Annual Report

April 2005 – March 2006

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. In the half 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 globe. 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 ISO14001 Quality System Certification for our head office and main production factory in Japan.

Nihon Kohden's products are used in over 100 countries, and people performing health care throughout the world are familiar with Nihon Kohden as a manufacturer of innovative equipment that is reliable, high quality, safe, and easy to operate.

Contents

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.

Consolidated Financial Highlights

Nihon Kohden Corporation and Consolidated Subsidiaries

Years ended March 31, 2006, 2005, 2004, 2003 and 2002

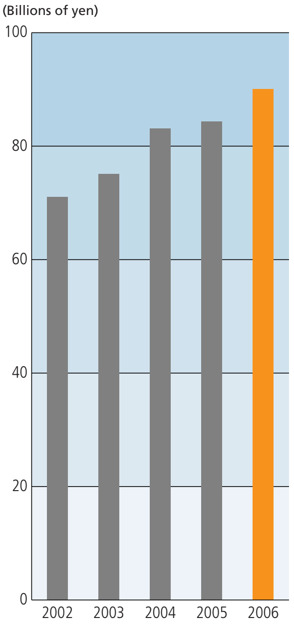
	Millions of yen					Thousands of U.S. dollars (1)
	2006	2005	2004	2003	2002	**2006**
Net sales	**¥90,368**	¥ 83,808	¥ 83,133	¥ 75,739	¥ 71,860	**$ 769,286**
Operating profit	**7,415**	7,189	5,968	3,357	2,537	**63,122**
Income before income taxes and minority interests	**8,261**	7,608	5,421	2,502	2,315	**70,324**
Net income	**5,788**	6,563	3,678	2,082	1,694	**49,272**
Total assets	**73,511**	67,478	64,278	60,321	59,571	**625,785**
Stockholders' equity	**45,540**	40,122	34,460	30,801	29,565	**387,673**

Amounts per share(2):	Yen					U.S. dollars (1)
Net income—basis	**¥128.56**	¥ 145.21	¥ 80.90	¥ 45.26	¥ 37.01	**$ 1.09**
Cash dividends applicable to the period	**26.00**	14.00	9.00	8.00	5.50	**0.22**

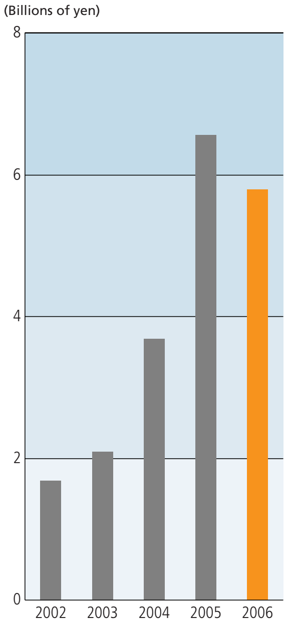
Notes : (1) U.S. dollar amounts are translated from yen, for convenience only, at the rate of ¥117.47 = US$1.

(2) Computation of net income and dividends per share was based on the average number of shares of common stock outstanding during each fiscal year. See Note 1 (n) of Consolidated Financial Statements.

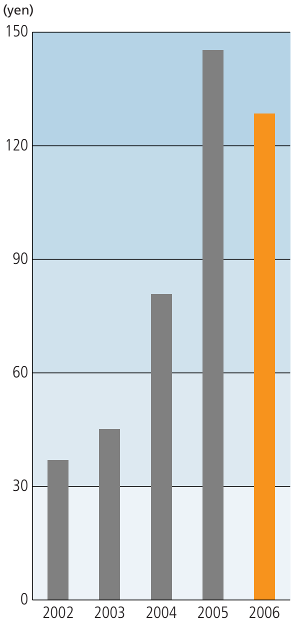
Net sales



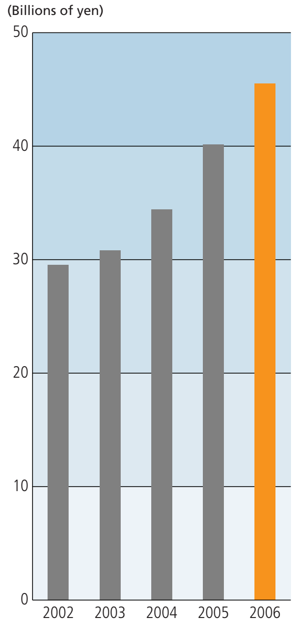
Net income



Net income per share



Stockholders' equity



Message from the President

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

For 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 maker 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 maker 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 in Japan and 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 continually striving to develop the highest quality products.

The 21st century has been called the century of the environment. Our company is also aiming to implement business operations that are gentle on the earth. In October 2000 we established an environmental policy and one year later our company's main production facility at Tomioka received ISO 14001 certification. In addition, our head office in Shinjuku, Tokyo, received certification in October 2003.

Nihon Kohden's product development is based on three pillars.

- Market (user) oriented
- High quality, low cost
- Global

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

In fiscal 2004 Nihon Kohden begins implementing a new 3 year plan. The theme is "establishing Nihon Kohden as a global brand of medical equipment manufacturer." To realize this vision we will become a more international company and strengthen management and business infrastructure. As a numerical goal, we are striving for sales of 100 billion yen, pretax profit of 10 billion yen, and international sales 25% of the total by fiscal 2009. Our target in fiscal 2006, the final year of this plan, is sales of 93 billion yen, pretax profit of 8 billion yen, and increasing international sales to 20.5% of the total.

In international business, we are restructuring our international sales network into 3 global axes, the Americas, Europe and Asia, so that every sales representative and distributor is under direct control and can provide enhanced service and sales.

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

Kazuo Ogino
President and Chief Executive Officer

Topics

Longterm Objectives

Management vision

Building a global brand as a manufacturer of medical electronic equipment

Numerical goal in fiscal 2009

Sales	¥100 billion
Pretax profit	¥10 billion
Overseas sales ratio	25% of the total

Nihon Kohden's Midterm Business Plan

Progress towards our Midterm Business Plan

Product strategy: A strong sales network has been established both domestically and overseas. In order to exploit these networks fully, we intend to continue to supply powerful new products in our role as a manufacturer.

The Japanese government is now actively promoting the adoption of IT in medical facilities, and the Japanese market for electronic systems in hospitals seems to be headed for substantial expansion. To take full advantage of this business opportunity, we will draw deeply from our rich experience and know-how in both electronic systems and medical equipment. We will introduce new products of outstanding quality in the patient monitor, electrocardiograph, and polygraph fields, and so greatly heighten our presence in these markets.

Further, to support our coming R&D activities, in April 2006 we opened a new laboratory in the Kobe city-sponsored Kobe Medical Industrial City. Medical related facilities are concentrated around our laboratory, so that this is a favorable environment for carrying out a wide variety of experiments and joint projects with educational-research organizations. We expect this laboratory to play a central role in promoting the creation of new businesses.

Domestic marketing strategy: Conditions in the term under review were predicted to be severe for furthering reforms in medical treatment, but at the high end of this market, with the spreading adoption of IT and electronic systems in hospitals more and more of our customers are demanding increased safety and efficiency of medical treatment, and so we concluded a good number of large business deals including systems. Even at the low end of this market, with our entry into biphasic type of defibrillators, our sales of AEDs (automated external defibrillators) approached 10,000 units, the market for these now rapidly expanding because of their being placed in airports, railway stations, and sports facilities as well as local medical facilities.

International marketing strategy: Our overseas operations have enjoyed double digit expansion of sales this business term and overseas sales ratio was 20.6%, so that our midterm business plan target was reached one year ahead of time. We have expanded our operations bases, setting up a representative office in Dubai, UAE to handle the Middle East region in October 2005, and beginning full operation of our reagent manufacturing plant in Florence, Italy in April 2006 which supports implementation of our sales strategy for our fully automated hematology analyzer in the European market.

As of March 2006, there are eight overseas subsidiaries directly owned by Nihon Kohden, and there are five representative offices. Added to these are a network of sales agencies in countries all over the world, to form a three axis organization based on the Americas, Europe and Asia which also covers foreign markets including BRICs with good balance. Our sales network is continuing to grow at a rapid pace. We have established a wide global network, so in the future our task is to provide support to customers in all regions so that our devices can be used satisfactorily, improving the quality of our service by education of the staff in our sales agencies and enhancing our sales and service systems.

AEDs' rapid penetration into the PAD market

In July 2004, the MHLW (Ministry of Health, Labour and Welfare) officially recognized the use of AED by ordinary citizens. This has resulted in the rapid expansion of AED usage in the new market of PAD (Public Access Defibrillation).

When the AED is plugged in, a voice explains how it is used. The two electrodes are adhered to the sick person's chest, and then an electrocardiogram is automatically taken and analyzed. Only if necessary, electricity is stored up and an electric shock is applied when a button is pushed, to save the person's life. This AED is distinctive in that any ordinary person can operate it. Since operation by ordinary citzens have been approved, all staff of Nihon Kohden are taught cardiovascular resuscitation and AED use in training sessions. AEDs have been placed in all work places of the Company. With the increase in awareness of AED in the PAD market, AEDs are being placed in a wide variety of locations including sports clubs, airports, community centers, schools, and companies.

In August 2005 the life of a man in his thirties was saved at Kansai International Airport, and in March 2006 a man in his sixties was saved by use of the AED at Tochomae station of the Tokyo Municipal Subway Oedo Line, and there have been other such cases across Japan. It is expected that people will be saved at an increasing rate with future spread in installation of AEDs.

Establishing a production facility in Italy for hematology analyzer reagents to expand overseas sales of hematology analyzers

We established Nihon Kohden Firenze, s.r.l. to manufacture hematology analyzer reagents in Italy to supply genuine reagents for Nihon Kohden hematology analyzers to meet increased sales of hematology analyzers in overseas markets.

The new production facility will solve issues of transportation costs from Japan and reliance on local reagent manufacturers for supplying hematology analyzer reagents to overseas markets. It will also assure a stable supply system of hematology analyzer reagents in regard to quality, cost and timely delivery. Nihon Kohden Firenze acquired the business from Labnova (mid-sized reagent manufacturer in Europe) by transfer of operations.

By establishing a manufacturing company in Europe, we can strengthen the supply system of genuine reagents to mainly the European market. We plan to double overseas sales after three years by synergistic effect with sales of hematology analyzers.

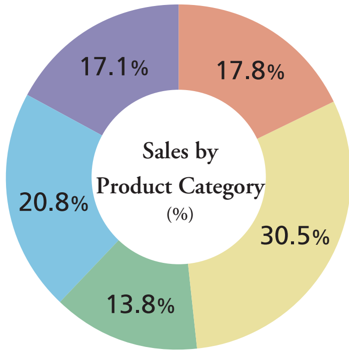
A new compact fully automated hematology analyzer and CRP analyzer put on sale

We introduced a new automated hematology analyzer, the Celltac α MEK-6400 and a new immunological analyzer, the Celltac Chemi CRP-3000 in December 2005, which designed with the concept "Gentle to people, eco-friendly and easy to operation".

The hematology analyzer Celltac α has a compact body, makes high precision measurements, has a wide variety of functions useful for organizing diagnosis information and for informed consent, and is easy to use. The immunological analyzer Celltac Chemi is an automated testing apparatus which measures CRP (C-reactive protein) in blood through latex agglutination turbidimetric immunoassay. It is easy to use and makes high precision measurements on the spot so that early diagnosis of inflammation and infection can be made.

Using these two analyzers as a set makes it possible to share a printer and measurements of hematocrit values, these devices working together as one unit. Also, leukocyte and CRP measurements can be made at the same time, which is useful for diagnosis of infection and others. Even when put together as a set, these devices can be operated independently, so that unnecessary tests and costs can be avoided.

At a Glance



- Physiological Measuring Equipment
- Patient Monitors
- Treatment Equipment
- Medical Supplies
- Other Medical Equipment

Physiological Measuring Equipment


EEG-9200


MEB-9400


ECG-1500

Equipment to measure and record electroencephalogram, electrocardiogram, blood pressure and other physiological changes (electroencephalographs, evoked potential and electromyogram measuring systems, electrocardiographs, polygraphs and other equipment)

Patient Monitors


BSM-2300


BSM-5100


CNS-9700


ZS-940

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

Treatment Equipment


TEC-7731


AED-9200


Philos DR

Defibrillators, pacemakers, ventilators, patient warming systems, other

Medical Supplies


Elefix


DispoBluPRO

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

Other Medical Equipment


MEK-8222

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

Review of Operations

During the term under review (April 1, 2005 to March 31, 2006), the Japanese government enacted further changes to the medical care system in an attempt to control spending on health care such as turning national hospitals and universities into independent administrative entities in April 2004. In the wake of this progress in system reform, medical institutions are under increasing pressure to provide safe, high-quality health care and to manage themselves more efficiently. One response has been to enhance profitability by more group purchasing. This has led to intensified competition among suppliers of medical equipment as market prices have fallen. Fierce competition has also arisen among new entrants in the new market of public access defibrillation (PAD), which has been growing rapidly after the Ministry of Health, Labor and Welfare's (MHLW) decision in July 2004 to allow public use of automated external defibrillators (AEDs) as a life-saving device.

Outside Japan, price competition intensified as the large-scale European and North American companies have expanded through M&A, while new entrants from Asia and other developing regions have broken into the markets of advanced nations with attractive products and extremely aggressive pricing strategies.

Under these circumstances, Nihon Kohden has responded with initiatives to ensure the timely development and launch of user-oriented new products at low cost, and to harness the entire marketing and sales resources of the Nihon Kohden group to expand our share of each product market. We started a 3-year Midterm Business Plan in the previous fiscal year to reinforce our organization and structures.

The term under review is the second year of this plan and we consolidated 3 subsidiaries into Nihon Kohden in March 2005 in order to promote further efficiency and optimization of group business. We absorbed the subsidiary which promoted cardiac pacemakers into the parent company, aiming at further enhancement of the cardiovascular business. We also rolled two subsidiaries into the parent for simplification and efficiency of business management. One was our training subsidiary which organizes user seminars, employee education and training programs, and the other was in charge of general affairs and welfare of our group. In September, we consolidated another subsidiary, which wholesaled other companies' products such as medical equipment, healthcare equipment and computers to our group companies, into the divisions which operate the same business in our group.

Outside Japan, we placed a priority on further rebuilding our sales network, and on restructuring our overseas sale organization into a three-axis structure, the Americas, Europe and Asia. In October, we established a representative office in Dubai, UAE to handle sales in Middle East.

As a result, sales during the term under review increased 7.8%, to 90,368 million yen. Operating profit rose 3.1%, to 7,415 million yen driven by higher sales, offsetting increase in SGA expenses. Net income decreased 11.8%, to 5,788 million yen, mainly due to the reaction of a decline in tax payments following the liquidation of a group subsidiary in the previous fiscal year.

Management's Discussion & Analysis

Sales

In the term under review, sales increased 6,560 million yen (7.8%) to 90,368 million yen.

Sales by Product Category

Physiological Measuring Equipment: Sales grew favorably both domestically and internationally. In Japan there was strong demand for ECG and polygraphs. Internationally there were strong sales of neurology products. Overall, sales increased 14.2% over the previous fiscal year to ¥15,408 million.

Patient Monitors: In Japan there was strong demand for telemetry monitors. Internationally there were strong sales in every region in the world, mainly as a result of the strong performance in bedside monitors. Overall, sales increased 11.9% over the previous fiscal year to ¥18,839 million.

Treatment Equipment: In Japan defibrillators used in medical institutions or emergency ambulances had good sales. There were also strong sales of AED type defibrillators mainly in PAD market. Internationally defibrillators used in medical institutions showed strong sales growth. Overall, sales increased 29.2% over the previous fiscal year to ¥12,468 million.

Medical Supplies: In Japan there were good sales of catheters, disposable electrodes, and sensors. Maintenance service sales also increased. There were strong sales of consumables around the world. Overall, sales increased 5.1% over the previous fiscal year to ¥27,607 million.

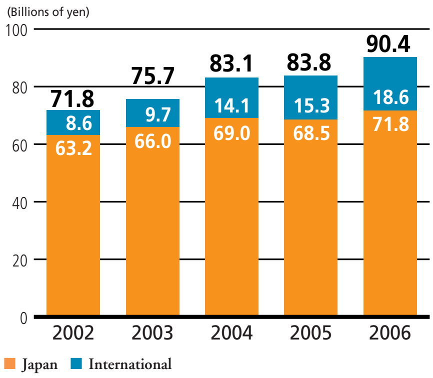
Other Medical Equipment: In Japan there was a decrease in some of locally purchased products. Internationally sales of hematology analyzers decreased. Overall, sales decreased 8.8% over the previous fiscal year to ¥16,046 million.

Sales by Region

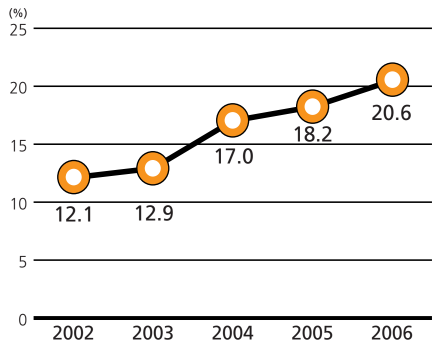
Japan: Sales in the university market, private hospital market and clinic market increased, while sales in the national hospital market slightly decreased due to the transition into independent administrative entities. Universities drove robust demand for physiological measuring instruments, patient monitors, and system network products supported by big deals

Years ended March 31

Net sales by region



Percentage of international sales



with new construction or relocation. AED type defibrillators also sold well mainly in PAD market. As a result, sales rose 4.7% from the previous year, to 71,774 million yen.

International: Neurology products, patient monitoring products and defibrillators sold well in all areas, the Americas, Europe and Asia. Sales outside Japan rose 21.8% over the previous year, to 18,594 million yen. The percentage of overseas sales to consolidated sales reached 20.6%.

Cost of Sales, SGA Expenses and Operating Income

In the term under review, cost of sales were ¥47,408 million. The cost of sales ratio rose 0.4 points over the previous year to 52.5%, mainly due to the decline in unit price. Gross profit on sales increased ¥2,814 million (7.0%) to ¥42,960 million.

Selling, general and administrative expenses increased mainly due to enhancement of our human resource and overseas sales growth. The ratio of SGA expenses to sales was the same as the previous year, 39.3%.

Research and development costs, included in cost of sales and SGA expenses, were 4,813 million yen (5.3% of sales).

As a result, operating profits increased ¥226 million (3.1%) to ¥7,415 million.

Other Income and Expenses, Net Income

Net other income (expenses) improved by 427 million yen, from 419 million yen in the previous fiscal year to 846 million yen. This resulted from a currency conversion gain (416 million yen) and gain on sale of investments in securities (204 million yen).

Income before income tax and minority interests improved by 653 million yen, from 7,608 million yen to 8,261 million yen. Net income decreased 775 million yen from 6,563 million yen of the previous fiscal year to 5,788 million yen. Net income per share was ¥128.56.

Cash Flows

Net cash provided by operating activities during the year under review increased 4,259 million yen to 7,801 million yen. It includes income before income taxes and minority interests (8,261 million yen), depreciation and amortization (1,592 million yen), income taxes paid (1,500 million yen), and increase in trade notes and accounts receivable (909 million yen).

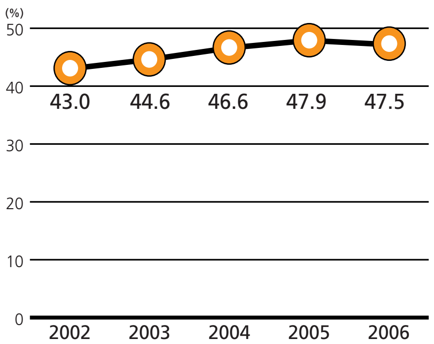
Net cash used in investing activities decreased 586 million yen to 1,514 million yen, mainly involving the capital expenditures (1,442 million yen) for the investment in production facility such as metal mold.

As a result of these factors, free cash flow increased 4,845 million yen to 6,287 million yen.

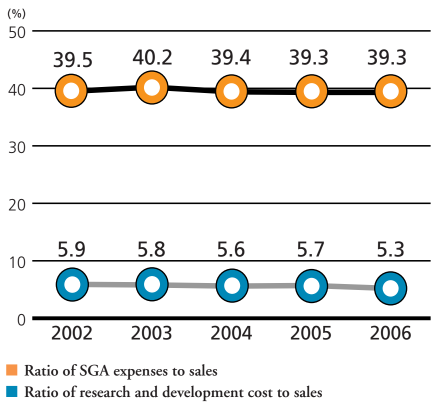
Net cash used in financing activities decreased 729 million yen to 2,598 million yen. This was mainly due to repayment of short-term loans (1,345 million yen) and dividends paid to stockholders (1,151 million yen).

As a result, cash and cash equivalents as of March 31, 2006 increased 4,092 million yen to 10,805 million yen.

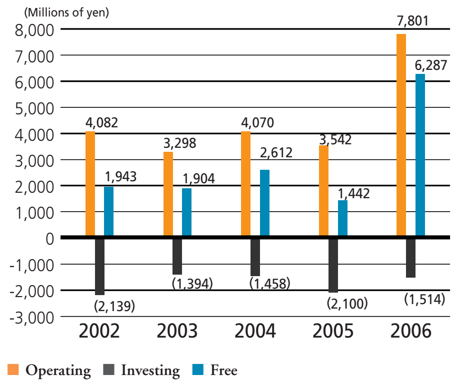
Gross profit ratio



SGA expenses
R&D expenses to net sales



Cash flows



Nihon Kohden Corporation and Consolidated Subsidiaries

Consolidated Balance Sheets

March 31, 2006 and 2005

Assets	Millions of yen		Thousands of U.S. dollars (note 2)
	2006	2005	2006
Current assets:			
Cash (note 3)	¥ 10,848	6,765	$ 92,347
Trade notes and accounts receivable	29,569	28,650	251,715
Inventories	14,082	14,635	119,878
Deferred income taxes (note 8)	3,010	2,451	25,623
Other current assets	1,064	1,005	9,058
Less allowance for doubtful receivables	122	103	1,039
Total current assets	58,451	53,403	497,582
Property, plant and equipment, net of accumulated depreciation; ¥16,068 million ($136,784 thousand) in 2006 and ¥15,663 million in 2005:			
Buildings and structures	2,915	2,997	24,815
Machinery, equipment and vehicles	717	735	6,104
Tools, furniture and fixtures	2,126	2,255	18,098
Land	2,499	2,499	21,273
Construction in progress	284	206	2,418
Net property, plant and equipment	8,541	8,692	72,708
Intangible assets, net	698	642	5,942
Investments and other assets:			
Investments in securities (notes 4 and 5)	4,680	3,595	39,840
Deferred income taxes (note 8)	23	333	196
Other investments and other assets (note 7)	1,498	940	12,752
Less allowance for doubtful receivables	380	127	3,235
Total investments and other assets	5,821	4,741	49,553
Total assets	¥ 73,511	67,478	$ 625,785

See accompanying notes to consolidated financial statements.

Liabilities and Stockholders' Equity

	Millions of yen		Thousands of U.S. dollars (note 2)
	2006	2005	2006
Current liabilities:			
Trade notes and accounts payable	¥ 17,350	16,839	$ 147,697
Short-term debt and current installments of long-term debt (note 6)	3,002	4,323	25,555
Other payables	672	706	5,721
Accrued income taxes (note 8)	2,359	733	20,082
Accrued expenses	1,761	1,269	14,991
Accrued bonuses	1,067	984	9,083
Other current liabilities	1,085	1,024	9,237
Total current liabilities	27,296	25,878	232,366
Non-current liabilities:			
Long-term debt (note 6)	17	22	145
Liabilities for retirement and severance benefits (note 7)	255	1,154	2,171
Deferred income taxes (note 8)	45	–	383
Other non-current liabilities	20	9	170
Total non-current liabilities	337	1,185	2,869
Total liabilities	27,633	27,063	235,235
Minority interests	338	293	2,877
Stockholders' equity:			
Common stock (note 9):	7,545	7,545	64,229
Authorized 98,986,000 shares; issued and outstanding 45,765,490 shares in 2006 and 2005			
Additional paid-in capital (note 9)	10,485	10,484	89,257
Retained earnings (note 10)	26,990	22,398	229,761
Net unrealized gain on other securities (note 4)	1,597	848	13,595
Foreign currency translation adjustments	(62)	(195)	(528)
Treasury stock	(1,015)	(958)	(8,641)
Total stockholders' equity	45,540	40,122	387,673
Commitments and contingencies (note 15)			
Total liabilities and stockholders' equity	¥ 73,511	67,478	$ 625,785

Consolidated Statements of Income

March 31, 2006 and 2005

	Millions of yen		Thousands of U.S. dollars (note 2)
	2006	2005	2006
Net sales	¥ 90,368	83,808	$ 769,286
Cost of sales (note 12)	47,408	43,662	403,576
Gross profit	42,960	40,146	365,710
Selling, general and administrative expenses (notes 11 and 12)	35,545	32,957	302,588
Operating profit	7,415	7,189	63,122
Other income (deductions):			
Interest income	19	6	162
Dividend income	70	19	596
Interest expenses	(70)	(64)	(596)
Equity in earnings of affiliates	41	69	349
Exchange gain	416	231	3,541
Loss on disposal of property, plant and equipment	(55)	(65)	(468)
Loss on devaluation of investments in securities	–	(20)	–
Gain (loss) on sale of investments in securities (note 4)	204	(4)	1,737
Other, net	221	247	1,881
	846	419	7,202
Income before income taxes and minority interests	8,261	7,608	70,324
Income taxes (note 8):			
Current	2,935	1,567	24,985
Prior years	227	–	1,932
Deferred	(733)	(581)	(6,240)
	2,429	986	20,677
Income before minority interests	5,832	6,622	49,647
Minority interests	44	59	375
Net income	¥ 5,788	6,563	$ 49,272

	Yen		U.S. dollars (note 2)
	2006	2005	2006
Per share of common stock (note 1(n)):			
Net income - basic	¥ 128.56	145.21	$ 1.09
Cash dividends	26.00	14.00	0.22

See accompanying notes to consolidated financial statements.

Consolidated Statements of Stockholders' Equity

March 31, 2006 and 2005

	Millions of yen		Thousands of U.S. dollars (note 2)
	2006	2005	2006
Common stock (note 9):			
Balance at beginning of year	¥ 7,545	7,545	$ 64,229
Balance at end of year	7,545	7,545	64,229
Additional paid-in capital (note 9):			
Balance at beginning of year	10,484	10,483	89,248
Increase resulting from sale of treasury stock	1	1	9
Balance at end of year	10,485	10,484	89,257
Retained earnings (note 10):			
Balance at beginning of year	22,398	16,522	190,670
Increase resulting from exclusion of an affiliate accounted for by the equity method	40	–	341
Cash dividends	(1,153)	(626)	(9,815)
Bonuses to directors and corporate auditors	(83)	(61)	(707)
Net income	5,788	6,563	49,272
Balance at end of year	26,990	22,398	229,761
Net unrealized gain on other securities at end of year (note 4)	1,597	848	13,595
Foreign currency translation adjustments at end of year	(62)	(195)	(528)
Treasury stock at end of year	(1,015)	(958)	(8,641)
Total stockholders' equity at end of year	¥ 45,540	40,122	$ 387,673

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

March 31, 2006 and 2005

	Millions of yen		Thousands of U.S. dollars (note 2)
	2006	2005	2006
Cash flows from operating activities:			
Income before income taxes and minority interests	¥ 8,261	7,608	$ 70,324
Adjustments to reconcile income before income taxes and minority interests to net cash provided by operating activities:			
Depreciation and amortization	1,592	1,384	13,552
Loss on disposal of property, plant and equipment	55	65	468
Allowance for doubtful receivables	273	(54)	2,324
Increase (decrease) in accrued bonuses	83	(7)	707
Decrease in liabilities for retirement and severance benefits	(899)	(570)	(7,653)
Interest and dividend income	(89)	(25)	(758)
Interest expenses	70	64	596
Loss on devaluation of investments in securities	–	20	–
(Gain) loss on sale of investments in securities	(204)	4	(1,737)
Increase in trade notes and accounts receivable	(909)	(2,698)	(7,738)
(Increase) decrease in inventories	553	(1,065)	4,708
Increase in trade notes and accounts payable	511	1,031	4,350
Equity in earnings of affiliates	(41)	(69)	(349)
Other, net	(38)	235	(323)
Sub total	9,218	5,923	78,471
Interest and dividend received	153	75	1,302
Interest paid	(70)	(67)	(596)
Income taxes paid	(1,500)	(2,389)	(12,769)
Net cash provided by operating activities	7,801	3,542	66,408
Cash flows from investing activities:			
Proceeds from sale of investments in securities	1,332	5	11,339
Purchase of investments in securities	(946)	(90)	(8,053)
Capital expenditures	(1,442)	(1,992)	(12,275)
Purchase of intangible assets	(316)	(220)	(2,690)
Other, net	(142)	197	(1,209)
Net cash used in investing activities	(1,514)	(2,100)	(12,888)
Cash flows from financing activities:			
Decrease in short-term debt	(1,345)	(2,145)	(11,450)
Payments on long-term debt	(6)	(69)	(51)
Dividends paid to stockholders	(1,151)	(624)	(9,798)
Purchase of treasury stock	(55)	(466)	(468)
Other, net	(41)	(23)	(349)
Net cash used in financing activities	(2,598)	(3,327)	(22,116)
Effect of exchange rate changes on cash and cash equivalents	403	290	3,430
Net increase (decrease) in cash and cash equivalents	4,092	(1,595)	34,834
Cash and cash equivalents at beginning of year	6,713	8,308	57,147
Cash and cash equivalents at end of year (note 3)	¥ 10,805	6,713	$ 91,981

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Years ended March 31, 2006 and 2005

(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 2006 and 29 subsidiaries for 2005, respectively).

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 excess of cost over the underlying net assets at the dates of investment in subsidiaries is charged to income in the year of acquisition.

(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 stockholders’ equity. 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" in a component of stockholders' equity and "Minority interests."

(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) Appropriation of Retained Earnings

Under the Commercial Code of Japan, the appropriation of retained earnings with respect to a given financial period is made by resolution of the stockholders at a general meeting to be held subsequent to the close of such financial period. The accounts for that period do not, therefore, reflect such appropriation. (See note 10)

(n) Data per Common Share

Net income per share is computed on the basis of the weighted average number of shares of common stock outstanding during the respective years. (See note 13)

Cash dividends per share are computed based on dividends actually paid during the year. (See note 10)

(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, 2006.

(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, 2006 have been translated into United States dollars at the rate of ¥117.47=U.S.$1, the approximate exchange rate on the Tokyo Foreign Exchange Market on March 31, 2006. 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, 2006 and 2005 is follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Cash	¥ 10,848	¥ 6,765	$ 92,347
Time deposits with maturities of over three months	(43)	(52)	(366)
Cash and cash equivalents	¥ 10,805	¥ 6,713	$ 91,981

(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, 2006 and 2005 are summarized as follows:

	Millions of yen			
	Acquisition cost	Gross unrealized gain	Gross unrealized loss	Balance sheet amount
March 31, 2006				
Equity securities	¥ 1,620	¥ 2,695	¥ (2)	¥ 4,313
	¥ 1,620	¥ 2,695	¥ (2)	¥ 4,313
March 31, 2005				
Equity securities	¥ 821	¥ 1,431	¥ (1)	¥ 2,251
	¥ 821	¥ 1,431	¥ (1)	¥ 2,251

	Thousands of U.S. dollars			
	Acquisition cost	Gross unrealized gain	Gross unrealized loss	Balance sheet amount
March 31, 2006				
Equity securities	$ 13,791	$ 22,942	$ (17)	$ 36,716
	$ 13,791	$ 22,942	$ (17)	$ 36,716

It is not practicable to estimate the fair value of securities as of March 31, 2006 and 2005 described below because of lack of market price and difficulty in estimating fair value.

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Other securities:			
Unlisted equity securities	¥278	¥278	$2,367
Investments in limited partnership and similar partnership	46	–	392
Investment in capital	–	800	–

For the years ended March 31, 2006 and 2005, proceeds from sale of other securities were ¥1,092 million ($9,296 thousand) and ¥27 million, the gross realized gains were ¥191 million ($1,626 thousand) and ¥2 million, the gross realized losses were nil and ¥6 million, respectively.

(5) Investments in Affiliates

The aggregate carrying amounts of investments in affiliates as of March 31, 2006 and 2005 are ¥43 million ($366 thousand) and ¥266 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 1.6% and 1.0% at March 31, 2006 and 2005, respectively.

Long-term debt as of March 31, 2006 and 2005 is summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Loans from banks, unsecured, maturing in installments through 2016; bearing weighted average interest of 1.5% and 1.6% at March 31, 2006 and 2005, respectively	¥ 19	¥ 22	$ 162
Less current installments	2	–	17
	¥ 17	¥ 22	$ 145

The aggregate annual maturities of long-term debt after March 31, 2007 are as follows:

	Millions of yen	Thousands of U.S. dollars
Year ending March 31:		
2008	¥ 3	$ 26
2009	3	26
2010	2	17
2011	2	17

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 banks.

(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, 2006 and 2005 is outlined as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Projected benefit obligation	¥ (13,446)	¥ (12,872)	$ (114,463)
Plan assets at fair value	14,390	12,876	122,499
Funded status	944	4	8,036
Unrecognized actuarial gain	(887)	(904)	(7,551)
Amount recognized in the consolidated balance sheets	57	(900)	485
Prepaid retirement and severance benefits	(57)	–	(485)
Accrued retirement and severance benefits	¥ –	¥ (900)	$ –

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, 2006 and 2005 are estimated to be ¥5,761 million ($49,042 thousand) and ¥4,485 million, respectively, and they are not included in the above table.

2.Prepaid retirement and severance benefits as of March 31, 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, 2006 and 2005 consists of the following components:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Service cost	¥ 779	¥ 783	$ 6,631
Interest cost	258	263	2,196
Expected return on plan assets	(258)	(235)	(2,196)
Amortization of actuarial gain	(334)	(49)	(2,843)
Net periodic pension cost	¥ 445	¥ 762	$ 3,788

Note: For the years ended March 31, 2006 and 2005, the amount of "Service cost" excludes contributions to the welfare pension fund of ¥537 million ($4,571 thousand) and ¥398 million, respectively.

Significant assumptions of pension plans used to determine these amounts in fiscal 2006 and 2005 are as follows:

	2006	2005
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, 2006 and 2005, the liabilities for retirement and severance benefits related to the plan were ¥255 million ($2,171 thousand) and ¥254 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 2006 and 2005.

The new Japanese local tax law issued in March 2003 has levied business tax based not on income but on capital and certain expenses from the year ended March 31, 2005. The business tax which was not based on income of ¥100 million was recorded in selling, general and administrative expenses for the year ended March 31, 2005.

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, 2006 and 2005 is follows:

	2006	2005
Statutory tax rate	40.7%	40.7%
Change in valuation allowance	(4.1)	(11.1)
Expenses not deductible for tax purposes	0.7	2.5
Income not credited for tax purposes	(0.5)	–
Utilization of tax loss carryforward	(0.3)	(1.9)
Per capita tax	0.4	0.5
Difference in statutory tax rates of subsidiaries	(0.6)	(0.6)
Tax credits primarily for research and development costs	(4.6)	(2.0)
Settlement of unrecognized deferred income tax liabilities	(5.4)	(16.8)
Other	3.0	1.7
Effective tax rate	29.4%	13.0%

Significant components of deferred tax assets and liabilities at March 31, 2006 and 2005 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Deferred tax assets:			
Valuation loss for inventories	¥ 626	¥ 566	$ 5,329
Accrued business tax	202	–	1,720
Liabilities for retirement and severance benefits	–	363	–
Accrued bonuses	430	396	3,660
Allowance for doubtful receivables	169	89	1,439
Depreciation and amortization	621	450	5,286
Intercompany profits on inventories, and property, plant and equipment	1,566	1,449	13,331
Other	874	770	7,440
	4,488	4,083	38,205
Valuation allowance	(344)	(682)	(2,928)
	4,144	3,401	35,277
Deferred tax liabilities:			
Allowance for doubtful receivables	(33)	(34)	(281)
Net unrealized gain on other securities	(1,096)	(583)	(9,330)
Prepaid retirement and severance benefits	(27)	–	(230)
	(1,156)	(617)	(9,841)
Net deferred tax assets	¥ 2,988	¥ 2,784	$ 25,436

Net deferred tax assets and liabilities as of March 31, 2006 and 2005 are reflected in the accompanying consolidated balance sheets under the following captions:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Current assets - Deferred income taxes	¥ 3,010	¥ 2,451	$ 25,623
Investments and other assets - Deferred income taxes	23	333	196
Non-current liabilities - Deferred income taxes	(45)	–	(383)
Net deferred tax assets	¥ 2,988	¥ 2,784	$ 25,436

(9) Common Stock

Under the Commercial Code of Japan, 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. On October 1, 2001, the Commercial Code of Japan was amended to eliminate the provision of common stock par value resulting in all common stock being recorded with no par value.

(10) Retained Earnings and Dividends

The Commercial Code of Japan provides that an amount equal to at least 10% of appropriations paid in cash be appropriated as a legal reserve until an aggregated amount of such reserve and additional paid-in capital equals 25% of common stock. Either additional paid-in capital or the legal reserve may be available for dividends by resolution of the stockholders to the extent that the amount of total additional paid-in capital and legal reserve exceeds 25% of stated common stock. Balances of the legal reserve are included in retained earnings in the accompanying consolidated balance sheets.

The amount available for dividends is based on the amount recorded in the Company's non-consolidated books of account in accordance with the Commercial Code of Japan.

In accordance with the Commercial Code of Japan, proposed appropriations of retained earnings have not been reflected in the financial statements at the end of each fiscal year. The proposed appropriation of retained earnings at March 31, 2006 of cash dividends of ¥13 ($0.11) per common share aggregating ¥576 million ($4,903 thousand) and bonuses to directors and corporate auditors was approved at the Company's general meeting of stockholders held on June 29, 2006.

(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
	2006	2005	2006
Salaries	¥ 15,241	¥ 13,674	$ 129,744
Pension costs	407	691	3,465
Depreciation	842	768	7,168
Legal welfare	2,476	2,229	21,078
Transportation	1,724	1,540	14,676

(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, 2006 and 2005 are ¥4,813 million ($40,972 thousand) and ¥4,792 million, respectively.

(13) Net Income per Share Information

Reconciliation of the numbers and the amounts used in the basic net income per share computations for the years ended March 31, 2006 and 2005 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Net income	¥ 5,788	¥ 6,563	$ 49,272
Net income not applicable to common stockholders:			
Directors' and Corporate auditors' bonuses	88	82	749
Net income applicable to common stockholders	¥ 5,700	¥ 6,481	$ 48,523

	Number of shares (Thousands)	
	2006	2005
Weighted average number of shares on which basic net income per share is calculated	44,337	44,631

(14) Leases

A summary of assumed amounts of acquisition cost which includes interest portion, accumulated depreciation and net book value at March 31, 2006 and 2005 are as follows:

	Millions of yen			
	Buildings and structures	Machinery, equipment and vehicles	Tools, furniture and fixtures	Total
March 31, 2006				
Acquisition cost	¥ –	¥ 92	¥ 91	¥ 183
Accumulated depreciation	–	55	43	98
Net book value	¥ –	¥ 37	¥ 48	¥ 85
March 31, 2005				
Acquisition cost	¥ 157	¥ 100	¥ 101	¥ 358
Accumulated depreciation	143	48	35	226
Net book value	¥ 14	¥ 52	¥ 66	¥ 132

	Thousands of U.S. dollars		
	Machinery, equipment and vehicles	Tools, furniture and fixtures	Total
March 31, 2006			
Acquisition cost	$ 783	$ 775	$ 1,558
Accumulated depreciation	468	366	834
Net book value	$ 315	$ 409	$ 724

Future minimum payments which include interest portion required under finance leases at March 31, 2006 and 2005 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Within one year	¥ 39	¥ 55	$ 332
Over one year	46	77	392
	¥ 85	¥ 132	$ 724

Lease payments for the years ended March 31, 2006 and 2005 amounted to ¥60 million ($511 thousand) and ¥86 million, respectively.

Future minimum payments required under noncancellable operating leases at March 31, 2006 and 2005 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Within one year	¥ 92	¥ 53	$ 783
Over one year	217	121	1,847
	¥ 309	¥ 174	$ 2,630

(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, 2006 and 2005, the Company was contingently liable with respect to trade notes receivable discounted in the amounts of ¥944 million ($8,036 thousand) and ¥788 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 counter-parties to transactions involving derivative financial instruments.

The accounting department has executed and controlled derivative transactions, and the transaction records have been reported to the internal audit department monthly and audited by them. Accounting manager has reported the transaction records to the executive management meeting semiannually.

In fiscal 2006 and 2005, 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

The Company had categorized its business into the two segments of "medical electronic equipments business" and "transformers business." Nihon Kohden Device Corporation which had mainly engaged in the transformers business had been liquidated during the year ended March 31, 2004. And the Company had withdrawn from the power supplies business. As a result, the transformers business has become immaterial in the Company's overall operations, and the segments have been reclassified into a single industry segment, medical electronic equipments business.

Sales, operating income and assets of medical electronic equipments business are over 90% of those of all segments for the years ended March 31, 2006 and 2005.

(b) Geographic segments

Segment information by geographic area for the year ended March 31, 2006 and 2005 is summarized as follows:

	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

	Millions of yen						
	2005						
	Japan	Americas	Europe	Asia	Total	Elimination/ corporate	Consolidated
Sales to outside customers	¥ 75,185	¥ 4,538	¥ 3,389	¥ 696	¥ 83,808	¥ –	¥ 83,808
Inter-segment sales	4,395	63	(1)	600	5,057	(5,057)	–
	79,580	4,601	3,388	1,296	88,865	(5,057)	83,808
Operating expenses	72,688	4,497	3,358	1,133	81,676	(5,057)	76,619
Operating income	¥ 6,892	¥ 104	¥ 30	¥ 163	¥ 7,189	¥ –	¥ 7,189
Assets	¥ 58,580	¥ 2,449	¥ 3,112	¥ 1,067	¥ 65,208	¥ 2,270	¥ 67,478

	Thousands of U.S. dollars						
	2006						
	Japan	Americas	Europe	Asia	Total	Elimination/ corporate	Consolidated
Sales to outside customers	$679,714	$48,183	$35,371	$ 6,018	$ 769,286	$ –	$769,286
Inter-segment sales	37,677	766	–	7,015	45,458	(45,458)	–
	717,391	48,949	35,371	13,033	814,744	(45,458)	769,286
Operating expenses	658,704	46,668	34,571	11,679	751,622	(45,458)	706,164
Operating income	$ 58,687	$ 2,281	$ 800	$ 1,354	$ 63,122	$ –	$ 63,122
Assets	$528,169	$28,109	$26,526	$10,122	$ 592,926	$32,859	$625,785

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 ¥7,183 million ($61,148 thousand) and ¥5,669 million as of March 31, 2006 and 2005 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, 2006 and 2005 is summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Overseas sales:			
Americas	¥ 7,732	¥ 6,132	$ 65,821
Europe	4,634	3,725	39,448
Asia	5,379	4,791	45,791
Other	849	621	7,227
	¥ 18,594	¥ 15,269	$ 158,287
Consolidated sales	¥ 90,368	¥ 83,808	$ 769,286
Percentage of overseas sales to consolidated sales	20.6%	18.2%	20.6%

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

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

Independent Auditors' Report

March 31, 2006 and 2005

Toyo&Co.

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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, 2006 and 2005, and related consolidated statements of income, stockholders' equity 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, 2006 and 2005, 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 17 to the consolidated financial statements, effective in the year ended March 31, 2005, the Company has changed its classification of segmentation in the segment information by industry.

The accompanying consolidated financial statements as of and for the year ended March 31, 2006 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 & Co

Toyo & Co.
Tokyo, Japan
June 29, 2006

Corporate Directory

As of June 29, 2006

Board of Directors

President and Chief Executive Officer
Kazuo Ogino
Corporate Directors and Chief Operating Officers
Hideaki Nakata
Masaru Yarita, Ph.D.
Corporate Directors and Executive Officers
Hiroomi Kambara
Fumio Suzuki
Kunio Shinozaki
Corporate Directors
Eishi Harasawa
Masami Sugiyama
Toshifumi Kamihirata
Takeshi Akahane
Haruto Doi
Kenji Hakuta
Corporate Auditors
Yoshitake Ijichi
Hisashi Saito
Outside Corporate Auditors
Kuniyasu Aoki
Osamu Kato

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*
2,983 (group)
*As of March 31, 2006

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Shinjuku-ku, Tokyo 161-8560, Japan
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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

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
Kohden Engineering Corporation
Other
E-Staff Corporation
Nihon Kohden Service 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)

Major Stockholders*

Stockholders	No. of Shares (thousands)	Percentage Ownership
Japan Trustee Service Bank, Ltd.	3,661	8.27
The Master Trust Bank of Japan, Ltd.	2,887	6.52
Saitama Resona Bank, Ltd.	2,096	4.73
Toshiba Medical Systems Corporation	1,990	4.49
Fujitsu Ltd.	1,063	2.40
Mellon Bank, N.A. as Agent for its Client Mellon Omnibus US Pension	1,023	2.31
Yoshio Ogino	982	2.21
NIPPONKOA Insurance Co., Ltd.	974	2.20
Nippon Life Insurance Company	958	2.16
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	862	1.94
Subtotal	16,501	
Total Outstanding Issue	45,765	

*As of March 31, 2006

NIHON KOHDEN

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