by the general meeting of stockholders held on June 27, 2008.

(a) Total dividends	¥879 million
(b) Cash dividends per common share	¥20
(c) Record date	March 31, 2008
(d) Effective date	June 30, 2008

The following was approved by the Board of Directors held on November 7, 2008.

(a) Total dividends	¥791 million
(b) Cash dividends per common share	¥18
(c) Record date	September 30, 2008
(d) Effective date	December 3, 2008

(b) Dividends paid during the year ended March 31, 2010

The following was approved by the general meeting of stockholders held on June 26, 2009.

(a) Total dividends	¥835 million ($8,975 thousand)
(b) Cash dividends per common share	¥19 ($0.20)
(c) Record date	March 31, 2009
(d) Effective date	June 29, 2009

The following was approved by the Board of Directors held on November 5, 2009.

(a) Total dividends	¥747 million ($8,029 thousand)
(b) Cash dividends per common share	¥17 ($0.18)
(c) Record date	September 30, 2009
(d) Effective date	December 1, 2009

(c) Dividends to be paid after the balance sheet date but the record date for the payment belongs to the year ended March 31, 2010

The following was approved by the general meeting of stockholders held on June 29, 2010.

(a) Total dividends	¥879 million ($9,448 thousand)
(b) Dividend source	Retained earnings
(c) Cash dividends per common share	¥20 ($0.21)
(d) Record date	March 31, 2010
(e) Effective date	June 30, 2010

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
	2010	2009	**2010**
Salaries	**¥ 19,080**	¥ 19,335	**$205,073**
Pension costs	**1,776**	1,123	**19,089**
Depreciation	**1,401**	1,497	**15,058**
Legal welfare	**3,020**	3,044	**32,459**
Transportation	**2,006**	2,252	**21,561**

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, 2010 and 2009 are ¥4,419 million ($47,496 thousand) and ¥4,657 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, 2010 and 2009 are as follows:

	Yen		U.S. dollars
	2010	2009	**2010**
Basic net income per share	**¥ 134.68**	¥ 104.94	**$ 1.45**

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Net income	¥ 5,917	¥ 4,611	$ 63,596
Net income not applicable to common stockholders	—	—	—
Net income applicable to common stockholders	¥ 5,917	¥ 4,611	$ 63,596

	Number of shares (Thousands)	
	2010	2009
Weighted average number of shares outstanding on which basic net income per share is calculated	43,934	43,935

(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, 2010 and 2009 are as follows:

	Yen		U.S. dollars
	2010	2009	2010
Net assets per share	¥1,318.49	¥1,219.06	$ 14.17

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Total net assets	¥ 57,949	¥ 53,570	$622,840
Amount deducted from total net assets:			
Minority interests	23	11	247
Net assets applicable to common stockholders	¥ 57,926	¥ 53,559	$622,593

	Number of shares (Thousands)	
	2010	2009
Number of shares outstanding at end of year on which net assets per share is calculated	43,934	43,935

14 Leases

A summary of assumed amounts of acquisition cost which includes interest portion, accumulated depreciation and net book value at March 31, 2010 and 2009 are as follows, which would have been reflected in the consolidated balance sheets if finance lease accounting had been applied to the finance leases currently accounted for as operating leases:

	Millions of yen		
	Machinery, equipment and vehicles	Tools, furniture and fixtures	Total
March 31, 2010			
Acquisition cost	¥ 27	¥ 32	¥ 59
Accumulated depreciation	20	23	43
Net book value	¥ 7	¥ 9	¥ 16
March 31, 2009			
Acquisition cost	¥ 143	¥ 56	¥ 199
Accumulated depreciation	66	38	104
Net book value	¥ 77	¥ 18	¥ 95

	Thousands of U.S. dollars		
	Machinery, equipment and vehicles	Tools, furniture and fixtures	Total
March 31, 2010			
Acquisition cost	$ 290	$ 344	$ 634
Accumulated depreciation	215	247	462
Net book value	$ 75	$ 97	$ 172

Future minimum payments which include interest portion required under finance leases currently accounted for as operating leases at March 31, 2010 and 2009 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Within one year	¥ 10	¥ 45	$ 107
Over one year	6	50	65
	¥ 16	¥ 95	$ 172

Lease payments for finance leases currently accounted for as operating leases for the years ended March 31, 2010 and 2009 amounted to ¥18 million ($193 thousand) and ¥71 million, respectively.

Future minimum payments required under noncancellable operating leases at March 31, 2010 and 2009 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Within one year	¥ 112	¥ 139	$ 1,204
Over one year	116	147	1,247
	¥ 228	¥ 286	$ 2,451

15 Financial Instruments

"Accounting Standard for Financial Instruments" (ASBJ Statement No. 10, March 10, 2008) and its" Implementation Guidance on Disclosures about Fair Value of Financial Instruments" (ASBJ Guidance No. 19 Guidance, March 10, 2008) were applied for the year ended March 31, 2010.

Conditions of Financial instruments

(1) Management policy

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

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

(2) Financial instruments and risks

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

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

The Group uses foreign exchange contracts to mainly hedge future fluctuation of foreign exchange rates of loans receivable to foreign subsidiaries denominated in foreign currency.

(3) Financial instruments risk management

1) Credit risk

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

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

2) Market risk

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

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

3) Liquidity risk

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

(4) Supplemental explanation regarding fair value of financial instruments

Fair value of financial instruments are measured based on the quoted market price, if available, or reasonably assessed value if a quoted market price is not available. Fair value of financial instruments which quoted market price is not available is calculated based on certain assumptions, and the fair value might differ if different assumptions are used. In addition, the contract amount of the derivative transactions described below in note (16) Derivative Financial Instruments does not represent the market risk of the derivative transactions.

Fair value of financial instruments

The carrying amounts on the consolidated balance sheets, fair value, and differences as of March 31, 2010 are as follows.

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

	Millions of yen			Thousands of U.S. dollars		
March 31, 2010	Carrying value	Fair value	Differences	Carrying value	Fair value	Differences
Assets:						
(1) Cash	¥ 8,835	¥ 8,835	¥ —	$ 94,959	$ 94,959	$ —
(2) Trade notes and accounts receivable	35,168	35,168	—	377,988	377,988	—
(3) Short-term investments	7,500	7,500	—	80,611	80,611	—
(4) Investments in securities:						
Other securities	2,262	2,262	—	24,312	24,312	—
(5) Trade notes and accounts payable	18,200	18,200	—	195,615	195,615	—
(6) Short-term debt	1,132	1,132	—	12,167	12,167	—
Derivative transactions	¥ (4)	¥ (4)	¥ —	$ (43)	$ (43)	$ —

* Derivative receivables and payables are on net basis. Items that are net payables are shown in parenthesis.

<1> Fair value measurement of financial instruments

Assets:

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

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

(4) Investments in securities

The fair value of equity securities is calculated by quoted market price and the fair value of bond securities is based on the present value of future cash flows discounted using the rates considering credit risk and the remaining terms to maturity.

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

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

Derivative Transactions:

Please see note (16) Derivative Financial Instruments.

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

	Millions of yen	Thousands of U.S. dollars
Unlisted equity securities	¥ 336	$ 3,611
Investments in limited partnership and similar partnership	155	1,666

Above are not included in" (4) Investments in securities - other securities" because there is no market value and future cash flows cannot be estimated, therefore it is extremely difficult to measure the fair value.

<3> Projected future redemption of monetary claim and securities with maturities

	Millions of yen			
	Due within one year	Due after one year through five years	Due after five years through ten years	Due after ten years
(1) Cash	¥ 44	¥ —	¥ —	¥ —
(2) Trade notes and accounts receivable	35,168	—	—	—
(3) Short-term investments	7,500	—	—	—
(4) Investments in securities:				
Other securities with maturities:				
Bond securities	—	10	—	—

	Thousands of U.S. dollars			
	Due within one year	Due after one year through five years	Due after five years through ten years	Due after ten years
(1) Cash	$ 473	$ —	$ —	$ —
(2) Trade notes and accounts receivable	377,988	—	—	—
(3) Short-term investments	80,611	—	—	—
(4) Investments in securities:				
Other securities with maturities:				
Bond securities	—	107	—	—

<4> The annual maturities of the long-term debt
Please see note (6) Short-term and Long-term Debt.

16 Derivative Financial Instruments

The Group uses foreign exchange contracts to mainly hedge future fluctuation of foreign exchange rates of loans receivable to foreign subsidiaries denominated in foreign currency.

At March 31, 2010, the disclosure of fair value information for derivatives which is not accounted for as hedges are as follows:

	Millions of yen		
March 31, 2010	Contract or notional amounts	Fair value	Valuation gain (loss)
Forward exchange contracts:			
To sell foreign currency:			
Euro	¥ 496	¥ 500	¥ (4)

	Thousands of U.S. dollars		
March 31, 2010	Contract or notional amounts	Fair value	Valuation gain (loss)
Forward exchange contracts:			
To sell foreign currency:			
Euro	$ 5,331	$ 5,374	$ (43)

The fair value of forward exchange contracts is computed based on quotes from counterparties.

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, 2010 and 2009.

(b) Geographic segments

Segment information by geographic area for the years ended March 31, 2010 and 2009 is summarized as follows:

	Millions of yen						
	2010						
	Japan	Americas	Europe	Asia	Total	Elimination / corporate	Consolidated
Sales to outside customers	¥ 93,938	¥4,979	¥5,525	¥2,572	¥107,014	¥ —	¥107,014
Inter-segment sales	6,247	439	—	677	7,363	(7,363)	—
	100,185	5,418	5,525	3,249	114,377	(7,363)	107,014
Operating expenses	91,856	4,997	5,493	2,851	105,197	(7,504)	97,693
Operating income	¥ 8,329	¥ 421	¥ 32	¥ 398	¥ 9,180	¥ 141	¥ 9,321
Assets	¥ 78,535	¥3,261	¥5,197	¥2,127	¥ 89,120	¥(1,119)	¥ 88,001

	Millions of yen						
	2009						
	Japan	Americas	Europe	Asia	Total	Elimination / corporate	Consolidated
Sales to outside customers	¥ 95,223	¥5,894	¥6,149	¥1,858	¥109,124	¥ —	¥109,124
Inter-segment sales	7,182	469	—	961	8,612	(8,612)	—
	102,405	6,363	6,149	2,819	117,736	(8,612)	109,124
Operating expenses	94,612	6,274	6,183	2,491	109,560	(8,542)	101,018
Operating income (loss)	¥ 7,793	¥ 89	¥ (34)	¥ 328	¥ 8,176	¥ (70)	¥ 8,106
Assets	¥ 72,141	¥3,159	¥4,436	¥1,971	¥ 81,707	¥(1,227)	¥ 80,480

	Thousands of U.S. dollars						
	2010						
	Japan	Americas	Europe	Asia	Total	Elimination / corporate	Consolidated
Sales to outside customers	$1,009,652	$53,515	$59,383	$27,644	$1,150,194	$ —	$1,150,194
Inter-segment sales	67,143	4,718	—	7,277	79,138	(79,138)	—
	1,076,795	58,233	59,383	34,921	1,229,332	(79,138)	1,150,194
Operating expenses	987,275	53,708	59,039	30,643	1,130,665	(80,654)	1,050,011
Operating income	$ 89,520	$ 4,525	$ 344	$ 4,278	$ 98,667	$ 1,516	$ 100,183
Assets	$ 844,099	$35,049	$55,858	$22,861	$ 957,867	$(12,027)	$ 945,840

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

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

2. Corporate assets of ¥6,898 million ($74,140 thousand) and ¥5,446 million as of March 31, 2010 and 2009 in the Elimination / corporate line consist primarily of assets relating to the administrative operations and investments in securities etc.

3. For the year ended March 31, 2010, as described in Note 1 (j), the Company changed its timing of warranty expenses booking. As a result of this change, operating income of Japan decreased by ¥82 million ($881 thousand).

4. For the year ended March 31, 2009, as described in Note 1 (f), the Company and its domestic consolidated subsidiaries changed the estimated useful lives of machinery. The effect of this change on each segment was immaterial.

5. For the year ended March 31, 2009, as described in Note 1 (k), the Company adopted revised" Accounting Standard for Lease Transactions" (ASBJ Statement No.13, revised on March 30, 2007) and revised" Guidance on Accounting Standard for Lease Transactions" (ASBJ Guidance No.16, revised on March 30, 2007). The effect of this change on each segment was immaterial. Regarding finance leases transactions without title transfer for which the starting date for the lease transactions is prior to the initial fiscal year in which these new accounting standards apply, the Company and its domestic consolidated subsidiaries have continued recognize lease payments as expenses.

6. For the year ended March 31, 2009, as described in Note 1 (a), the Company adopted" Practical Solution on unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements" (ASBJ Practical Issues Task Force (PITF) No. 18, May 17, 2006) and necessary modification was made to the consolidated financial statements. The effect of this change on each segment was immaterial.

7. For the year ended March 31, 2009, as described in Note 1 (e), the Company adopted" Accounting Standard for Measurement of Inventories" (ASBJ Statement No. 9, July 5, 2006). The effect of this change on each segment was immaterial.

(c) Overseas sales

Information for overseas sales for the years ended March 31, 2010 and 2009 is summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Overseas sales:			
Americas	¥ 6,298	¥ 7,857	$ 67,691
Europe	5,861	6,791	62,994
Asia	6,507	6,012	69,938
Other	909	1,062	9,770
	¥ 19,575	¥ 21,722	$ 210,393
Consolidated sales	¥107,014	¥109,124	$1,150,194
Percentage of overseas sales to consolidated sales	18.3%	19.9%	18.3%

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

Americas: U.S.A., Brazil, Colombia, Chili and Mexico
Europe: Germany, France, Spain, Italy and Russia
Asia: China, Singapore, Korea, India and Vietnam

18 Supplemental Cash Flow Information

Assets and liabilities of newly consolidated subsidiaries in fiscal 2009 by acquisition at the inception of consolidation, and net expenditure for acquisition are as follows:

(Nippon Biotest Laboratories Inc.)

	Millions of yen
Current assets	¥232
Non-current assets	61
Current liabilities	(37)
Non-current liabilities	(170)
Negative goodwill	(41)
Cash paid for acquisition of the subsidiary	45
Cash and cash equivalents held by the subsidiary	63
Receipt from acquisition of the subsidiary	¥ 18

(Neurotronics. Inc)

	Millions of yen
Current assets	¥ 55
Non-current assets	5
Current liabilities	(6)
Goodwill	456
Cash paid for acquisition of the subsidiary	510
Cash and cash equivalents held by the subsidiary	9
Payment for acquisition of the subsidiary	¥(501)

Independent Auditors' Report

March 31, 2010 and 2009

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Toyo Horwath

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, 2010 and 2009, 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 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 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, 2010 and 2009, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

As more fully described in Note 1(j) to the consolidated financial statements, effective in the year ended March 31, 2010, warranty expenses are accounted for as an accrual which were previously recorded at the time of expenditure.

The accompanying consolidated financial statements as of and for the year ended March 31, 2010 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 30, 2010

Corporate Directory
As of June 29, 2010

Board of Directors, Corporate Auditors and Operating Officers

Chairman and CEO
Kazuo Ogino

President and COO
Fumio Suzuki

Corporate Directors
Eishi Harasawa
Kenji Hakuta
Toshifumi Kamihirata
Toshitsugu Izawa
Yoshito Tsukahara
Takashi Tamura
Toshinobu Mayuzumi

Outside Corporate Director
Masaya Yamauchi

Corporate Auditors
Takeshi Akahane
Takeshi Matsushima

Outside Corporate Auditors
Kuniyasu Aoki
Osamu Kato
Masahiro Kawamura

Operating Officers
Masami Sugiyama
Haruto Doi
Masaharu Arakane
Hiroshi Aida
Tatsuya Nakagawa
Eiichi Tanaka
Hideo Ozawa
Fumio Hirose
Kazuhiko Ikuta

Corporate Data

Date of Incorporation
August 7, 1951

Paid-in Capital*
¥7,544 million

Shares of Common Stock Issued*
45,765 thousand

Number of Employees*
3,588 (group)
*As of March 31, 2010

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International Operations
Nakano-ku, Tokyo 164-0003, Japan
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Latin America Representative Office (Miami, FL, USA)
Middle East Office (Dubai, U.A.E)

Web Site
www.nihonkohden.com

Subsidiaries

Japan

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

Production
Nihon Kohden Tomioka Corporation

Other
Beneficks Corporation
Nippon Biotest Laboratories inc.
Nihon Kohden Service Corporation
E-Staff 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 Trading (Shanghai) Co., Ltd. (Shanghai, China)
Nihon Kohden Singapore Pte Ltd. (Harbour Front Center, Singapore)
Nihon Kohden Korea, Inc. (Seoul, Korea)

R&D

USA
NK US Lab (Irvine, CA, USA)
Neurotronics Inc. (Gainesville, Florida, 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)

India
Span Nihon Kohden Diagnostics Private Ltd. (Surat, India)

Major Stockholders*

Stockholders	No. of Shares (thousands)	Stockholding Ratio
Japan Trustee Service Bank, Ltd. (trust account)	4,259	9.30%
Saitama Resona Bank, Ltd.	2,096	4.58%
Toshiba Medical Systems Corporation	1,990	4.34%
The Master Trust Bank of Japan, Ltd. (trust account)	1,893	4.13%
State Street Bank and Trust Company	1,155	2.52%
Fujitsu Ltd.	1,063	2.32%
NIPPONKOA Insurance Co., Ltd.	974	2.12%
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	862	1.88%
Japan Trustee Service Bank, Ltd. (trust account 9)	854	1.86%
Trust & Custody Services Bank, Ltd. (securities investment trust account)	703	1.53%
Subtotal	15,854	
Total Outstanding Issue	45,765	

* As of March 31, 2010

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