Annual Report

April 2007 — March 2008

Fighting Disease with Electronics

NIHON KOHDEN

Company Profile

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

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

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

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

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

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

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

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

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

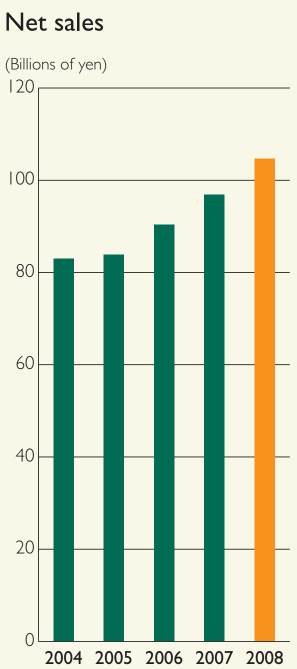
Contents

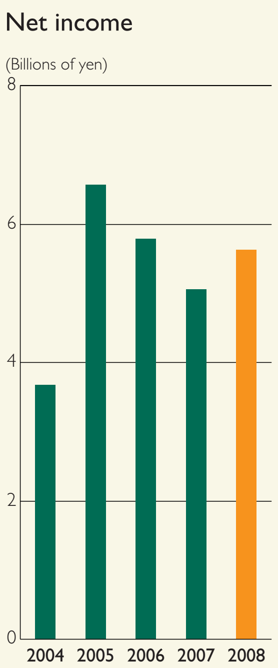
Consolidated Financial Highlights

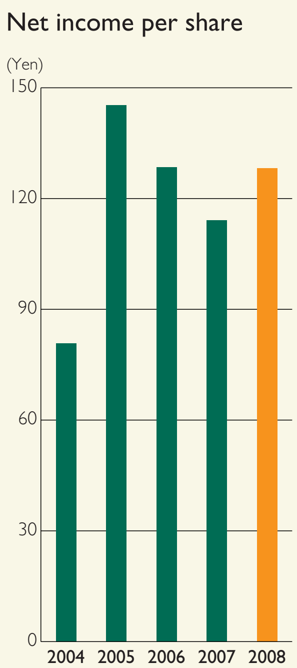
Nihon Kohden Corporation and Consolidated Subsidiaries
Years ended March 31, 2008, 2007, 2006, 2005, and 2004

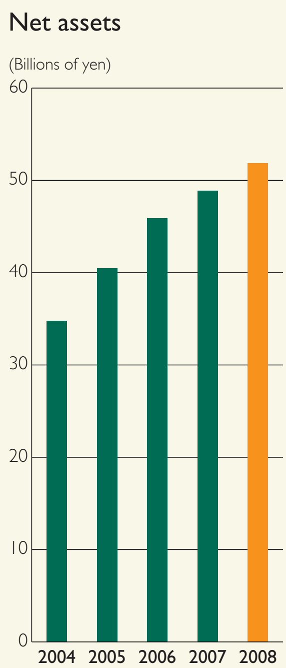
	Millions of yen					Thousands of U.S. dollars [1]
	2008	2007	2006	2005	2004	**2008**
Net sales	¥104,826	¥96,679	¥90,368	¥ 83,808	¥ 83,133	$1,046,272
Operating income	9,818	7,974	7,415	7,189	5,968	97,994
Income before income taxes and minority interests	9,640	8,311	8,261	7,608	5,421	96,217
Net income	5,632	5,053	5,788	6,563	3,678	56,213
Total assets	80,630	75,894	73,511	67,478	64,278	804,771
Net assets[2]	51,814	48,865	45,878	40,415	34,716	517,157
Amounts per share[3]:	Yen					U.S. dollars [1]
Net income-basis	¥128.01	¥114.12	¥128.56	¥ 145.21	¥ 80.90	$ 1.28
Cash dividends	37.00	30.00	26.00	20.00	12.00	0.37

Notes : (1) U.S. dollar amounts are translated from yen, for convenience only, at the rate of ¥100.19 = US$1.
(2) Certain retroactive adjustments of previously reported net assets have been made to conform to the presentation used from the year ended March 31, 2007.
(3) Computation of net income and dividends per share was based on the average number of shares of common stock outstanding during each fiscal year.
Cash dividends per share are dividends applicable to the respective years including dividends to be paid after the end of the year.
See Note 10 and 13 of Consolidated Financial Statements.









To our stockholders

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

For more than half a century we have enthusiastically continued our original mission of "fighting disease with electronics" and Nihon Kohden has continued to move forward as a top manufacturer of medical electronic equipment. In that period, with a particular eye toward the connection between human and machine, we have concentrated our efforts on developing human-machine interface technologies and turned them into practical reality in many excellent medical electronic products. Nihon Kohden developed the basis of SpO_2 which is indispensable in modern medicine. We have become the world's leading manufacturer of electroencephalographs and our electrocardiographs, evoked potential and electromyogram measuring systems, patient monitors, defibrillators, automatic hematology analyzers and other medical equipment have earned an excellent reputation among users around the world.

With our 1995 ISO9001 certification, the international standard of quality assurance, and CE marking in 1996, based on the EU Medical Device Directive, Nihon Kohden has constructed a consistent quality assurance system covering all areas, from development to after sales service. Based on our quality policy that "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.

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

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

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

Kazuo Ogino
Chairman and CEO

Fumio Suzuki
President and COO

expanding development, production and marketing of Nihon Kohden products throughout the world.

Nihon Kohden is currently implementing its mid-term business plan, SPEED UP II, covering the 3 year period until FY2009 (ending March 2010) with the aim of sustaining group growth and enhancing corporate value of the Company. Our target in fiscal 2009, the final year of this plan, is sales of ¥113 billion, operating income of ¥10.2 billion, and increasing international sales to 27% of the total. In this plan, Nihon Kohden continues to work to realize the management vision of "increasing Nihon Kohden's global brand awareness for medical electronic equipment." The Company also set the long-term management goal of sales of ¥140 billion, operating margin of 10%, and ratio of overseas sales of 30% by FY2012.

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

Nihon Kohden started a new management structure; Chairman and President on June 27, 2008. We seek to further sustain group growth and enhance corporate value through this new management structure. We ask for your continued support.

Topics

Nihon Kohden Establishes a sales subsidiary in Shanghai

Nihon Kohden established Nihon Kohden Trading (Shanghai) Co., Ltd to strengthen sales in the rapidly growing Chinese market. Previously, the Company had conducted its business activities through a trading company, its representative offices, and Shanghai Kohden Medical Electronic Instrument Corporation in China.

The new company will focus on sales, marketing, after-sales services, and logistics. Shanghai Kohden will specialize in production. By establishing the framework to quickly provide competitive products and high-quality services, Nihon Kohden will strengthen its business activities in China and increase Nihon Kohden's global brand awareness.

Nihon Kohden Receives Frost & Sullivan's Best Practices Award

Nihon Kohden was recognized with the "Best Practices Award" for Market Share Advancement in the North American Multiparameter Patient Monitoring Equipment Markets from leading global growth consulting company Frost & Sullivan.

Each year Frost & Sullivan presents this award to the company that has demonstrated excellence in increasing market share within its industry. The recipient has demonstrated strategic excellence in product innovation, marketing, and sales strategies that have resulted in the largest gain in market share over the past year.

According to Frost & Sullivan, Nihon Kohden has gained a solid foothold in this mature and highly competitive market through various successful competitive strategies.

Nihon Kohden is also recognized with the "2008 Product Innovation Award" in the North American Hospital Wireless Patient Monitoring Market in recognition of the pioneering design of the Prefense™ Early Detection and Notification System™. The award will be presented to Nihon Kohden in September.

Nihon Kohden will continue to offer high value-added products and high quality services that match local characteristics and needs of each market and will further enhance its global business activities.

Our AEDs support Tokyo Marathon again this year

The Tokyo Marathon 2008 was held on February 17, 2008 and 32,000 city runners participated in the race. Nihon Kohden supported this big event by providing AEDs for runners' safety as an official sponsor. 59 AEDs and 55 volunteers from Nihon Kohden were deployed along the course to prepare for any contingency on the date of the race.

In Tokyo Marathon 2008 EXPO at Tokyo Big Sight, the Company displayed the newest model of AED and provided a hands-on experience using AED and learning cardiopulmonary resuscitation, or CPR.

The Company continues to support the spread of AEDs and provide training programs in order to create a healthy and safe society.

Intraoperative Monitoring System, Neuromaster MEE-1200

The importance of intraoperative neurophysiological monitoring has been increased in attempt to avoid neurological injuries from operative manipulations in neurosurgery,orthopedic procedures, and cardiovascular surgery. MEE-1200 is an intraoperative monitoring system for safe and reliable surgery. This system displays multiple evoked potential and electroencephalogram on the screen at once and physicians can lay them out freely.

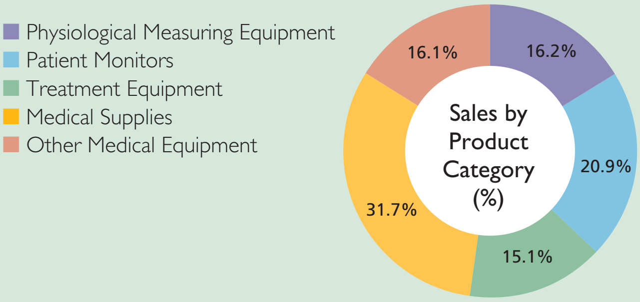
A new compact AED, cardioLife AED-1200

Nihon Kohden launched the AED-1200 for home use with a compact and lightweight body. An automated external defibrillator, or AED, is an electronic device that treats potentially life threatening cardiac arrhythmias in a patient by application of electrical shock which stops the arrhythmia and allows the heart to resume its normal rhythm. In July 2004, the use of AEDs by ordinary citizens was legally recognized. Since then, AEDs have been placed in a wide variety of public places such as sports clubs, airports, railway stations, schools, community centers, and companies.

Hematology analyzer for veterinary use, Celltac Alpha MEK-6450

MEK-6450 is a compact, fully automated hematology analyzer with 20 parameters and 4-part WBC differential for 4 animal types (dog, cat, cow, and horse) and 12 parameters for 2 animal types (rat and mouse). The veterinary Celltac Alpha offers simple and user-friendly operation such as a large color TFT touch screen, high speed data processing in 60 seconds, and automatic print out of the measurement chart.

At a Glance



Physiological Measuring Equipment

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

16.2%


ECG-1400


MEE-1200

Patient Monitors

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

20.9%


BSM-6701

Treatment Equipment

Defibrillators, AEDs (automated external defibrillators), pacemakers, ventilators, patient warming systems, and other instruments

15.1%


AED-1200

Medical Supplies

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

31.7%


TG-920P

Other Medical Equipment

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

16.1%


MEK-6450

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

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

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

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

Review of Operations

During the term under review (April 1, 2007 to March 31, 2008), as the Japanese government made progress on National Health Insurance reform, the business environment remained severe for medical equipment suppliers. Meanwhile, the importance of early defibrillation by AED (automated external defibrillators) has been widely recognized and the devices are being placed in public facilities, schools and private companies.

Outside Japan, competition intensified as cross-border M&A and alliances accelerated global reorganization of the international medical device industry. Meanwhile, the demand for medical equipment has expanded with the economic growth in emerging countries such as BRICs.

With these circumstances in mind, in order to sustain growth of the Nihon Kohden group and enhance its corporate value, Nihon Kohden started a mid-term business plan, SPEED UP II, for the period until FY2009 (ending March 2010).

The Company continues to introduce high value-added and high quality products that can help to improve patients' Quality of Life as well as medical safety and efficiency. In Physiological Measuring Equipment, Nihon Kohden introduced an intraoperative neurophysiology monitoring system to prevent nerve damage from operative manipulations. In Patient Monitors, a new central monitor was developed with the concept of "medical safety" and enhanced alarm functions. In Treatment Equipment, Nihon Kohden launched a new AED for home use with a compact and lightweight body.

As a result, overall sales during the term under review increased 8.4% over FY2006 to ¥104,826 million. Operating income increased 23.1% to ¥9,818 million and net income increased 11.5% to ¥5,632 million over the previous fiscal year.

Mid-term business plan SPEED UP II (April 2007 to March 2010)

Management Vision

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

Long-term Management Goal

Achieve by FY2012 (ending March 2013)

Net sales
¥140 billion

Operating margin
10%

Ratio of overseas sales
30%

SPEED UP II Target

Target for FY2009 (ending March 2010)

Net sales
¥113.0 billion

Operating income
¥10.2 billion

Ratio of overseas sales
27.0%

Inventory turnover rate
7.4 times

ROE
12.0%

Management's Discussion and Analysis

Sales

In the term under review, sales increased ¥8,147 million, or 8.4%, to ¥104,826 million.

Sales by Product Category

Physiological Measuring Equipment: Increased sales of EEGs driven by new product introductions and diagnostic information systems favorably impacted domestic sales. This was partially offset by lower sales of polygraphs. Internationally, sales of ECGs decreased, while sales of EEGs increased. Overall, sales increased 3.2% over the previous fiscal year to ¥17,002 million.

Patient Monitors: In Japan, Patient Monitors sales increased due to higher sales of bedside monitors and clinical information systems. Sales of central monitors also grew due to a new product launch. Outside Japan, sales in the Americas and Europe were up with good performance in bedside monitors. Overall, sales increased 11.2% over the previous fiscal year to ¥21,883 million.

Treatment Equipment: Domestic sales of AED grew favorably due to the increased placement of AEDs in the public access market. Sales of ventilators also increased. Sales of defibrillators in medical facilities and ambulances, as well as pacemakers, decreased slightly. Internationally, sales of defibrillators in medical facilities and ambulances increased in Latin America and Europe. Overall, sales increased 17.6% over the previous fiscal year to ¥15,862 million.

Medical Supplies: In Japan, sales of consumables such as catheters, sensors and disposable electrodes increased. Maintenance service sales also increased. International consumables sales favorably increased, including a large-scale order in Latin America. Overall, sales increased 13.0% over the previous fiscal year to ¥33,217 million.

Other Medical Equipment: In Japan, sales of hematology analyzers increased, while sales of locally purchased products decreased considerably. Internationally, sales of hematology analyzers increased. Overall, sales decreased 4.3% over the previous fiscal year to ¥16,862 million.

Sales by Region

Japan: Sales in the university market, public and private hospital markets increased, primarily supported by the sales growth of system network products as hospitals have introduced IT systems. Sales in the clinic market also increased, reflecting our focus on consulting business for private practice startups. AED also experienced strong sales growth due to the increased penetration of AEDs in the PAD (public access defibrillation) market. As a result, domestic sales increased 5.9% over the previous fiscal year to ¥79,139 million.

International: Sales in North America increased due to solid sales of Patient Monitors. Sales of Patient Monitors and Medical Supplies in Latin America soared mainly due to the shipment of the balance of large-scale orders, which was carried forward from the previous fiscal year. Sales in Europe were up with good performance in Patient Monitors, hematology analyzers and Medical Supplies. Sales in China were weak due to reorganization of the local distribution channel in order to prepare for the establishment of our sales subsidiary in the fourth quarter, while sales in other Asian countries increased. As a result, international sales increased 17.1% over the previous fiscal year to ¥25,687 million.

Cost of Sales, SGA Expenses and Operating Income

In the term under review, cost of sales were ¥52,083 million. Gross profit ratio rose 120 basis points to 50.3%, primarily due to favorable product mix with increased sales of our own products, as well as manufacturing efficiencies. Gross profit on sales increased ¥5,310 million, or 11.2%, to ¥52,743 million.

Selling, general, and administrative expenses increased mainly due to enhancement of our human resource in addition to the increase of depreciation and selling expenses. The ratio of SGA expenses to sales was same as the previous fiscal year, 40.9%. Research and development costs, included in cost of sales and SGA expenses, were ¥4,662 million (4.4% of sales).

As a result, operating income increased ¥1,844 million, or 23.1% to ¥9,818 million.

Other Income and Deductions, Net Income

Net other income (deductions) turned negative and totaled (¥178 million), from ¥337 million in the previous fiscal year, mainly due to appreciation of the yen. Exchange loss was ¥300 million in this fiscal year, compared to exchange gain of ¥429 million in the previous fiscal year.

Income before income tax and minority interests increased ¥1,329 million to ¥9,640 million from ¥8,311 million in the previous fiscal year.

Net income increased ¥579 million to ¥5,632 million from ¥5,053 million in the previous fiscal year. Net income per share was ¥128.01.

Cash Flows

Net cash provided by operating activities during the year under review increased ¥2,739 million to ¥8,622 million. It includes ¥9,640 million of income before income taxes and minority interests, ¥2,106 million of depreciation and amortization, and ¥3,466 million of income taxes paid.

Net cash used in investing activities decreased ¥192 million to ¥2,858 million. We used ¥1,788 million for capital expenditures, ¥537 million for purchase of intangible fixed assets, and ¥416 million for investments in securities.

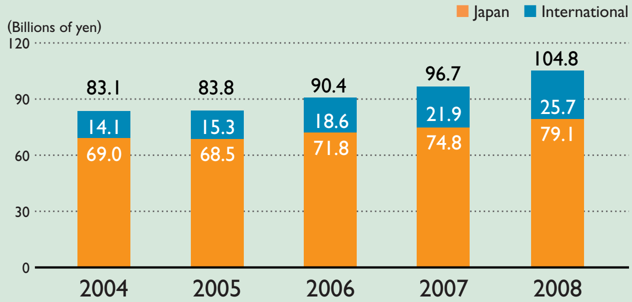
As a result of these factors, free cash flow increased ¥2,931 million to ¥5,764 million.

Net cash used in financing activities increased ¥296 million to ¥2,888 million. We paid ¥1,409 million for stockholders dividends and used ¥1,090 million to repay short-term loans and ¥257 million to purchase treasury stock.

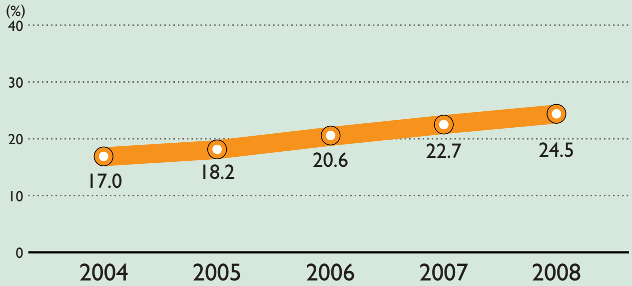
As a result, cash and cash equivalents as of March 31, 2008 increased ¥2,769 million to ¥13,797 million.

Years ended March 31

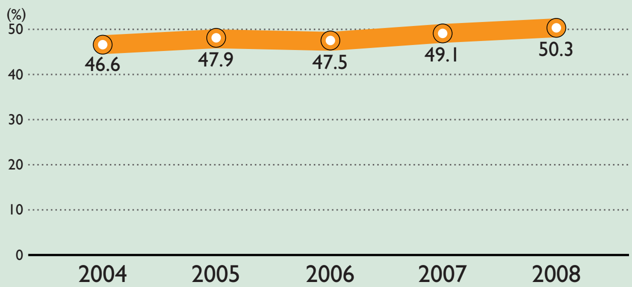
Net sales by region



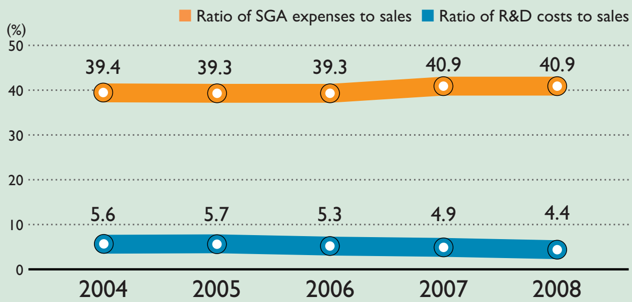
Percentage of international sales



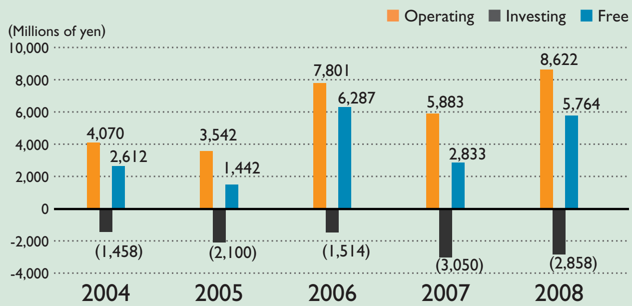
Gross profit ratio



SGA expenses/R&D costs to net sales



Cash flows



Consolidated Balance Sheets

March 31, 2008 and 2007

Assets	Millions of yen		Thousands of U.S. dollars (note 2)
	2008	2007	2008
Current assets:			
Cash (note 3)	¥ 8,304	11,060	$ 82,883
Trade notes and accounts receivable	30,942	28,806	308,833
Short-term investments (note 4)	5,500	—	54,896
Inventories	14,443	15,009	144,156
Deferred income taxes (note 8)	3,373	3,215	33,666
Other current assets	1,377	947	13,744
Less allowance for doubtful receivables	220	128	2,196
Total current assets	63,719	58,909	635,982
Property, plant and equipment, net of accumulated depreciation; ¥17,194 million ($171,614 thousand) in 2008 and ¥16,635 million in 2007:			
Buildings and structures	3,097	3,189	30,911
Machinery, equipment and vehicles	830	698	8,284
Tools, furniture and fixtures	2,676	2,640	26,709
Land	2,551	2,499	25,462
Construction in progress	434	288	4,332
Net property, plant and equipment	9,588	9,314	95,698
Intangible assets, net	1,222	1,043	12,197
Investments and other assets:			
Investments in securities (notes 4 and 5)	3,666	4,910	36,590
Prepaid retirement and severance benefits (note 7)	1,186	624	11,838
Deferred income taxes (note 8)	176	19	1,757
Other investments and other assets	1,355	1,441	13,524
Less allowance for doubtful receivables	282	366	2,815
Total investments and other assets	6,101	6,628	60,894
Total assets	¥ 80,630	75,894	$804,771

See accompanying notes to consolidated financial statements.

Liabilities and Net Assets	Millions of yen		Thousands of U.S. dollars (note 2)
	2008	2007	2008
Current liabilities:			
Trade notes and accounts payable	¥ 18,016	16,122	$179,818
Short-term debt and current installments of long-term debt (note 6)	1,336	2,522	13,335
Other payables	1,529	859	15,261
Accrued income taxes (note 8)	2,123	1,923	21,190
Accrued expenses	1,914	1,938	19,104
Accrued bonuses	2,080	1,807	20,761
Accrued bonuses to directors and corporate auditors	—	77	—
Other current liabilities	1,244	1,128	12,416
Total current liabilities	28,242	26,376	281,885
Non-current liabilities:			
Long-term debt (note 6)	28	111	279
Liabilities for retirement and severance benefits (note 7)	—	282	—
Deferred income taxes (note 8)	233	222	2,326
Other non-current liabilities (note 7)	313	38	3,124
Total non-current liabilities	574	653	5,729
Total liabilities	28,816	27,029	287,614
Stockholders' equity:			
Common stock (note 9):	7,545	7,545	75,307
Authorized 98,986,000 shares; issued 45,765,490 shares in 2008 and 2007			
Additional paid-in capital (note 9)	10,485	10,485	104,651
Retained earnings (note 10)	34,932	30,710	348,658
Treasury stock, at cost; 1,829,595 shares in 2008 and 1,727,745 shares in 2007	(2,012)	(1,756)	(20,082)
Total stockholders' equity	50,950	46,984	508,534
Valuation and translation adjustments:			
Net unrealized gain on other securities (note 4)	494	1,469	4,931
Deferred gains on hedges	—	1	—
Foreign currency translation adjustments	(26)	50	(260)
Total valuation and translation adjustments	468	1,520	4,671
Minority interests	396	361	3,952
Total net assets	51,814	48,865	517,157
Commitments and contingencies (note 15)			
Total liabilities and net assets	¥ 80,630	75,894	$804,771

Consolidated Statements of Income

March 31, 2008 and 2007

	Millions of yen		Thousands of U.S. dollars (note 2)
	2008	2007	2008
Net sales	¥ 104,826	96,679	$1,046,272
Cost of sales (note 12)	52,083	49,246	519,842
Gross profit	52,743	47,433	526,430
Selling, general and administrative expenses (notes 11 and 12)	42,925	39,459	428,436
Operating income	9,818	7,974	97,994
Other income (deductions):			
Interest income	41	27	409
Dividend income	74	56	739
Interest expenses	(66)	(92)	(659)
Equity in earnings (losses) of affiliates	(9)	46	(90)
Exchange gain (loss)	(300)	429	(2,994)
Loss on disposal of property, plant and equipment	(73)	(68)	(729)
Gain on sale of investments in securities (note 4)	—	20	—
Other, net	155	(81)	1,547
	(178)	337	(1,777)
Income before income taxes and minority interests	9,640	8,311	96,217
Income taxes (note 8):			
Current	3,629	3,138	36,221
Deferred	329	65	3,284
	3,958	3,203	39,505
Income before minority interests	5,682	5,108	56,712
Minority interests	50	55	499
Net income	¥ 5,632	5,053	$ 56,213

See accompanying notes to consolidated financial statements.

Consolidated Statements of Changes in Net Assets

March 31, 2008 and 2007

Millions of yen

	Stockholders' equity					Valuation and translation adjustments					
	Common stock (note 9)	Additional paid-in capital (note 9)	Retained earnings (note 10)	Treasury stock	Total	Net unrealized gain on other securities (note 4)	Deferred gains on hedges	Foreign currency translation adjustments	Total	Minority interests	Total net assets
Balance at March 31, 2006	¥7,545	¥10,485	¥26,990	¥(1,015)	¥44,005	¥1,597	¥ —	¥(62)	¥1,535	¥338	¥45,878
Changes arising during year:											
Cash dividends			(1,241)		(1,241)						(1,241)
Bonuses to directors and corporate auditors			(92)		(92)						(92)
Net income			5,053		5,053						5,053
Purchase of treasury stock				(741)	(741)						(741)
Disposition of treasury stock		0		0	0						0
Net changes other than stockholders' equity						(128)	1	112	(15)	23	8
Total changes during the year	—	0	3,720	(741)	2,979	(128)	1	112	(15)	23	2,987
Balance at March 31, 2007	7,545	10,485	30,710	(1,756)	46,984	1,469	1	50	1,520	361	48,865
Changes arising during year:											
Cash dividends			(1,410)		(1,410)						(1,410)
Net income			5,632		5,632						5,632
Purchase of treasury stock				(257)	(257)						(257)
Disposition of treasury stock		0		1	1						1
Net changes other than stockholders' equity						(975)	(1)	(76)	(1,052)	35	(1,017)
Total changes during the year	—	0	4,222	(256)	3,966	(975)	(1)	(76)	(1,052)	35	2,949
Balance at March 31, 2008	¥7,545	¥10,485	¥34,932	¥(2,012)	¥50,950	¥494	¥ —	¥(26)	¥468	¥396	¥51,814

Thousands of U.S. dollars (note 2)

	Stockholders' equity					Valuation and translation adjustments					
	Common stock	Additional paid-in capital	Retained earnings	Treasury stock	Total	Net unrealized gain on other securities	Deferred gains on hedges	Foreign currency translation adjustments	Total	Minority interests	Total net assets
Balance at March 31, 2007	$75,307	$104,651	$306,518	$(17,527)	$468,949	$14,662	$10	$499	$15,171	$3,603	$487,723
Changes arising during year:											
Cash dividends			(14,073)		(14,073)						(14,073)
Net income			56,213		56,213						56,213
Purchase of treasury stock				(2,565)	(2,565)						(2,565)
Disposition of treasury stock		0		10	10						10
Net changes other than stockholders' equity						(9,731)	(10)	(759)	(10,500)	349	(10,151)
Total changes during the year	—	0	42,140	(2,555)	39,585	(9,731)	(10)	(759)	(10,500)	349	29,434
Balance at March 31, 2008	$75,307	$104,651	$348,658	$(20,082)	$508,534	$4,931	$ —	$(260)	$4,671	$3,952	$517,157

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

March 31, 2008 and 2007

	Millions of yen		Thousands of U.S. dollars (note 2)
	2008	2007	2008
Cash flows from operating activities:			
Income before income taxes and minority interests	¥ 9,640	8,311	$ 96,217
Adjustments to reconcile income before income taxes and minority interests to net cash provided by operating activities:			
Depreciation and amortization	2,106	1,773	21,020
Loss on disposal of property, plant and equipment	73	100	729
Allowance for doubtful receivables	7	(8)	70
Increase in accrued bonuses	273	739	2,725
Increase (decrease) in accrued bonuses to directors and corporate auditors	(77)	77	(769)
Decrease in liabilities for retirement and severance benefits	(843)	(541)	(8,414)
Interest and dividend income	(115)	(83)	(1,148)
Interest expenses	66	92	659
Loss on devaluation of investments in securities	17	18	170
Gain on sale of investments in securities	—	(20)	—
(Increase) decrease in trade notes and accounts receivable	(1,861)	1,600	(18,575)
(Increase) decrease in inventories	566	(926)	5,649
Increase (decrease) in trade notes and accounts payable	1,895	(1,229)	18,914
Equity in (earnings) losses of affiliates	9	(46)	90
Other, net	303	(291)	3,024
Sub total	12,059	9,566	120,361
Interest and dividend received	115	85	1,148
Interest paid	(86)	(87)	(859)
Income taxes paid	(3,466)	(3,681)	(34,594)
Net cash provided by operating activities	8,622	5,883	86,056
Cash flows from investing activities:			
Proceeds from sale of investments in securities	—	61	—
Purchase of investments in securities	(416)	(461)	(4,152)
Capital expenditures	(1,788)	(2,242)	(17,846)
Purchase of intangible assets	(537)	(484)	(5,360)
Other, net	(117)	76	(1,168)
Net cash used in investing activities	(2,858)	(3,050)	(28,526)
Cash flows from financing activities:			
Decrease in short-term debt	(1,090)	(539)	(10,879)
Payments on long-term debt	(83)	(42)	(829)
Dividends paid to stockholders	(1,409)	(1,239)	(14,063)
Purchase of treasury stock	(257)	(741)	(2,565)
Other, net	(49)	(31)	(489)
Net cash used in financing activities	(2,888)	(2,592)	(28,825)
Effect of exchange rate changes on cash and cash equivalents	(107)	(18)	(1,068)
Net increase in cash and cash equivalents	2,769	223	27,637
Cash and cash equivalents at beginning of year	11,028	10,805	110,071
Cash and cash equivalents at end of year (note 3)	¥ 13,797	11,028	$ 137,708

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Years ended March 31, 2007 and 2008

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 Financial Instruments and Exchange Law and its related accounting regulations, and in conformity with accounting principles and practices generally accepted in Japan, which may differ in certain respects from accounting principles and practices generally accepted in countries and jurisdictions other than Japan.

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

(b) Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Company and its subsidiaries (25 subsidiaries for both 2008 and 2007).

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

Investments in affiliates are accounted for by the equity method.

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

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

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

Until the year ended March 31, 2006, the excess of cost over the underlying net assets at the dates of investment in subsidiaries was charged to income in the year of investments. The effect of the change was nil.

(c) Cash and Cash Equivalents

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

(d) Short-term Investments and Investments in Securities

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

(e) Inventories

Inventories are stated principally at cost. Cost is determined principally by the gross 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

Pursuant to an amendment to the Corporation Tax Law, the Company and its domestic consolidated subsidiaries changed the estimated residual value of property, plant and equipment which was acquired on or after April 1, 2007 from 5% of the acquisition cost to ¥1. As a result of the change, both operating income and income before income taxes and minority interests decreased by ¥113 million ($1,128 thousand).

Pursuant to an amendment to the Corporation Tax Law, property, plant and equipment acquired on or before March 31, 2007 which were depreciated to the allowable limit (95% of the acquisition cost) in a particular business year can be further depreciated down to ¥1 evenly over five years starting from the following business year. As a result of the change, both operating income and income before income taxes and minority interests decreased by ¥76 million ($759 thousand).

(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.

For the year ended March 31, 2007, the Company and its subsidiaries had unfunded defined benefit pension plans for directors and corporate auditors. The provision for the plans was made in the accompanying consolidated financial statements for the vested benefits to which directors and corporate auditors are entitled if they were to retire or sever immediately at the balance sheet dates.

(j) Leases

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

(k) Foreign Currency Translation

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

(l) Income Taxes

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

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

(m) Directors' Bonus

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

According to the Standard, directors' bonuses are accounted for as an expense when such bonuses are accrued, instead of being accounted for as an appropriation of retained earnings upon approval at general meeting of stockholders. The effect of adoption of the new standard was to decrease income before income taxes and minority interests by ¥77 million for the year ended March 31, 2007.

From July 2008, the Company has paid bonuses to directors as compensation within the directors' compensation limit, and no accrual has been made for directors' bonus.

(n) Presentation of Net Assets on Balance Sheet

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

According to the Standards, former "Stockholders' equity" is presented as "Net assets" and classified into "Stockholders' equity," "Valuation and translation adjustments" and "Minority interests." "Minority interests" formerly listed after "Liabilities" is included in "Net Assets." At March 31, 2007, the stockholders' equity amounted to ¥48,503 million based on the former classification.

(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, 2008.

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, 2008 have been translated into United States dollars at the rate of ¥100.19=U.S.$1, the approximate exchange rate on the Tokyo Foreign Exchange Market on March 31, 2008. 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, 2008 and 2007 is follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Cash	¥ 8,304	¥ 11,060	$ 82,883
Short-term investments that have maturities of three months or less	5,500	—	54,895
Time deposits with maturities of over three months	(7)	(32)	(70)
Cash and cash equivalents	¥ 13,797	¥ 11,028	$ 137,708

4 Short-term Investments and Investments in Securities

Acquisition cost, balance sheet amount, gross unrealized gain and gross unrealized loss of other securities with fair value as of March 31, 2008 and 2007 are summarized as follows:

	Millions of yen			
	Acquisition cost	Gross unrealized gain	Gross unrealized loss	Balance sheet amount
March 31, 2008				
Equity securities	¥ 2,187	¥ 971	¥ (137)	¥ 3,021
	¥ 2,187	¥ 971	¥ (137)	¥ 3,021
March 31, 2007				
Equity securities	¥ 1,889	¥ 2,481	¥ (4)	¥ 4,366
	¥ 1,889	¥ 2,481	¥ (4)	¥ 4,366

	Thousands of U.S. dollars			
	Acquisition cost	Gross unrealized gain	Gross unrealized loss	Balance sheet amount
March 31, 2008				
Equity securities	$ 21,829	$ 9,691	$ (1,367)	$ 30,153
	$ 21,829	$ 9,691	$ (1,367)	$ 30,153

It is not practicable to estimate the fair value of securities as of March 31, 2008 and 2007 described below because of lack of market price and difficulty in estimating fair value.

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Other securities:			
Unlisted equity securities	¥ 387	¥ 375	$ 3,863
Certificates of deposit	5,500	—	54,896
Investments in limited partnership and similar partnership	182	82	1,816
	¥ 6,069	¥ 457	$ 60,575

For the year ended March 31, 2007, proceeds from sale of other securities were ¥61 million, the gross realized gains were ¥24 million and the gross realized losses were ¥4 million. There is no sale of other securities for the year ended March 31, 2008.

5 Investments in Affiliates

The aggregate carrying amounts of investments in affiliates as of March 31, 2008 and 2007 are ¥76 million ($759 thousand) and ¥88 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 2.0% and 3.4% at March 31, 2008 and 2007, respectively.

Long-term debt as of March 31, 2008 and 2007 is summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Loans from banks, unsecured, maturing in installments through 2016; bearing weighted average interest of 2.0% both at March 31, 2008 and 2007	¥ 30	¥ 113	$ 299
Less current installments	2	2	20
	¥ 28	¥ 111	$ 279

The aggregate annual maturities of long-term debt after March 31, 2009 are as follows:

	Millionsof yen	Thousands of U.S. dollars
Year ending March 31:		
2010	¥ 6	$ 60
2011	4	40
2012	4	40
2013	3	30

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

7 Retirement and Severance Benefits

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

The funded status of the pension plans at March 31, 2008 and 2007 is outlined as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Projected benefit obligation	¥ (13,537)	¥ (13,403)	$ (135,113)
Plan assets at fair value	13,789	15,289	137,629
Funded status	252	1,886	2,516
Unrecognized actuarial loss (gain)	934	(1,262)	9,322
Amount recognized in the consolidated balance sheets	1,186	624	11,838
Prepaid retirement and severance benefits	(1,186)	(624)	(11,838)
Accrued retirement and severance benefits	¥ —	¥ —	$ —

Note: 1.The plan assets of the welfare pension fund cannot be specifically allocated to the individual participants or to the substitution and corporate portions. However, based on the Company's proportion of the contribution to the aggregate pension contributions, the plan assets of the welfare pension fund at March 31, 2008 and 2007 are estimated to be ¥8,189 million ($81,735 thousand) and ¥6,397 million, respectively, and they are not included in the above table.

2.Prepaid retirement and severance benefits as of March 31, 2008 and 2007 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, 2008 and 2007 consists of the following components:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Service cost	¥ 802	¥ 806	$ 8,004
Interest cost	268	269	2,675
Expected return on plan assets	(306)	(288)	(3,054)
Amortization of actuarial gain	(465)	(327)	(4,641)
Net periodic pension cost	¥ 299	¥ 460	$ 2,984

Note: For the years ended March 31, 2008 and 2007, the amount of "Service cost" excludes contributions to the welfare pension fund of ¥844 million ($8,424 thousand) and ¥564 million, respectively.

Significant assumptions of pension plans used to determine these amounts in fiscal 2008 and 2007 are as follows:

	2008	2007
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 loss/gain *	5 years	5 years

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

Effective for the year ended March 31, 2008, the Company adopted the "Partial Amendments to Accounting Standard for Retirement Benefits Part 2" (Accounting Standards Board of Japan Statement No.14, issued on May 15, 2007) and by the Standard the following disclosures are required for corporate pensions under multi-employer pension plans.

Funded status of the whole welfare pension plan at March 31, 2007 is outlined as follows:

	Millions of yen	Thousands of U.S. dollars
Plan assets at fair value - (1)	¥ 207,901	$ 2,075,068
Benefit obligation under pension funding programs - (2)	209,884	2,094,860
(1) - (2)	¥ (1,983)	$ (19,792)

The Company's proportion of the salaries to the whole of welfare pension plan at March 31, 2008 are 5.9% and the employer's proportion of the contribution to the total contribution for the year ended March 31, 2008 are 65.8%.

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. At the general meeting of stockholders held on June 28, 2007, abolishment of retirement benefit system for directors and corporate auditors of the Company was approved and directors and corporate auditors were entitled to lump-sum payment up to the date of the abolishment when they leave the Company. Provision for the current year and prior years of ¥67 million ($669 thousand) are recorded in selling, general and administrative expenses. The amount of ¥272 million ($2,715 thousand) to be paid is included in other non-current liabilities in the accompanying consolidated balance sheet. As of March 31, 2007, the liabilities for retirement and severance benefits related to the plan were ¥282 million.

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 2008 and 2007.

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, 2008 and 2007 is follows:

	2008	2007
Statutory tax rate	40.7%	40.7%
Change in valuation allowance	2.8	0.4
Expenses not deductible for tax purposes	1.2	1.2
Income not credited for tax purposes	(0.1)	(0.1)
Utilization of tax loss carryforward	(0.6)	(0.7)
Per capita tax	0.4	0.5
Difference in statutory tax rates of subsidiaries	(0.6)	(0.4)
Tax credits primarily for research and development costs	(4.1)	(5.2)
Other	1.4	2.1
Effective tax rate	41.1%	38.5%

Significant components of deferred tax assets and liabilities at March 31, 2008 and 2007 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Deferred tax assets:			
Valuation loss for inventories	¥ 474	¥ 643	$ 4,731
Accrued business tax	188	176	1,877
Accrued bonuses	838	725	8,364
Allowance for doubtful receivables	150	185	1,497
Depreciation and amortization	886	776	8,843
Intercompany profits on inventories, and property, plant and equipment	1,662	1,548	16,589
Other	676	722	6,747
	4,874	4,775	48,648
Valuation allowance	(740)	(471)	(7,386)
	4,134	4,304	41,262
Deferred tax liabilities:			
Allowance for doubtful receivables	—	(32)	—
Net unrealized gain on other securities	(339)	(1,005)	(3,384)
Prepaid retirement and severance benefits	(479)	(255)	(4,781)
	(818)	(1,292)	(8,165)
Net deferred tax assets	¥ 3,316	¥ 3,012	$ 33,097

Net deferred tax assets and liabilities as of March 31, 2008 and 2007 are reflected in the accompanying consolidated balance sheets under the following captions:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Current assets - Deferred income taxes	¥ 3,373	¥ 3,215	$ 33,666
Investments and other assets - Deferred income taxes	176	19	1,757
Non-current liabilities - Deferred income taxes	(233)	(222)	(2,326)
Net deferred tax assets	¥ 3,316	¥ 3,012	$ 33,097

9 Common Stock

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

10 Retained Earnings and Dividends

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

Cash dividends charged to retained earnings for the years ended March 31, 2008 and 2007 represent dividends paid out during those years. The amount available for dividends is based on the amount recorded in the Company's non-consolidated books of account in accordance with the Corporation Law.

(a) Dividends paid during the year ended March 31, 2007

The following was approved by the general meeting of stockholders held on June 29, 2006.

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

The following was approved by the Board of Directors held on November 20, 2006.

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

(b) Dividends paid during the year ended March 31, 2008

The following was approved by the general meeting of stockholders held on June 28, 2007.

(a) Total dividends	¥661 million ($6,597 thousand)
(b) Cash dividends per common share	¥15 ($0.15)
(c) Record date	March 31, 2007
(d) Effective date	June 29, 2007

The following was approved by the Board of Directors held on November 12, 2007.

(a) Total dividends	¥749 million ($7,476 thousand)
(b) Cash dividends per common share	¥17 ($0.17)
(c) Record date	September 30, 2007
(d) Effective date	December 6, 2007

(c) Dividends to be paid after the balance sheet date but the record date for the payment belongs to the year ended March 31, 2008

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

(a) Total dividends	¥879 million ($8,773 thousand)
(b) Dividend source	Retained earnings
(c) Cash dividends per common share	¥20 ($0.20)
(d) Record date	March 31, 2008
(e) Effective date	June 30, 2008

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
	2008	2007	2008
Salaries	¥18,064	¥16,685	$180,297
Pension costs	282	432	2,815
Depreciation	1,295	978	12,925
Legal welfare	2,890	2,718	28,845
Transportation	2,118	1,941	21,140

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, 2008 and 2007 are ¥4,662 million ($46,532 thousand) and ¥4,757 million, respectively.

13 Net Income per Share Information

(a) Net Income per Share

Basic net income per share, and reconciliation of the numbers and the amounts used in the basic net income per share computations for the years ended March 31, 2008 and 2007 are as follows:

	Yen		U.S. dollars
	2008	2007	2008
Basic net income per share	¥ 128.01	¥ 114.12	$ 1.28

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Net income	¥ 5,632	¥ 5,053	$ 56,213
Net income not applicable to common stockholders	—	—	—
Net income applicable to common stockholders	¥ 5,632	¥ 5,053	$ 56,213

	Number of shares (Thousands)	
	2008	2007
Weighted average number of shares outstanding on which basic net income per share is calculated	43,995	44,277

(b) Net Assets per Share

Net assets per share, and reconciliation of the numbers and the amounts used in the net assets per share computations at March 31, 2008 and 2007 are as follows:

	Yen		U.S. dollars
	2008	2007	2008
Net assets per share	¥1,170.31	¥ 1,101.41	$ 11.68

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Total net assets	¥ 51,814	¥ 48,864	$ 517,157
Amount deducted from total net assets:			
Minority interests	396	361	3,952
Net assets applicable to common stockholders	¥ 51,418	¥ 48,503	$ 513,205

	Number of shares (Thousands)	
	2008	2007
Number of shares outstanding at end of year on which net assets per share is calculated	43,936	44,038

14 Leases

A summary of assumed amounts of acquisition cost which includes interest portion, accumulated depreciation and net book value at March 31, 2008 and 2007 are as follows:

	Millions of yen		
	Machinery, equipment and vehicles	Tools, furniture and fixtures	Total
March 31, 2008			
Acquisition cost	¥ 137	¥ 69	¥ 206
Accumulated depreciation	64	40	104
Net book value	¥ 73	¥ 29	¥ 102
March 31, 2007			
Acquisition cost	¥ 114	¥ 85	¥ 199
Accumulated depreciation	56	54	110
Net book value	¥ 58	¥ 31	¥89

	Thousands of U.S. dollars		
	Machinery, equipment and vehicles	Tools, furniture and fixtures	Total
March 31, 2008			
Acquisition cost	$ 1,367	$ 689	$ 2,056
Accumulated depreciation	638	400	1,038
Net book value	$ 729	$ 289	$ 1,018

Future minimum payments which include interest portion required under finance leases at March 31, 2008 and 2007 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Within one year	¥ 53	¥ 43	$ 529
Over one year	49	46	489
	¥ 102	¥ 89	$ 1,018

Lease payments for the years ended March 31, 2008 and 2007 amounted to ¥58 million ($579 thousand) and ¥49 million, respectively.

Future minimum payments required under noncancellable operating leases at March 31, 2008 and 2007 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Within one year	¥ 116	¥ 110	$ 1,158
Over one year	326	143	3,254
	¥ 442	¥ 253	$ 4,412

15 Commitments and Contingencies

It is common practice in Japan for companies, in the ordinary course of business, to receive promissory notes in settlement of trade accounts receivable and to subsequently discount such notes at banks or to transfer them by endorsement to suppliers in the settlement of accounts payable. At March 31, 2007, the Company was contingently liable with respect to trade notes receivable discounted in the amounts of ¥345 million. Notes discounted are accounted for as sales and removed from the balance sheets. At March 31, 2008, there are no trade notes receivable discounted.

16 Derivative Financial Instruments

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

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

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

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

In fiscal 2008 and 2007, the information relating to fair value of derivative transactions to which hedge accounting is applied is not subject to disclosure.

17 Segment Information

(a) Industry segments

Sales, operating income and assets of medical electronic equipments business are over 90% of those of all segments for the years ended March 31, 2008 and 2007.

(b) Geographic segments

Segment information by geographic area for the years ended March 31, 2008 and 2007 is summarized as follows:

	Millions of yen						
	2008						
	Japan	Americas	Europe	Asia	Total	Elimination / corporate	Consolidated
Sales to outside customers	¥ 89,629	¥ 7,512	¥ 6,956	¥ 729	¥ 104,826	¥ —	¥ 104,826
Inter-segment sales	7,567	426	—	797	8,790	(8,790)	—
	97,196	7,938	6,956	1,526	113,616	(8,790)	104,826
Operating expenses	87,677	7,778	6,752	1,368	103,575	(8,567)	95,008
Operating income	¥ 9,519	¥ 160	¥ 204	¥ 158	¥ 10,041	¥ (223)	¥ 9,818
Assets	¥ 73,037	¥ 3,244	¥ 4,576	¥ 1,340	¥ 82,197	¥ (1,567)	¥ 80,630

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

	Thousands of U.S. dollars						
	2008						
	Japan	Americas	Europe	Asia	Total	Elimination / corporate	Consolidated
Sales to outside customers	$894,590	$ 74,978	$69,428	$ 7,276	$1,046,272	$ —	$ 1,046,272
Inter-segment sales	75,527	4,251	—	7,955	87,733	(87,733)	—
	970,117	79,229	69,428	15,231	1,134,005	(87,733)	1,046,272
Operating expenses	875,108	77,632	67,392	13,654	1,033,786	(85,508)	948,278
Operating income	$ 95,009	$ 1,597	$ 2,036	$ 1,577	$ 100,219	$ (2,225)	$ 97,994
Assets	$728,985	$ 32,378	$45,673	$13,375	$ 820,411	$ (15,640)	$ 804,771

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

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

2. Corporate assets of ¥5,231 million ($52,211 thousand) and ¥6,495 million as of March 31, 2008 and 2007 in the Elimination / corporate line consist primarily of assets relating to the administrative operations and investments in securities etc.

3. For the year ended March 31, 2008, as described in Note 1 (f), the Company and its domestic consolidated subsidiaries changed the estimated residual value of property, plant and equipment which was acquired on or after April 1, 2007 from 5% of the acquisition cost to ¥1. As a result of the change, operating income in Japan decreased by ¥113 million ($1,128 thousand). And property, plant and equipment acquired on or before March 31, 2007 which were depreciated to the allowable limit (95% of the acquisition cost) in a particular business year can be further depreciated down to ¥1 evenly over five years starting from the following business year. As a result of the change, operating income in Japan decreased by ¥76 million ($759 thousand).

(c) Overseas sales

Information for overseas sales for the years ended March 31, 2008 and 2007 is summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Overseas sales:			
Americas	¥ 11,446	¥ 8,942	$ 114,243
Europe	8,043	6,898	80,277
Asia	5,173	5,317	51,632
Other	1,025	772	10,231
	¥ 25,687	¥ 21,929	$ 256,383
Consolidated sales	¥ 104,826	¥ 96,679	$ 1,046,272
Percentage of overseas sales to consolidated sales	24.5%	22.7%	24.5%

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

Americas: U.S.A., Venezuela, Colombia, Mexico and Brazil
Europe: Germany, France, Spain, Italy and Russia
Asia: China, Korea, Vietnam, Thailand and Iran

18 Supplemental Cash Flow Information

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

	Millions of yen
Current assets	¥73
Non-current assets	14
Current liabilities	(13)
Non-current liabilities	(139)
Goodwill	75
Acquisition cost of stock	10
Cash and cash equivalents held by acquired subsidiary	40
Net proceeds from acquisition	¥30

Corporate Directory

As of June 27, 2008

Board of Directors, Corporate Auditors and Operating Officers

Chairman and CEO
Kazuo Ogino

President and COO
Fumio Suzuki

Corporate Directors
Eishi Harasawa
Kenji Hakuta
Toshifumi Kamihirata
Takeshi Akahane
Toshitsugu Izawa
Yoshito Tsukahara
Takashi Tamura

Corporate Auditors
Hisashi Saito
Takeshi Matsushima

Outside Corporate Auditors
Kuniyasu Aoki
Osamu Kato

Operating Officers
Masami Sugiyama
Haruto Doi
Sunao Takeda
Toshio Kumada
Masaharu Arakane
Hiroshi Aida
Tatsuya Nakagawa
Toshinobu Mayuzumi
Eiichi Tanaka

Corporate Data

Date of Incorporation
August 7, 1951

Paid-in Capital*
¥7,544 million

Shares of Common Stock Issued*
45,765 thousand

Number of Employees*
3,367 (group)
*As of March 31, 2008

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

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

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

Other
Beneficks Corporation
Nippon Biotest Laboratories inc.
Nihon Kohden Service Corporation
E-Staff Corporation

■ International

Sales

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

Europe
Nihon Kohden Europe GmbH (Rosbach, v.d.H, Germany)
Nihon Kohden France Sarl (Cachan, France)
Nihon Kohden Iberica S.L. (Madrid, Spain)
Nihon Kohden Italia S.r.l. (Bergamo, Italy)

Asia
Nihon Kohden Singapore Pte Ltd. (Harbour Front Center, Singapore)
Nihon Kohden Korea, Inc. (Seoul, Korea)
Nihon Kohden Trading (Shanghai) Co., Ltd. (Shanghai, China)

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)	Stockholding ratio
Japan Trustee Service Bank, Ltd.	3,576	7.81%
The Master Trust Bank of Japan, Ltd.	3,090	6.75%
Saitama Resona Bank, Ltd.	2,096	4.58%
Toshiba Medical Systems Corporation	1,990	4.34%
State Street Bank and Trust Company	1,428	3.12%
Fujitsu Ltd.	1,063	2.32%
THE CHASE MANHATTAN BANK, N.A. LONDON SECS LENDING OMNIBUS ACCOUNT	988	2.15%
NIPPONKOA Insurance Co., Ltd.	974	2.12%
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	862	1.88%
The Nomura Trust and Banking Co., Ltd.	696	1.52%
Subtotal	16,767	
Total Outstanding Issue	45,765	

* As of March 31, 2008

Independent Auditors' Report

March 31, 2008 and 2007

Toyo Horwath
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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, 2008 and 2007, and related consolidated statements of income, changes in net assets and cash flows for the years then ended, all expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Nihon Kohden Corporation and consolidated subsidiaries as of March 31, 2008 and 2007, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

The accompanying consolidated financial statements as of and for the year ended March 31, 2008 have been translated into United States dollars solely for the convenience of the reader. We have recomputed the translation and, in our opinion, the consolidated financial statements expressed in yen have been translated into United States dollars on the basis described in Note 2 to the consolidated financial statements.

Toyo Horwath

Toyo Horwath
Tokyo, Japan
June 12, 2008

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