ANNUAL REPORT

(April 2004 - March 2005)

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 incorporates outstanding imported products in its product lines and builds strategic business relationships with other manufacturers and distributors of high quality medical equipment. The Company has subsidiaries in the US, Europe, Asia and China, and distributors around the globe.

Because safety and reliability is our top priority, export products are manufactured in ISO 9001 and EN 46001 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.

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 unlimited 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

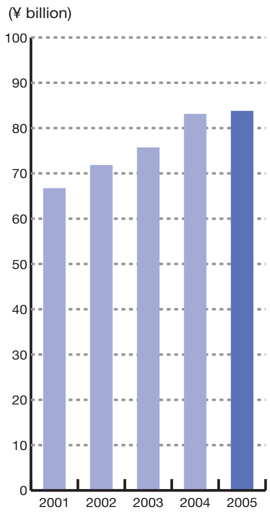
Nihon Kohden Corporation and Consolidated Subsidiaries

Consolidated Financial Highlights

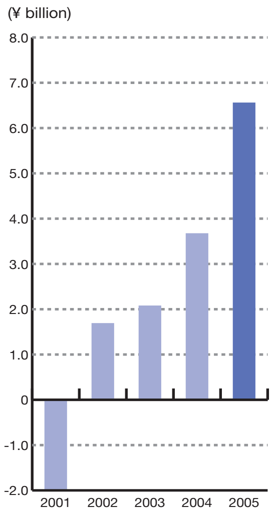
Years ended March 31	Millions of yen 2005	2004	2003	2002	2001	Thousands of U.S. dollars (1) 2005
Net sales	**¥83,808**	¥83,133	¥75,739	¥71,860	¥66,736	**$780,408**
Operating profit	**7,189**	5,968	3,357	2,537	1,182	**66,943**
Income (loss) before income taxes and minority interests	**7,608**	5,421	2,502	2,315	(1,358)	**70,845**
Net income (loss)	**6,563**	3,678	2,082	1,694	(1,989)	**61,114**
Total assets	**67,478**	64,278	60,321	59,571	62,677	**628,345**
Stockholders' equity	**40,122**	34,460	30,801	29,565	27,905	**373,610**

	Yen					U.S. dollars (1)
Amounts per share (2):						
Net income (loss)–basis	**¥145.21**	¥80.90	¥45.26	¥37.01	¥(43.47)	**$1.35**
Cash dividends applicable to the period	**14.00**	9.00	8.00	5.50	5.00	**0.13**

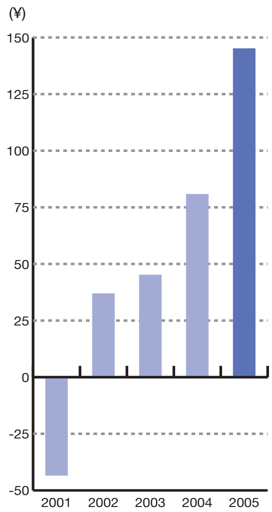
Notes : (1) U.S. dollar amounts are translated from yen, for convenience only, at the rate of ¥107.39 = US$1.
(2) Computation of net income and dividends per share was based on the average number of shares of common stock outstanding during each fiscal year. See Note 1 (n) of Consolidated Financial Statements.



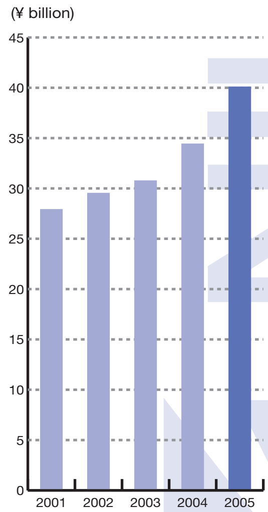
Net Sales



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, we have concentrated our efforts on developing human machine interface technologies and turned them into practical reality in many excellent medical electronic products. We developed the basis of SpO_2 which is indispensable in modern medicine. We have become the world’s leading manufacturer of electroencephalographs. Our electrocardiographs, evoked potential/ EMG 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 ISO 9001 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
• Cost (profit) driven
• 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 can receive the highest level of medical care, we have expanded development, production and marketing of Nihon Kohden products throughout the world.

In 2004 Nihon Kohden began implementing a new mid range 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, pretax profit of ¥10 billion, and international sales 25% of the total by 2009. To start, our 3 year target is sales of ¥93 billion, pretax profit of ¥8 billion, and increasing international sales to 20.5% of the total.

In international business, we are restructuring our international sales network into three 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

1) Nihon Kohden's mid range plan

Progress towards our mid range plan

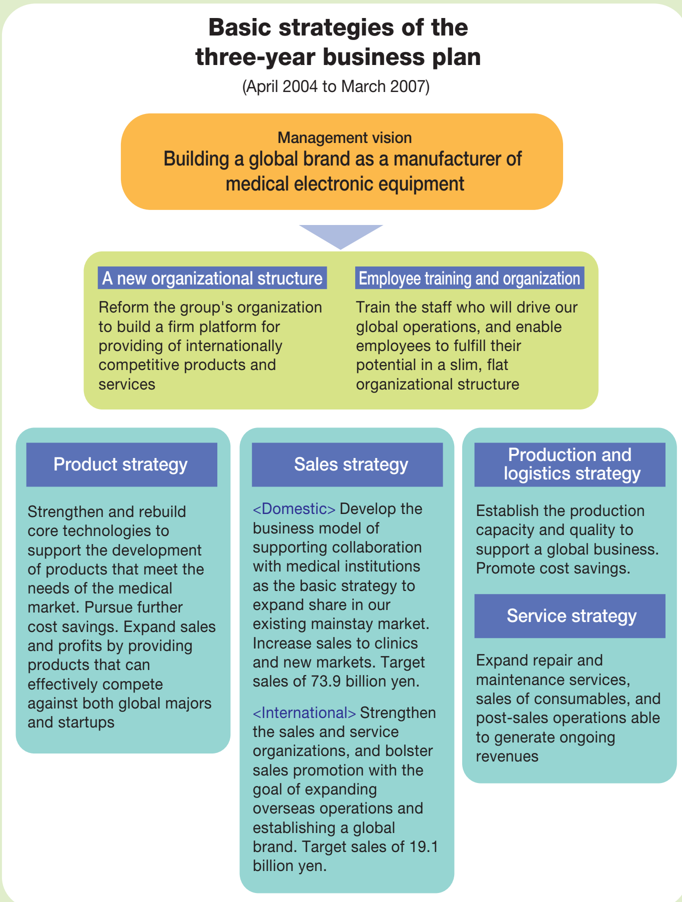
Product strategy: We have expanded our product lineup by introducing highly competitive new products in patient monitoring, ECG, and EEG systems. We also signed agreements to supply our fully automatic hematology analyzers to ARKRAY, Inc. (Japan) and Abbott Laboratories (United States). We regard this as evidence of the strong reputation enjoyed by our technologies both in Japan and internationally.

Domestic marketing strategy: We made progress towards increasing our share of the acute care hospital market, and we greatly expanded our presence in the clinic market. In the acute care hospital market, we enjoyed strong demand for system network products, including clinical information systems that use our patient monitoring equipment, as well as ECG and echo/endoscope based diagnostic information systems.

In the clinical market, sales of AEDs expanded substantially. Following the July 2004 approval of AED use by the general public, we shipped more than 6,000 units to airports and other public facilities in Japan. We were also extremely vigorous in pursuing market opportunities created by our status as Japan's only producer of defibrillators. We will continue to establish a first-move advantage in this market, which we expect to substantially expand, and create organizational structures that enable us to contribute as a leader in emergency life-saving response.

Expansion of international activities: We further enhanced our international sales network during the year with the aim of creating a global three axis organization based on the Americas, Europe, and Asia. In April, we established a representative office in Miami to handle sales in Central and South America. We founded Nihon Kohden France in November to manage sales in that country. In April, we established Nihon Kohden Korea, and augmented our presence in the growth market of China by adding representative offices in Shanghai (in October 2004) and Guangzhou (in March 2005) in addition to our existing Beijing location. Our global network at the end of March 2005 consisted of eight directly managed local subsidiaries, four representative offices, and 212 sales agencies. We believe this will support rapid growth of our global operations.

The second year of our mid range plan includes target sales of 88,000 million yen, operating income of 7,700 million yen, and net income of 6,000 million yen. With the prospect of further intense competition among producers of medical equipment, we intend to meet and exceed these goals through effective response to changing market conditions and increased efficiency in all our operations.



2) Research and Development

Innovation in R&D

Prime park software brings IT into the hospital or clinic, providing a communications tool that gives an overview of all the patient's data.

We are enhancing the services provided to a doctor's patients by consolidating and providing a platform for integrated management of all an individual's exam data. Access to such data, together with background documentation and charts, is key to effective communication between a doctor and patient regarding a condition and its course. By consolidating all test data in a single, manageable location, *Prime park* supports more confident informed consent. Hospitals and other medical institutions tend to resist the adoption of IT because of high equipment prices, complex installation, lengthy periods required to collect data, difficult-to-understand operation, and the burden of maintenance. *Prime park* addresses these issues by providing an IT environment that is ready to use from day one and greatly enhancing the services available to patients.

Japan's MHLW (Ministry of Health, Labor and Welfare) calls for at least 60% of Japan's clinics and hospitals to introduce electronic patient records by March 2007. While *Prime park* is not an electronic patient record system, it supports the integrated management of test data and enhancing communications between doctor and patient. We believe that institutions will introduce *Prime park* alongside their patient record systems to complement their functionality and support better communication.

3) OEM

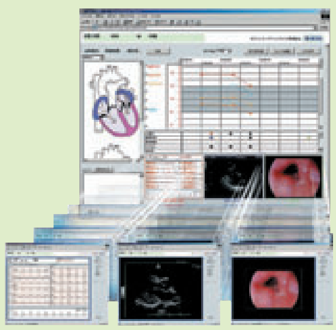
OEM Agreements Signed With Two Leading Companies

Nihon Kohden signed agreements with ARKRAY, Inc. in April and Abbott Laboratories in February to supply two fully automatic hematology analyzer models on an OEM basis. ARKRAY, with headquarters in Kyoto, Japan, manufactures and markets clinical diagnostic instruments and in vitro diagnostic pharmaceuticals. Abbott, with headquarters in Illinois, USA, develops, manufactures and markets pharmaceutical and medical products. The OEM hematology analyzers will be marketed under each company's own brand name.

The fully automatic hematology analyzer measures 22 parameters plus 5-part WBC differential. Nihon Kohden's unique optical system allows an extremely compact, easy to use, fast and low cost instrument. This compact hematology analyzer already has high sales and a high market share in Japan, as well as increasing international sales. We expect the OEM business to lead to further expansion of our overall market share.

ARKRAY began marketing the analyzer in April 2004 and Abbott plans to begin marketing in autumn 2005.

Prime park enables a doctor to provide patients with readily understandable explanations by comparison of a patient's own data with text book examples.



Prime park supports the integrated, online management of all the patient's data records.

At a Glance

EEG-9200 MEB-9400 ECG-1500

Physiological Measuring Instruments
Instruments to measure and record electroencephalogram, electrocardiogram, blood pressure and other physiological changes (electroencephalographs, evoked potential and EMG measuring systems, electrocardiographs, polygraphs and other equipment)

BSM-2300 BSM-5100 CNS-9700 ZS-940

Patient Monitors
Instruments that continuously monitor the patient's condition (central monitors, bedside monitors, other) and other clinical information systems

TEC-5500 Philos DR AED-9100

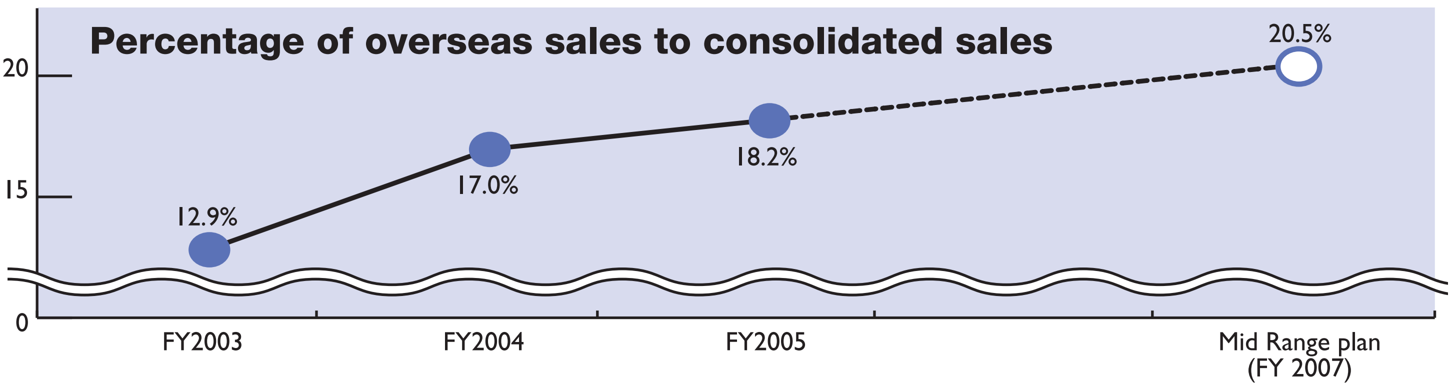
Treatment Instruments
Defibrillators, pacemakers, ventilators, patient warming systems, other

Elefix DispoBluPRO

Medical Supplies and Consumables
Recording paper, electrodes, reagents and other consumables, catheters, maintenance parts, other

MEK-8222

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



Review of Operations

During the term under review (April 1, 2004 to March 31, 2005), the Japanese government enacted further changes to the system of national health insurance in an attempt to control spending on health care. The reimbursement pricing review of April 2004 led to new prices for specified health care products and laws were passed to turn national hospitals and universities into independent administrative entities. In the wake of this progress in system reform, medical institutions are under increasing pressure to provide safe, high-quality health care, to pursue consolidation among the hospitals and other facilities in a region, and to manage themselves more efficiently. One response has been to enhance profitability by more group purchasing and a re-examination of purchase pricing. 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 emerging market of public access defibrillation (PAD) 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 in the market for patient monitoring devices. In the top end European and North American companies have enhanced their product lineups and driven costs lower, while the low end has seen new entrants from Asia and other developing regions break into developed countries markets with attractive products and extremely aggressive pricing strategies.

With increased international competition, we must further strengthen our product development, sales, and service capabilities, and reduce costs.

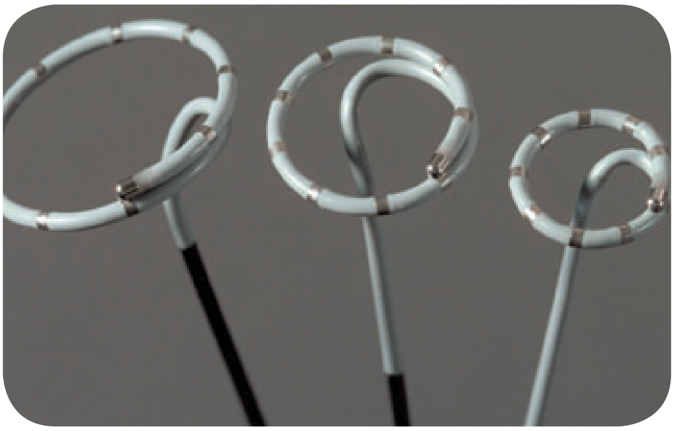
Nihon Kohden has responded with initiatives to ensure the timely development and launch of user-oriented new products at low cost, and to harness the entire marketing and sales resources of the Nihon Kohden group to expand our share of each product market. During the term under review, we reinforced our organization and structures by implementing a new Mid Range Business Plan.

We consolidated ten regional service companies into Nihon Kohden Service in April 2004. This has enhanced our ability to provide a uniformly high standard of service throughout Japan. To meet growing demand for system network products resulting from the increased use of IT in health care, we rolled our patient monitoring systems manufacturing subsidiary into the parent company's systems division. This has promoted greater efficiencies in our systems solutions business and closer collaboration with the electronic medical equipment business. We also established a dedicated team to promote sales of AEDs used in resuscitating heart attack sufferers. This has focused on introducing our products to clinics across Japan, as well as local governments, airports, sports centers, and a wide spectrum of customer and passenger serving organizations.

Outside Japan, aside from the previous year's SARS releted slump, most products sold well. In the United States and Europe, sales of patient monitors were especially good. We placed a priority during the year on further rebuilding our sales network, and on restructuring our overseas sale organization into a new three-axis structure. In April, we established a representative office in Miami to handle sales in Central and South America. We founded Nihon Kohden France in November to manage sales in that country. In April, we established Nihon Kohden Korea and augmented our presence in the growth market of China by adding representative offices in Shanghai (in October 2004) and Guangzhou (in March 2005) in addition to our existing Beijing location.

As a result, sales during the term under review increased 0.8%, to 83,808 million yen. Operating profit rose 20.5%, to 7,189 million yen, on COGS ratio improvements. Net income increased 78.4%, to 6,563 million yen, reflecting a decline in tax payments following the liquidation of a group subsidiary.

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



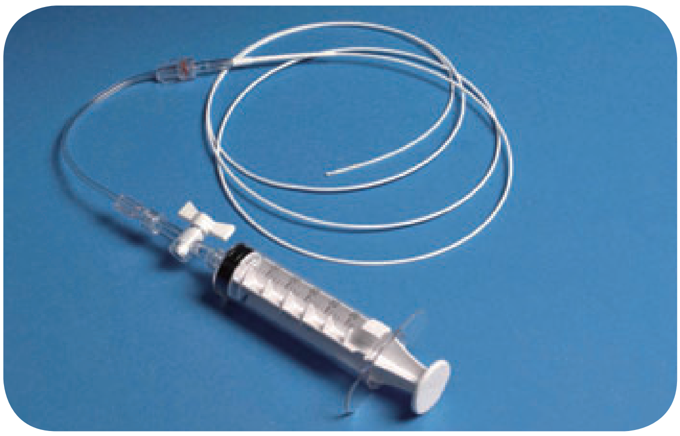
Electrophysiology catheters
(St. Jude Medical, USA)

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

Our sales of imported products has grown to over $100 million a year and accounts for about 20% of Nihon Kohden's total sales. With our extensive sales network of over 700 direct sales people and over 120 sales offices throughout the country, we will continue to introduce the world's first-class medical products and be Japan's provider of choice for advanced medical products.

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

Pacemakers (Biotronik, Germany)



Pronto Extraction Catheter (Vascular Solutions, USA)

BIS monitor (Aspect Medical Systems, USA)

Management's Discussion and Analysis

Operating Environment

In Japan, the term under review brought several big changes. Reform of the health care system continued to constrain medical expenditures. Revision of diagnostic compensation in April 2004 led to revision of the Special Health Care Materials Prices. National hospitals and universities became independent administrative entities.

This progress in health care reform is also causing demand at medical facilities for even safer and higher quality medical care, increased consolidation of regional health care, and promotion of medical business efficiency. From the viewpoint of profitability, there is more group purchasing and re-evaluation of purchase price. This has led to lower market prices for medical equipment, and increased competition among medical equipment companies.

In July 2004, the MHLW (Ministry of Health, Labour and Welfare) officially recognized the use of AED (automated external defibrillators) by ordinary citizens. This has resulted in a new market for PAD (Public Access Defibrillation) as well as intense competition from manufacturers trying to enter the market.

Internationally, particularly in the monitoring market, American and European companies continued supplying a wide range of products at lower cost in the high end market. In the low end market, new manufacturers in Asia and other countries entered the market even in advanced countries with extremely low prices. This further increased price competition.

The intensified competition in both the domestic and overseas markets requires stronger products, marketing and service, and cost reduction.

Sales

In the term under review, sales increased 674 million yen (0.8%) to 83,808 million yen.

Sales by Product Category

Physiological Measuring Equipment: The Company enjoyed strong demand in the Japanese market for diagnostic information systems that integrate test data and hospital information systems, and handle electronic filing of ECG and other data, and ultrasound and other images. Internationally, sales of neurology products were robust. Overall, sales increased 2.9% over the previous fiscal year.

Patient Monitors: In Japan, strong sales of telemetry monitors and network products were driven by the demand to upgrade the telemetry monitors that were acquired in response to the Radio Law several years ago. Internationally, all regions performed well with the exception of China. Sales increased 9.3% over the previous fiscal year.

Treatment Equipment: AED type defibrillators sold strongly in Japan, mainly in the clinical market. Ventilators also sold well, but pacemaker sales were below that of the previous term. In other countries, defibrillator sales decreased. This was a rebound from the previous year's sales boom that was spurred by the SARS epidemic. Sales increased 2.4% over the previous fiscal year.

Medical Supplies and Accessories: The Japanese market generated brisk sales of disposable electrodes and sensors, but replacement parts and rental sales decreased. Consumables also sold well in all international regions. Sales increased 0.7% over the previous fiscal year.

Other Medical Equipment: The Japanese market saw strong sales of ultrasound diagnostic equipment and other equipment, but a decrease in some imported products. Sales decreased 8.1% over the previous fiscal year.

Sales by Region

Japan: Sales declined 0.3% from the previous year, to 68,539 million yen. This resulted from the transition of national hospitals and universities into independent administrative entities, the Company's withdrawal from the home oxygen therapy market at the end of the previous year, and lower sales of imported products. However, public hospitals drove robust demand for patient monitoring and system network products, and AED defibrillators sold well.

International: Sales in China fell back to previous levels after the previous year's SARS-related spike. Patient monitoring products and physiological measuring equipment sold well in the United States and Europe. Sales outside Japan rose 8.0% over the previous year, to 15,269 million yen.

Cost of Sales, SGA Expenses and Operating Income

In the term under review, cost of goods and sales totaled 43,662 million yen. The COGS ratio improved 1.3 points over the previous term to 52.1% as a result of cost savings and improved product mix. As a result, gross profit on sales increased 1,391 million yen (3.6%) to 40,146 million yen.

The ratio of selling, general, and administrative expenses to sales improved 0.1 points over the previous term, to 39.3%. Research and development costs, included in cost of sales and SGA expenses, were 4,792 million yen (5.7% of sales).

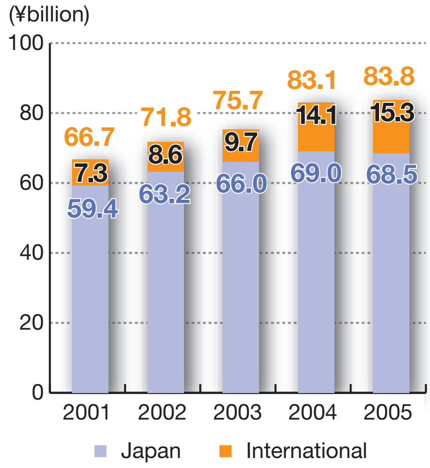
As a result, operating profit increased 1,221 million yen (20.5%) to 7,189 million yen.

Other Income and Expenses, Net Income

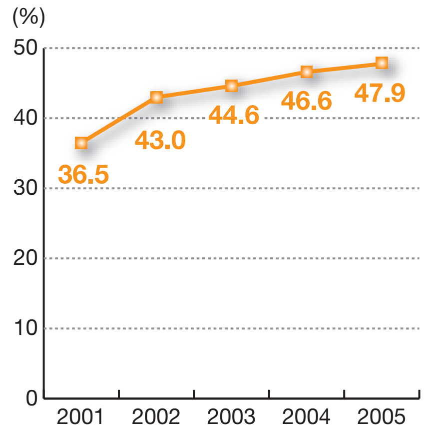
Net interest expense, after deducting earned interest and dividend income from interest expenses, improved by 13 million yen, from 52 million yen to 39 million yen.

Net other income (expenses) improved by 966 million yen, from (547 million yen) in the previous fiscal

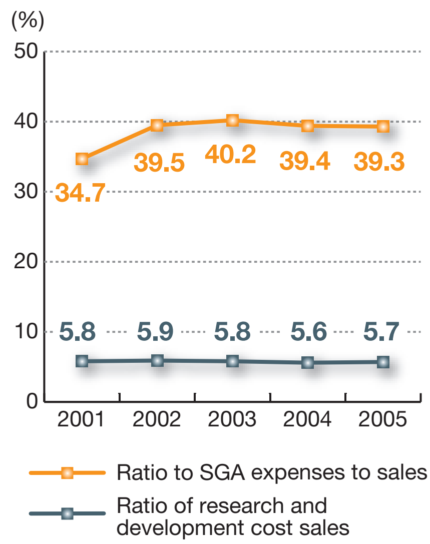
Net Sales by Region



Gross Profit ratio



SGA expenses / R&D expenses to net sales



year to 419 million yen. This resulted from a currency conversion gain of 231 million yen, after a loss of 175 million yen, and the absence of appraisal losses on land (412 million yen) and losses on liquidation of group subsidiaries and affiliates (120 million yen).

Income before income tax and minority interests improved by 2,187 million yen, from 5,421 million yen to 7,608 million yen. Net income increased 2,885 million yen, from 3,678 million yen to 6,563 million yen. Net income per share was 145.21.

Cash flows

Net cash provided by operating activities during the year under review decreased 527 million yen, from 4,070 million yen to 3,542 million yen. Income before income tax and minority interests increased over the previous year, but a decline in cash was caused by a decline in retirement benefit obligation reserves, an increase in accounts receivable on international sales throughout the year and on sales in Japan at the end of the year, and an expansion of inventories to meet customer orders in a timely fashion.

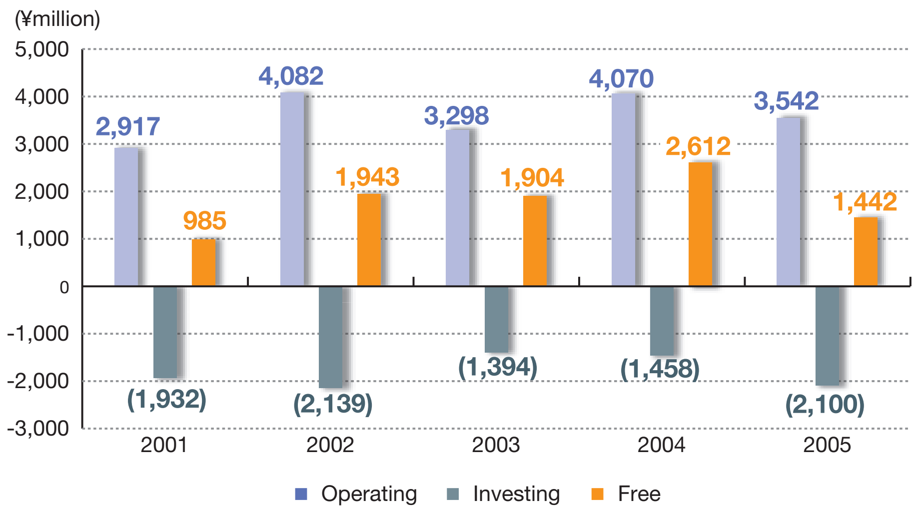
Net cash used in investing activities increased 642 million yen, from 1,458 million yen in the previous fiscal year to 2,100 million yen. The principal cause was acquisition of fixed assets, including construction of a logistics center that will reduce costs and enhance the efficiency of the Company's distribution systems.

As a result of these factors, free cash flow decreased 1,170 million yen, from 2,612 million yen in the previous fiscal year to 1,442 million yen.

Net cash used in financing activities increased 1,701 million yen, from 1,626 million yen in the previous fiscal year to 3,327 million yen. This resulted principally from the acquisition of treasury stock, to permit the repayment of short-term borrowing and the application of flexible capital strategies.

As a result, cash and cash equivalents as of March 31, 2005 decreased 1,595 million yen from 6,713 million yen the end of the previous fiscal year, to 8,308 million yen.

Cash Flows



Nihon Kohden Corporation and Consolidated Subsidiaries

Consolidated Balance Sheets

March 31, 2005 and 2004

	Millions of yen		Thousands of U.S. dollars (note 2)
	2005	2004	**2005**
Assets			
Current assets:			
Cash (note 3)	**¥ 6,765**	¥ 8,359	**$ 62,995**
Trade notes and accounts receivable	**28,650**	26,512	**266,785**
Inventories	**14,635**	13,565	**136,279**
Deferred income taxes (note 8)	**2,451**	2,358	**22,823**
Other current assets	**1,005**	769	**9,358**
Less allowance for doubtful receivables	**103**	157	**959**
Total current assets	**53,403**	51,406	**497,281**
Property, plant and equipment, net of accumulated depreciation; ¥15,663 million ($145,852 thousand) in 2005 and ¥15,192 million in 2004:			
Buildings and structures	**2,997**	2,674	**27,908**
Machinery, equipment and vehicles	**735**	566	**6,844**
Tools, furniture and fixtures	**2,255**	2,238	**20,998**
Land	**2,499**	2,412	**23,271**
Construction in progress	**206**	100	**1,918**
Net property, plant and equipment	**8,692**	7,990	**80,939**
Intangible assets, net	**642**	523	**5,978**
Investments and other assets:			
Investments in securities (notes 4 and 5)	**3,595**	3,278	**33,476**
Deferred income taxes (note 8)	**333**	120	**3,101**
Other investments and other assets	**940**	1,088	**8,753**
Less allowance for doubtful receivables	**127**	127	**1,183**
Total investments and other assets	**4,741**	4,359	**44,147**
Total assets	**¥67,478**	¥64,278	**$628,345**

See accompanying notes to consolidated financial statements.

	Millions of yen		Thousands of U.S. dollars (note 2)
	2005	2004	**2005**
Liabilities and Stockholders' Equity			
Current liabilities:			
Trade notes and accounts payable	**¥16,839**	¥15,808	**$156,802**
Short-term debt (note 6)	**4,323**	6,408	**40,255**
Other payables	**706**	492	**6,574**
Accrued income taxes (note 8)	**733**	1,521	**6,826**
Accrued expenses	**1,269**	1,048	**11,817**
Accrued bonuses	**984**	991	**9,163**
Other current liabilities	**1,024**	1,267	**9,535**
Total current liabilities	**25,878**	27,535	**240,972**
Non-current liabilities:			
Long-term debt (note 6)	**22**	89	**205**
Liabilities for retirement and severance benefits (note 7)	**1,154**	1,724	**10,746**
Deferred income taxes (note 8)	**—**	165	**—**
Other non-current liabilities	**9**	49	**84**
Total non-current liabilities	**1,185**	2,027	**11,035**
Total liabilities	**27,063**	29,562	**252,007**
Minority interests	**293**	256	**2,728**
Stockholders' equity:			
Common stock (note 9):	**7,545**	7,545	**70,258**
Authorized 98,986,000 shares; issued and outstanding 45,765,490 shares in 2005 and 2004			
Additional paid-in capital (note 9)	**10,484**	10,483	**97,625**
Retained earnings (note 10)	**22,398**	16,522	**208,567**
Net unrealized gain on other securities (note 4)	**848**	688	**7,897**
Foreign currency translation adjustments	**(195)**	(286)	**(1,816)**
Treasury stock	**(958)**	(492)	**(8,921)**
Total stockholders' equity	**40,122**	34,460	**373,610**
Commitments and contingencies (note 15)			
Total liabilities and stockholders' equity	**¥67,478**	¥64,278	**$628,345**

Nihon Kohden Corporation and Consolidated Subsidiaries

Consolidated Statements of Income

March 31, 2005 and 2004

	Millions of yen		Thousands of U.S. dollars (note 2)
	2005	2004	**2005**
Net sales	**¥83,808**	¥83,133	**$780,408**
Cost of sales (note 12)	**43,662**	44,378	**406,574**
Gross profit	**40,146**	38,755	**373,834**
Selling, general and administrative expenses (notes 11 and 12)	**32,957**	32,787	**306,891**
Operating profit	**7,189**	5,968	**66,943**
Other income (deductions):			
Interest income	**6**	15	**56**
Dividend income	**19**	15	**177**
Interest expenses	**(64)**	(82)	**(596)**
Equity in earnings of affiliates	**69**	72	**643**
Exchange gain (loss)	**231**	(175)	**2,151**
Loss on disposal of property, plant and equipment	**(65)**	(107)	**(605)**
Loss on devaluation of investments in securities	**(20)**	—	**(186)**
Loss on liquidation of subsidiaries/affiliates	**—**	(120)	**—**
Loss on devaluation of land	**—**	(412)	**—**
Other, net	**243**	247	**2,262**
	419	(547)	**3,902**
Income before income taxes and minority interests	**7,608**	5,421	**70,845**
Income taxes (note 8):			
Current	**1,567**	2,006	**14,592**
Prior years	**—**	310	**—**
Deferred	**(581)**	(608)	**(5,410)**
	986	1,708	**9,182**
Income before minority interests	**6,622**	3,713	**61,663**
Minority interests	**59**	35	**549**
Net income	**¥ 6,563**	¥ 3,678	**$ 61,114**

	Yen		U.S. dollars (note 2)
	2005	2004	**2005**
Per share of common stock (note 1(n)):			
Net income – basic	**¥145.21**	¥80.90	**$1.35**
Cash dividends	**14.00**	9.00	**0.13**

See accompanying notes to consolidated financial statements.

Nihon Kohden Corporation and Consolidated Subsidiaries

Consolidated Statements of Stockholders' Equity

March 31, 2005 and 2004

	Millions of yen		Thousands of U.S. dollars (note 2)
	2005	2004	**2005**
Common stock (note 9):			
Balance at beginning of year	**¥ 7,545**	¥ 7,545	**$ 70,258**
Balance at end of year	**7,545**	7,545	**70,258**
Additional paid-in capital (note 9):			
Balance at beginning of year	**10,483**	10,482	**97,616**
Increase resulting from sale of treasury stock	**1**	1	**9**
Balance at end of year	**10,484**	10,483	**97,625**
Retained earnings (note 10):			
Balance at beginning of year	**16,522**	13,284	**153,850**
Cash dividends	**(626)**	(402)	**(5,829)**
Bonuses to directors and corporate auditors	**(61)**	(38)	**(568)**
Net income	**6,563**	3,678	**61,114**
Balance at end of year	**22,398**	16,522	**208,567**
Net unrealized gain on other securities at end of year (note 4)	**848**	688	**7,897**
Foreign currency translation adjustments at end of year	**(195)**	(286)	**(1,816)**
Treasury stock at end of year	**(958)**	(492)	**(8,921)**
Total stockholders' equity at end of year	**¥40,122**	¥34,460	**$373,610**

See accompanying notes to consolidated financial statements.

Nihon Kohden Corporation and Consolidated Subsidiaries

Consolidated Statements of Cash Flows

March 31, 2005 and 2004

	Millions of yen		Thousands of U.S. dollars (note 2)
	2005	2004	**2005**
Cash flows from operating activities:			
Income before income taxes and minority interests	**¥7,608**	¥5,421	**$70,845**
Adjustments to reconcile income before income taxes and minority interests to net cash provided by operating activities:			
Depreciation and amortization	**1,384**	1,540	**12,888**
Loss on disposal of property, plant and equipment	**65**	107	**605**
Loss on devaluation of property, plant and equipment	**—**	412	**—**
Allowance for doubtful receivables	**(54)**	42	**(503)**
Decrease in accrued bonuses	**(7)**	(348)	**(65)**
Increase (decrease) in liabilities for retirement and severance benefits	**(570)**	619	**(5,308)**
Interest and dividend income	**(25)**	(30)	**(233)**
Interest expenses	**64**	82	**596**
Loss on devaluation of investments in securities	**20**	—	**186**
Loss on sale of investments in securities	**4**	—	**37**
Increase in trade notes and accounts receivable	**(2,698)**	(1,959)	**(25,123)**
Increase in inventories	**(1,065)**	(647)	**(9,917)**
Increase in trade notes and accounts payable	**1,031**	552	**9,601**
Equity in earnings of affiliates	**(69)**	(72)	**(643)**
Other, net	**235**	(3)	**2,188**
Sub total	**5,923**	5,716	**55,154**
Interest and dividend received	**75**	73	**699**
Interest paid	**(67)**	(84)	**(624)**
Income taxes paid	**(2,389)**	(1,635)	**(22,246)**
Net cash provided by operating activities	**3,542**	4,070	**32,983**
Cash flows from investing activities:			
Proceeds from sale of investments in securities	**5**	—	**47**
Purchase of investments in securities	**(90)**	(103)	**(838)**
Capital expenditures	**(1,992)**	(1,163)	**(18,549)**
Purchase of intangible assets	**(220)**	(285)	**(2,049)**
Other, net	**197**	93	**1,834**
Net cash used in investing activities	**(2,100)**	(1,458)	**(19,555)**
Cash flows from financing activities:			
Decrease in short-term debt	**(2,145)**	(1,260)	**(19,974)**
Proceeds from long-term debt	**—**	86	**—**
Payments on long-term debt	**(69)**	(28)	**(643)**
Dividends paid to stockholders	**(624)**	(402)	**(5,811)**
Purchase of treasury stock	**(466)**	(11)	**(4,339)**
Other, net	**(23)**	(11)	**(214)**
Net cash used in financing activities	**(3,327)**	(1,626)	**(30,981)**
Effect of exchange rate changes on cash and cash equivalents	**290**	(283)	**2,700**
Net increase (decrease) in cash and cash equivalents	**(1,595)**	703	**(14,853)**
Cash and cash equivalents at beginning of year	**8,308**	7,605	**77,363**
Cash and cash equivalents at end of year (note 3)	**¥6,713**	¥8,308	**$62,510**

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Years ended March 31, 2005 and 2004

(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 some material 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 (29 subsidiaries for 2005 and 38 subsidiaries for 2004, 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) 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, 2005.

(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, 2005 have been translated into United States dollars at the rate of ¥107.39=U.S.$1, the approximate exchange rate on the Tokyo Foreign Exchange Market on March 31, 2005. 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, 2005 and 2004 is follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	**2005**
Cash	**¥6,765**	¥8,359	**$62,995**
Time deposits with maturities of over three months	**(52)**	(51)	**(485)**
Cash and cash equivalents	**¥6,713**	¥8,308	**$62,510**

(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, 2005 and 2004 are summarized as follows:

	Millions of yen			
	Acquisition cost	Gross unrealized gain	Gross unrealized loss	Balance sheet amount
March 31, 2005				
Equity securities	¥821	¥1,431	¥(1)	¥2,251
Other securities	—	—	—	—
	¥821	¥1,431	¥(1)	¥2,251
March 31, 2004				
Equity securities	¥843	¥1,168	¥(3)	¥2,008
Other securities	32	—	(5)	27
	¥875	¥1,168	¥(8)	¥2,035

	Thousands of U.S. dollars			
	Acquisition cost	Gross unrealized gain	Gross unrealized loss	Balance sheet amount
March 31, 2005				
Equity securities	$7,645	$13,325	$(9)	$20,961
Other securities	—	—	—	—
	$7,645	$13,325	$(9)	$20,961

It is not practicable to estimate the fair value of securities as of March 31, 2005 and 2004 described below because of lack of market price and difficulty in estimating fair value.

	Millions of yen		Thousands of U.S. dollars
	2005	2004	**2005**
Other securities:			
Unlisted equity securities	**¥278**	¥189	**$2,589**
Investment in capital	**800**	800	**7,449**

For the year ended March 31, 2005, proceeds from sale of other securities, the gross realized gains and the gross realized losses were ¥27 million ($251 thousand), ¥2 million ($19 thousand) and ¥6 million ($56 thousand), respectively.

(5) Investments in Affiliates

The aggregate carrying amounts of investments in affiliates as of March 31, 2005 and 2004 are ¥266 million ($2,477 thousand) and ¥253 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 1.0% at March 31, 2005 and 2004.

Long-term debt as of March 31, 2005 and 2004 is summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	**2005**
Loans from banks, unsecured, maturing in installments through 2016; bearing weighted average interest of 1.6% and 3.4% at March 31, 2005 and 2004, respectively	**¥22**	¥89	**$205**

The aggregate annual maturities of long-term debt after March 31, 2005 are as follows:

	Millions of yen	Thousands of U.S. dollars
Year ending March 31:		
2007	¥3	$28
2008	3	28
2009	3	28
2010	2	19

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, 2005 and 2004 is outlined as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	**2005**
Projected benefit obligation	**¥(12,872)**	¥(13,144)	$(119,862)
Plan assets at fair value	**12,876**	11,771	119,899
Funded status	**4**	(1,373)	37
Unrecognized actuarial gain	**(904)**	(132)	(8,418)
Amount recognized in the consolidated balance sheets	**¥ (900)**	¥ (1,505)	$ (8,381)

Note: 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, 2005 and 2004 are estimated to be ¥4,485 million ($41,764 thousand) and ¥4,182 million, respectively, and they are not included in the above table.

Net periodic pension cost for the years ended March 31, 2005 and 2004 consists of the following components:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	**2005**
Service cost	**¥ 783**	¥ 811	**$7,291**
Interest cost	**263**	281	**2,449**
Expected return on plan assets	**(235)**	(201)	**(2,188)**
Amortization of actuarial (gain) loss	**(49)**	1,140	**(456)**
Net periodic pension cost	**¥ 762**	¥2,031	**$7,096**

Note: For the years ended March 31, 2005 and 2004, the amount of "Service cost" excludes contributions to the welfare pension fund of ¥398 million ($3,706 thousand) and ¥371 million, respectively.

Significant assumptions of pension plans used to determine these amounts in fiscal 2005 and 2004 are as follows:

	2005	2004
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, 2005 and 2004, the liabilities for retirement and severance benefits related to the plan were ¥254 million ($2,365 thousand) and ¥219 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 2005 and 42.0% in 2004.

Amendments to Japanese tax regulations were enacted on March 31, 2003. As a result of these amendments, the normal income tax rate was reduced from approximately 42.0% to 40.7% effective from the Company's fiscal year beginning April 1, 2004.

The business tax which was not based on income of ¥100 million ($931 thousand) 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, 2005 and 2004 is follows:

	2005	2004
Statutory tax rate	**40.7%**	42.0%
Change in valuation allowance	**(11.1)**	(9.3)
Expenses not deductible for tax purposes	**2.5**	1.1
Utilization of tax loss carryforward	**(1.9)**	(2.7)
Per capita tax	**0.5**	0.7
Difference in statutory tax rates of subsidiaries	**(0.6)**	(0.5)
Tax credits primarily for research and development costs	**(2.0)**	(2.5)
Income tax paid related to prior years' income	**—**	5.7
Settlement of unrecognized deferred income tax liabilities	**(16.8)**	(1.7)
Other	**1.7**	(1.3)
Effective tax rate	**13.0%**	31.5%

Significant components of deferred tax assets and liabilities at March 31, 2005 and 2004 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	**2005**
Deferred tax assets:			
Valuation loss for inventories	**¥ 566**	¥ 457	**$ 5,271**
Liabilities for retirement and severance benefits	**363**	611	**3,380**
Accrued bonuses	**396**	397	**3,687**
Allowance for doubtful receivables	**89**	59	**829**
Depreciation and amortization	**450**	—	**4,190**
Deferred expenses	**—**	17	**—**
Intercompany profits on inventories, and property, plant and equipment	**1,449**	1,526	**13,493**
Other	**770**	1,122	**7,170**
	4,083	4,189	**38,020**
Valuation allowance	**(682)**	(1,365)	**(6,350)**
	3,401	2,824	**31,670**
Deferred tax liabilities:			
Allowance for doubtful receivables	**(34)**	(39)	**(317)**
Net unrealized gain on other securities	**(583)**	(472)	**(5,429)**
	(617)	(511)	**(5,746)**
Net deferred tax assets	**¥2,784**	¥2,313	**$25,924**

(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, 2005 of cash dividends of ¥13 ($0.12) per common share aggregating ¥577 million ($5,373 thousand) and bonuses to directors and corporate auditors was approved at the Company's general meeting of stockholders held on June 29, 2005.

(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
	2005	2004	**2005**
Salaries	**¥13,674**	¥12,948	**$127,330**
Pension costs	**691**	1,712	**6,434**
Depreciation	**768**	947	**7,152**
Legal welfare	**2,229**	2,248	**20,756**
Transportation	**1,540**	1,411	**14,340**

(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, 2005 and 2004 are ¥4,792 million ($44,622 thousand) and ¥4,677 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, 2005 and 2004 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	**2005**
Net income	**¥6,563**	¥3,678	**$61,114**
Net income not applicable to common stockholders:			
Directors' bonuses	**76**	56	**708**
Corporate auditors' bonuses	**6**	4	**56**
Net income applicable to common stockholders	**¥6,481**	¥3,618	**$60,350**

	Number of shares (Thousands)	
	2005	2004
Weighted average number of shares on which basic net income per share is calculated	**44,631**	44,719

(14) Leases

A summary of assumed amounts of acquisition cost which includes interest portion, accumulated depreciation and net book value at March 31, 2005 and 2004 are as follows:

	Millions of yen			
	Buildings and structures	Machinery, equipment and vehicles	Tools, furniture and fixtures	Total
March 31, 2005				
Acquisition cost	¥157	¥100	¥101	¥358
Accumulated depreciation	143	48	35	226
Net book value	¥ 14	¥ 52	¥ 66	¥132
March 31, 2004				
Acquisition cost	¥175	¥ 29	¥663	¥867
Accumulated depreciation	123	17	420	560
Net book value	¥ 52	¥ 12	¥243	¥307

	Thousands of U.S. dollars			
	Buildings and structures	Machinery, equipment and vehicles	Tools, furniture and fixtures	Total
March 31, 2005				
Acquisition cost	$1,462	$931	$941	$3,334
Accumulated depreciation	1,332	447	326	2,105
Net book value	$ 130	$484	$615	$1,229

Future minimum payments which include interest portion required under finance leases at March 31, 2005 and 2004 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	**2005**
Within one year	**¥ 55**	¥174	**$ 512**
Over one year	**77**	133	**717**
	¥132	¥307	**$1,229**

Lease payments for the years ended March 31, 2005 and 2004 amounted to ¥86 million ($801 thousand) and ¥248 million, respectively.

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

	Millions of yen	Thousands of U.S. dollars
Within one year	**¥ 53**	**$ 493**
Over one year	**121**	**1,127**
	¥174	**$1,620**

(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, 2005 and 2004, the Company was contingently liable with respect to trade notes receivable discounted in the amounts of ¥788 million ($7,338 thousand) and ¥569 million, respectively. Notes discounted are accounted for as sales and removed from the balance sheets.

(16) Derivative Financial Instruments

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

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

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

The accounting department has executed and controlled derivative transactions, and 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 2005 and 2004, 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, 2005 and 2004.

Segment information by industry for the year ended March 31, 2005 which are restated to conform to the segmentation for the year ended March 31, 2004 are as follows:

	Millions of yen				
	2005				
	Medical electronic equipments	Transformers	Total	Elimination / corporate	Consolidated
Sales to outside customers	¥82,999	¥ 809	¥83,808	¥ —	¥83,808
Inter-segment sales	—	209	209	(209)	—
	82,999	1,018	84,017	(209)	83,808
Operating expenses	75,864	964	76,828	(209)	76,619
Operating income	¥ 7,135	¥ 54	¥ 7,189	¥ —	¥ 7,189
Assets	¥67,133	¥ 364	¥67,497	¥ (19)	¥67,478
Depreciation and amortization	1,377	7	1,384	—	1,384
Capital expenditures	2,210	2	2,212	—	2,212

	Thousands of U.S. dollars				
	2005				
	Medical electronic equipments	Transformers	Total	Elimination / corporate	Consolidated
Sales to outside customers	$772,875	$7,533	$780,408	$ —	$780,408
Inter-segment sales	—	1,946	1,946	(1,946)	—
	772,875	9,479	782,354	(1,946)	780,408
Operating expenses	706,435	8,976	715,411	(1,946)	713,465
Operating income	$ 66,440	$ 503	$ 66,943	$ —	$ 66,943
Assets	$625,133	$3,389	$628,522	$ (177)	$628,345
Depreciation and amortization	12,823	65	12,888	—	12,888
Capital expenditures	20,579	19	20,598	—	20,598

Segment information by industry for the year ended March 31, 2004 was summarized as follows:

	Millions of yen				
	2004				
	Medical electronic equipments	Transformers	Total	Elimination / corporate	Consolidated
Sales to outside customers	¥82,125	¥1,008	¥83,133	¥ —	¥83,133
Inter-segment sales	—	515	515	(515)	—
	82,125	1,523	83,648	(515)	83,133
Operating expenses	76,081	1,599	77,680	(515)	77,165
Operating income (loss)	¥ 6,044	¥ (76)	¥ 5,968	¥ —	¥ 5,968
Assets	¥63,776	¥ 587	¥64,363	¥ (85)	¥64,278
Depreciation and amortization	1,534	6	1,540	—	1,540
Capital expenditures	1,365	7	1,372	—	1,372

The main products of each segment are as follows:

Medical electronic equipments:	Research and development, manufacturing, import and sales of medical electronic equipments as follows: Physiological measuring equipment, such as electroencephalographs, electrocardiographs and polygraphs; Monitoring systems, such as bedside monitors, medical telemetry and medical information systems; Treatment equipment, such as defibrillators and cardiac pacemakers; Automatic blood cell counting equipments, emergency care equipment and supplies. Maintenance and repair of these equipments and sales of their parts, transportation of the products.
Transformers:	Manufacturing and sales of reactor transformers, power transformers, video transformers, pulse transformers, low frequency transformers, switching power supplies and dropper power supplies, etc.

(b) Geographic segments

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

	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						
	2005						
	Japan	Americas	Europe	Asia	Total	Elimination / corporate	Consolidated
Sales to outside customers	$700,112	$42,257	$31,558	$ 6,481	$780,408	$ —	$780,408
Inter-segment sales	40,925	587	(9)	5,587	47,090	(47,090)	—
	741,037	42,844	31,549	12,068	827,498	(47,090)	780,408
Operating expenses	676,860	41,875	31,270	10,550	760,555	(47,090)	713,465
Operating income	$ 64,177	$ 969	$ 279	$ 1,518	$ 66,943	$ —	$ 66,943
Assets	$545,488	$22,805	$28,978	$ 9,936	$607,207	$ 21,138	$628,345

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

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

Corporate assets of ¥5,669 million ($52,789 thousand) as of March 31, 2005 in the Elimination / corporate line consist primarily of assets relating to the administrative operations and investments in securities etc.

For the year ended March 31, 2004, both domestic sales and assets located in Japan are over 90% of all segments.

(c) Overseas sales

Information for overseas sales for the years ended March 31, 2005 and 2004 is summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	**2005**
Overseas sales:			
Americas	**¥ 6,132**	¥ 4,833	**$ 57,100**
Europe	**3,725**	3,634	**34,687**
Asia	**4,791**	4,971	**44,613**
Other	**621**	695	**5,783**
	¥15,269	¥14,133	**$142,183**
Consolidated sales	**¥83,808**	¥83,133	**$780,408**
Percentage of overseas sales to consolidated sales	**18.2%**	17.0%	**18.2%**

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

Americas: U.S.A., Mexico, Brazil and Argentina

Europe: Germany, France, Spain, Italy and Russia

Asia: China, Turkey, Korea, Taiwan and Vietnam

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Independent Auditors' Report

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, 2005 and 2004, 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, 2005 and 2004, 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, 2005 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, 2005

See Note 1(a) to the consolidated financial statements which explains the basis of preparing the consolidated financial statements of Nihon Kohden Corporation and consolidated subsidiaries under Japanese accounting principles and practices.

Corporate Directory

Board of Directors (As of June 29, 2005)

President and Chief Exective 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
Kohei Ono
Toshifumi Kamihirata
Takeshi Akahane
Haruto Doi
Kenji Hakuta

Corporate Auditors
Yoshitake Ijichi
Hisashi Saito

Outside Corporate Auditors
Kuniyasu Aoki
Osamu Kato

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*
2,721 (group)

*As of March 31, 2005

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

International Division
Tokyo (Head office)
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)

Web Site
www.nihonkohden.com

Subsidiaries (As of April 1, 2005)

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
Nihon Kohden Wellness Corporation

Production
Nihon Kohden Tomioka Corporation
Kohden Engineering Corporation

Other
Nihon Kohden Planning Center Corporation
Nihon Kohden Information System 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)

Major Stockholders*

Stockholders	No. of Shares (thousands)	Percentage Ownership
Japan Trustee Service Bank, Ltd.	3,784	8.66
The Master Trust Bank of Japan, Ltd.	3,346	7.65
Saitama Resona Bank, Ltd.	2,096	4.79
Toshiba Medical Corporation	1,990	4.55
Fujitsu Ltd.	1,063	2.43
Yoshio Ogino	982	2.25
NIPPONKOA Insurance Co., Ltd.	974	2.23
Daiei Real Estate	893	2.04
Nihon Kohden's holding by employees	801	1.83
BNP Paribas Securities Service	790	1.81
Subtotal	15,022	
Total Outstanding Issue	45,765	

* As of March 31, 2005

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