FUKUDA DENSHI

Annual Report 2006

For the year ended March 31, 2006

Take-Off to 2011

Fukuda Denshi is promoting
the widespread acceptance of AEDs in society.

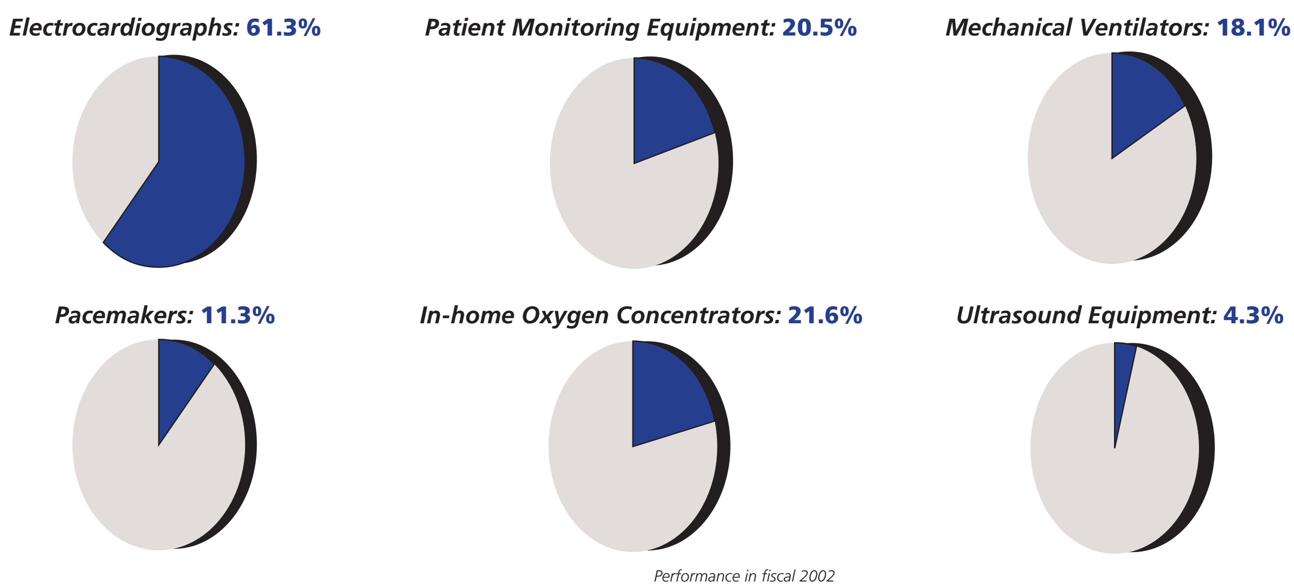
Profile

For the over 65 years since its inception, Fukuda Denshi Co., Ltd. has contributed significantly to the advancement of people's health through the production and sale of a wide range of medical equipment centering on cardiovascular and respiratory systems. We have conducted this under our corporate philosophy to "Foster medical advances in Japan and around the world through the development of medical equipment."

Today, we boast more than half of the domestic market share in the sale of electrocardiographs (ECGs), and have many products that enjoy first or second largest share built on our sales networks that are closely connected to local communities. The stable revenue base we have established enables these achievements.

The major business line of Fukuda Denshi has been one that helps the diagnosis and treatment of diseases. While responding to the significant changes in the social environment over the years, we are playing a larger role in enhancing preventive medicine and quality of life (QOL). We are unwavering in our resolve to continue our product strategies that meet the ever-changing medical needs and to focus on improving quality and reducing overall costs. By doing so, we aim to proactively implement our social mission as a medical equipment manufacturer and become a "company that is trusted by society."

Domestic Market Share of Major Equipment Handled by Fukuda Denshi (based on fiscal 2004 figures unless otherwise noted)



Source: Yano Research Institute Ltd., Market Share for Fiscal 2004

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Projections

Forward-looking statements and information in this annual report are provided only as a reference for investors. Our projections are based on the company's plans and expectations, which may differ from actual results owing to changes in the economic and business climates. We therefore do not give any warranty for such statements and estimates.

Consolidated Financial Highlights

Years ended March 31

	Millions of yen					Thousands of U.S. dollars
	2002	2003	2004	2005	**2006**	**2006**
For the year:						
Net sales	¥71,042	¥70,710	¥73,008	¥74,659	**¥86,613**	**$740,283**
Operating income	7,751	9,005	7,049	7,220	**5,397**	**46,129**
Net income	3,053	4,880	3,402	4,075	**606**	**5,179**
At year-end:						
Total assets	94,930	92,289	96,066	99,428	**105,041**	**897,786**
Shareholders' equity	60,402	62,994	66,592	72,320	**73,642**	**629,413**
Equity ratio (%)	63.6	68.3	69.3	72.7	**70.1**	

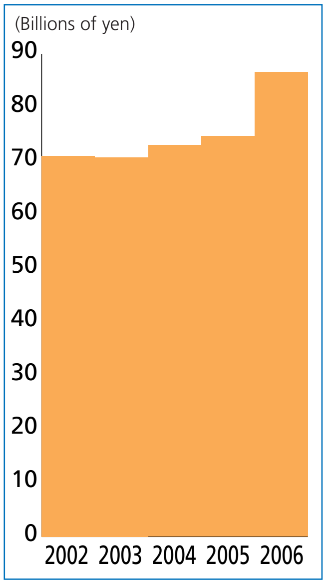
	Yen					U.S. dollars
Per share of common stock:						
Net income	¥ 159.06	¥ 252.75	¥ 179.47	¥ 213.78	**¥ 28.70**	**$ 0.25**
Shareholders' equity	3,146.99	3,406.34	3,600.13	3,766.12	**3,837.24**	**32.80**
Cash dividends	30.00	30.00	40.00	80.00	**80.00**	**0.68**
Dividend payout ratio (%)	32.4	21.5	25.0	92.3	**—**	

Return on assets (ROA) (%)	3.3	5.2	3.6	4.2	**0.6**
Return on equity (ROE) (%)	5.2	7.9	5.3	5.9	**0.8**

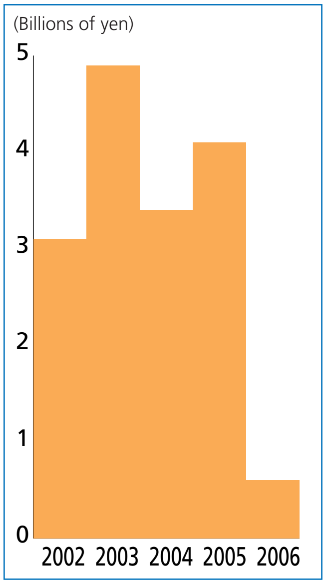
Notes related to financial figures:

- *U.S. dollar amounts are rough equivalents and translated, for convenience only, at the rate of ¥117 to US$1.*
- *In this annual report, figures are generally rounded up or down.*
- *Return on assets = Net income ÷ Total assets (yearly average) x 100*
- *Dividend payout ratio is calculated by nonconsolidated figures.*

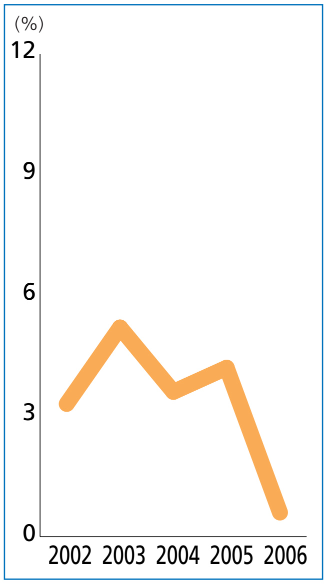
Net Sales



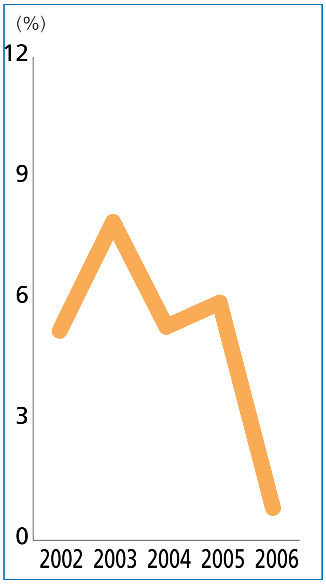
Net Income



ROA



ROE



Message from the President

Performance

In the fiscal year ended March 31, 2006, the Japanese economy showed signs of a mild recovery, benefiting from a rise in personal consumption, an improved employment situation, and an increase in capital expenditures on the back of healthy corporate results. This was despite various uncertainties stemming from soaring crude oil prices, exchange rate fluctuations, and higher taxes.

Unfortunately, the beneficial effects of the economic recovery did not reach the medical equipment industry. The government continued implementing reforms to the medical system aimed at containing medical costs. For example, the Pharmaceuticals Affairs Law was revised in April 2005, increasing the adoption of the DRG payment method for hospitalization expenses. For companies in the medical equipment industry, there have been increasing requirements to adopt more rigorous safety management and quality control measures. As a manufacturer and marketer of medical equipment, this had a considerable impact on the operations of Fukuda Denshi. In response, we at the Fukuda Denshi Group worked together to strengthen our sales and marketing activities. As a result, consolidated net sales for the year amounted to ¥86,613 million, up 16.0% from the previous period. However, operating income fell 25.3%, to ¥5,397 million. This was due to a number of factors, including a temporary slide in the profit margin in line with our market expansion activities, as well as increased investments in human resources and R&D, designed to broaden our consumables and maintenance service businesses and overseas activities. Net income dropped 85.1%, to ¥606 million, due primarily to an extraordinary loss associated with our divestiture of two overseas consolidated subsidiaries.

The Changing Medical Sector

Today, Japan is faced with a rapidly aging, low-birthrate society. The working population has already begun to decrease, and will experience further declines as baby-boomers start reaching retirement age in 2007. The increase in the elderly population is expected to cause a rise in patient numbers. It is evident that radical reform of the medical insurance system is urgent and cannot be delayed.

In recent years, the Japanese government has implemented a succession of measures to curtail medical costs. In April 2006, for example, it reduced medical treatment expenditures by 3.16%, the largest reduction to date. Clearly, these policies are creating increasing challenges for the management of medical institutions. Moreover, there are plans for a significant reduction in general hospital beds by 2010, which will spark further attrition among hospitals.

Information-Intensive Medical Treatment

The Japanese government has selected the medical sector as one of the industries to spearhead the increased use of advanced information systems. However, there is still a long way to go to achieve the targets set by the government. Information technology is indispensable for improving the quality and efficiency of medical treatment, ensuring collaboration among institutions and otherwise reforming the medical sector. In June 2006, the government announced a new strategy for IT reforms, identifying the importance of information systems in medical treatment. We can expect to see a rapid increase in the use of online systems for certificates of medical remuneration and medical information systems.

Emphasis on Safety

In line with revisions to the medical treatment remuneration system, a new charge was introduced in April 2006 to promote the safety of medical treatment. This reinforced the fact that safe medical treatment has become the focus of attention in recent years, and social pressures are also growing. This has now become an important issue that hospital management cannot afford to neglect.

From the Hospital to the Home

Under the revisions to medical treatment remuneration implemented in April 2006, the government decided to establish "in-home care support centers" to play a key role in home medical care in the future. The government also decided to increase payments for home visits by doctors and nurses to provide medical care. Signaling a shift in medical care from hospital to the home, this clearly spells out the government's intention of increasing in-home medical care.

From Treatment to Prevention

Japan has the longest average life expectancy in the world. However, incidence of “metabolic syndrome,” thought to accelerate the onset of lifestyle-related diseases, currently affects around 9.4 million people in Japan — equivalent to one in every two men and one in every five women aged between 40 and 74.

As part of measures to curtail medical costs, the Ministry of Health, Labour and Welfare is focusing on disease prevention as part of a campaign launched in 2000 calling for better health among Japanese people. Today, amid rising awareness of health issues, we can expect growth in markets related to testing for, and prevention of, such lifestyle-related diseases.

Changing Needs

As a manufacturer of medical equipment, the Fukuda Denshi Group must embrace a new role, different to that of the past, to address these ongoing changes to the medical treatment system. Society's requirements with respect to medical treatment are changing, with greater emphasis placed on improving hospital management efficiency, delivering top-quality treatment, and assuring safety. The key to our future growth lies in finding our "true calling" as we respond to these new requirements.

While fully utilizing our advantages as a manufacturer of medical equipment, we will go beyond the realm of manufacturing, changing our course to provide solutions and services that will contribute to the reforms of medical institutions.

Our new direction will likely entail the following initiatives.

- *Promote a greater use of IT in electronic medical records, collaboration between hospitals and clinics, and strengthening hospital management*
- *Support safety-oriented management of medical equipment*
- *Provide in-home therapeutic equipment and 24-hour support to enable safe, worry-free and comfortable treatment*
- *Provide information with electronic medical records that is easy to explain to patients*
- *Propose comprehensive solutions for rehabilitation*

Medium-Term Management Plan

Under our corporate motto of "safety, peace of mind and comfort," we aim to be a company that is trusted by its customers. At the same time, the pursuit of sustained growth and secure earnings is a fundamental part of our corporate activities.

Kotaro Fukuda
President and CEO

We are targeting consolidated annual net sales of ¥100 billion by the fiscal year ending March 2011, and we are implementing a series of three-year management plans that will serve as road maps toward this goal. The basic strategies of our latest plan, which started in April 2006, are outlined below.

Sales Strategies

- *Reinforce presence in overseas markets (adopt three-pronged regional strategy focusing on North America, Europe and Asia, while upgrading product lineup)*
- *Aggressively target the hospital market (strengthen product appeal and sales capabilities)*
- *Pursue sales alliances*
- *Expand service portfolio*
- *Implement R&D strategies (reinforce R&D structure and intellectual property rights)*

Enhance Management Systems

- *Strengthen corporate governance (establish internal controls and reinforce risk management)*

News conference announcing the naming rights for the Fukuda Denshi Arena (August 10, 2006)

- *Revitalize personnel through staff exchanges within the Group*
- *Strengthen Group management systems (reinforce safety assurance system, shorten settlement periods and reduce Group inventories)*

Reinforce Financial Position

- *Implement across-the-board cost reductions*
- *Strengthen sales capabilities (promote system-based products through dedicated and project-based sales frameworks)*
- *Build systems to strengthen the acquisition of patents*
- *Enhance product development and quality to distinguish the Group from others*

Enhance Shareholder Policies

- *Strengthen IR activities and implement appropriate disclosure (quarterly disclosure)*
- *Secure stable revenue base and return profits to shareholders*
- *Target proactive initiatives to address environmental issues (such as green procurement)*
- *Contribute to society via medical equipment*

The medical sector will confront extremely difficult challenges over the next five years; the period set by Fukuda Denshi to reach its ¥100 billion net sales target. Although harsh operating conditions will continue, we will focus on developing products that differentiate us from our competitors. We will also strengthen our sales capabilities by building optimal global supply and sales systems.

In addition, we will make extensive cost reductions through reforms to the daily activities of the entire Group. At the same time, we will continue strengthening our quality control and safety management systems.

To secure profits, we will work to strengthen our maintenance services and sales of consumables. In addition, we will ensure sound and transparent management by enhancing our internal control system.

Takeover Prevention Measures

Fukuda Denshi has formulated a detailed policy to prevent the improper purchase of its shares in a manner that could result in a hostile takeover bid. The policy was passed by an overwhelming majority 80% approval at the Annual General Meeting of Shareholders, held on June 29, 2006.

The objective of the plan is to ensure ample opportunity to provide full information disclosure to shareholders and prevent the occurrence of acts deemed detrimental to their interests.

Investors attempting to acquire a stake of 20% or higher are required to disclose their intentions. In the event that they fail to do so, we have established a committee, consisting of external auditors and others, that will discuss the matter and, if necessary, issue stock purchase warrants.

Returning Profits to Shareholders

Management views the return of profits to all shareholders as a priority issue. We have introduced a policy linking dividends to performance, and are aiming for a dividend payout ratio of 30% on a consolidated basis. For the period under review, we paid a year-end dividend of ¥40.00 per share. Combined with the ¥40.00 interim dividend, this brings the total annual dividends to ¥80.00 per share.

Outlook

The medical equipment sector will continue to face challenging conditions in the current fiscal year. In response, Fukuda Denshi Group is steadily expanding its business, with the aim of achieving ¥100 billion in net sales by 2011.

For the year ending March 2007, we forecast a 0.1% increase in net sales, to ¥86.7 billion, and a 461.2% rise in net income to ¥3.4 billion.

Kotaro Fukuda
President and CEO

Take-Off to 2011

Medium-Term Management Plan

(April 2006 ~ March 2009)

Volume:
Initiatives to Expand Market Share

Fiscal 2006 Overview

In the fiscal year ended March 2006, Fukuda Denshi posted a 16.0% increase in revenues despite a difficult operating environment. This was mainly attributable to growth in overseas sales and a rise in large-scale orders resulting from our policy of emphasizing market share.

Overseas Business

Overseas sales reached ¥5,472 million, a significant 33.0% increase from ¥4,115 million in the previous year.

By product category, sales of diagnostic ultrasound equipment surged 34.0% to ¥2,174 million; ECG-related equipment advanced 32.4% to ¥1,045 million; and patient monitoring equipment climbed 18.6% to ¥1,328 million.

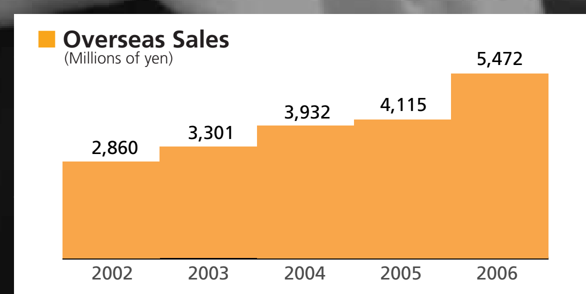
By region, sales in Asia jumped 57.6% to ¥1,466 million, amid higher demand for ECGs. In Europe, sales soared 90.4% to ¥2,546 million.

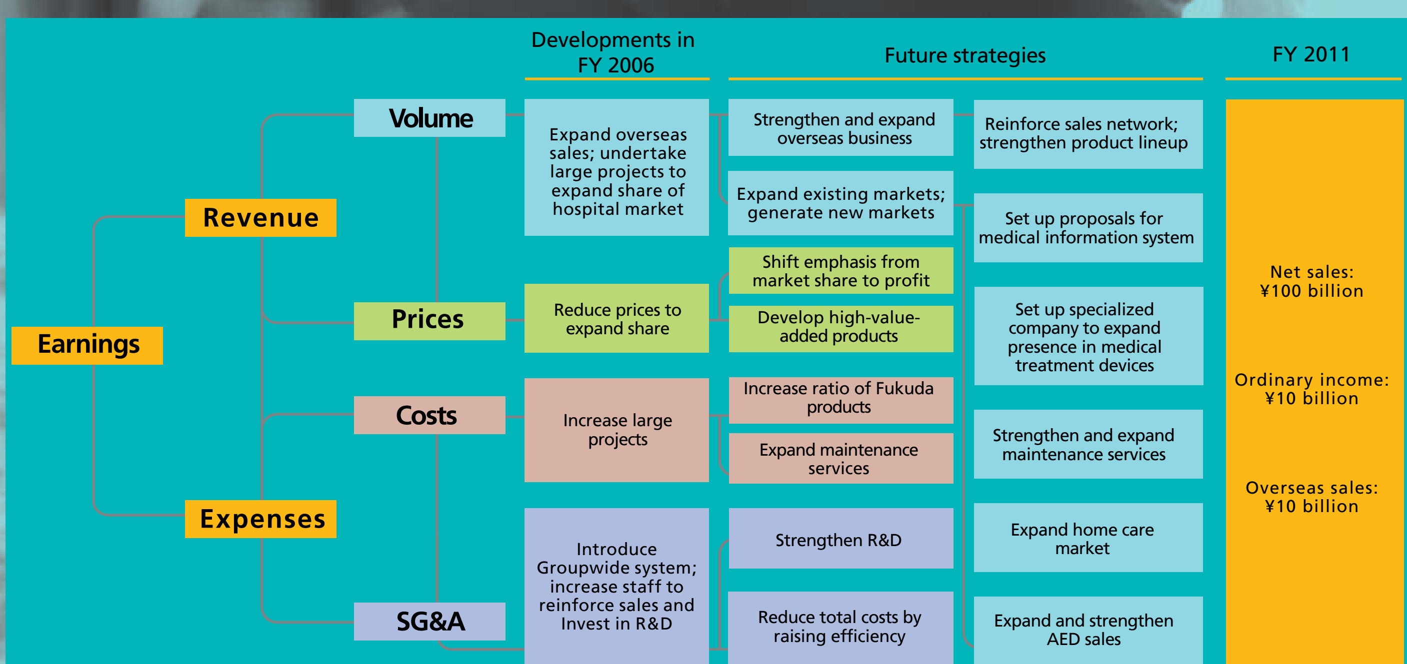
Diagnostic ultrasound equipment UF-850XTD

System Product Orders

During the year, we established the office of IT strategy and increased personnel, which helped bolster our marketing activities aimed at hospitals providing critical care. As a result, sales negotiations for large orders of system products increased and we adopted a more aggressive approach to securing orders.

With respect to medical information systems, such as electronic medical records, companies that initially placed orders for software will seek to replace their hardware in the future. This will enable us to also build a solid position in the markets for consumables and equipment upgrades. With this in mind, we focused on expanding market share and securing new orders.





Medium-Term Plan

Reinforce and Expand Overseas Business

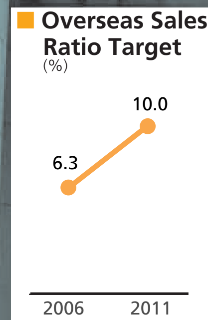
The Fukuda Denshi Group is targeting overseas sales of ¥10 billion by the fiscal year ending March 2011.

Reinforce overseas sales: We plan to establish three operations in North America and two in Europe in order to more effectively manage dealers and facilitate market research. During the current fiscal year, we plan to build a sales network centering on these regional operations. In the medium term, we will also build a global production and distribution infrastructure. The Fukuda Denshi Group will establish optimal systems by strategically positioning its production and sales operations.

Strengthen product lineup: During the period under review, sales of patient monitoring equipment and diagnostic ultrasound equipment in North America declined 19.2% to ¥912 million. This was because we have not created new offerings for this market in recent years. In response, we will expand our lineup of products for the North American and European markets, focusing on equipment for patient monitoring, diagnostic ultrasounds and ECGs.

Proposals for Medical Information Systems

Because hospital administrators rely so heavily on medical information systems, they also require comprehensive advice, not only about equipment but also about medical treatment in general, as well as extensive knowledge of management. Fully utilizing its strengths as a manufacturer of medical equipment, Fukuda Denshi intends to develop a solutions-based business providing proposals for information systems. To address the proliferation of electronic medical records, we will also offer medical safety systems while focusing on clinical information systems and physiological diagnostic systems.



Overseas Sales Ratio Target

Medical Treatment Devices

As Japan's population ages, there has been an increase in patients suffering from cardiac failure, placing the spotlight on new methods of treatment, including implantable cardioverter defibrillators (ICDs), cardiac resynchronization therapy (CRT) and cardiac resynchronization therapy with defibrillation (CRTD). To handle such advanced equipment on a nationwide basis, we must recruit and train human resources with sophisticated knowledge as an urgent priority.


ICD V-236

In April 2006, we established Fukuda Cardiac Laboratory Co., Ltd., a specialist sales company that has begun training staff and cultivating this new market. In fiscal 2007, its first year of operation, we are targeting sales of 100 ICD units.

Maintenance Services

For some time, maintenance of medical equipment has been regarded as a complementary service carried out by manufacturers. However, the development of more efficient and sophisticated medical treatment has led to the use of high-precision, advanced medical equipment, for which medical institutions are required to build safety management systems. This trend is reflected in the government's introduction of a special charge to ensure the safety of medical care as part of its

MetaVision Patient information system for unified management of clinical data


Patient monitoring equipment DS-7300


Maintenance training session

healthcare system reforms implemented in April 2006. This charge will be beneficial to our maintenance service business, where we provide specialist and periodic safety management support to medical institutions.

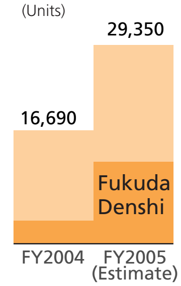
Fukuda Denshi entered the maintenance business in October 2004, when it established its Maintenance and Service Promotion Department. Although the volume of work in this field remains small, it is increasing steadily. By the year ending March 2011, we are targeting sales of ¥10 billion from maintenance services.

As a manufacturer of medical equipment, Fukuda Denshi has always taken special care with regard to ensuring the safety of its products. We have also taken a number of proactive steps to address electromagnetic compatibility (EMC), including the establishment of the EMC Center. With in-depth knowledge of mechanical ventilators, monitors and other medical equipment, we will draw on our strengths as a manufacturer to provide strong support services.

In-Home Market

In fiscal 2006, Fukuda's in-home therapeutic equipment rental business generated sales of ¥13,851 million, an increase of 7.3% from fiscal 2005. Sales from the rental of oxygen concentrators, home-use mechanical ventilators and equipment used to treat sleep apnea syndrome all increased. This segment accounts for 16% of consolidated net sales. Indeed, the Company's single greatest source of revenue comes from rental of home-use oxygen concentrators, which attracted ¥10

AED Market and Fukuda Denshi's Share



Source: Yano Research Institute Ltd.

billion in sales in the year under review. The establishment of in-home care support centers, as part of revisions to the medical treatment remuneration system implemented in 2006, further underscores the shifting emphasis in medical care from the hospital to the home. The market should grow rapidly as a result.

Fukuda Life Tech Co., Ltd., specializes in the rental, sales and maintenance of in-home therapeutic equipment. It provides 24-hour support, backed by a nationwide service network of 17 companies and 53 branch offices.

In the future, we will work in collaboration with our regional sales companies and focus on developing equipment that is lighter and more portable than before.

Automated External Defibrillators

Public access defibrillation (PAD) has been permitted since July 2004, when the government approved the use of automated external defibrillators (AEDs) by members of the general public, in addition to physicians and paramedics. The Fukuda Denshi Group entered this market through a marketing tie-up with Philips Medical Systems Japan. As of March 2006, we had sold a cumulative total of 15,300 AED units.

In the current fiscal year, we released the first pediatric electrode in Japan, with anticipated sales of 15,000 units. We also aim to secure a 50% share (volume terms) of the rapidly growing AED market, which is estimated to be worth between ¥16 billion and ¥20 billion per annum.

LS-300
Sleep evaluation device

S8 Respond
Automatic continuous positive airway pressure (CPAP) unit

Prices:
Initiatives to Raise Selling Prices

Fiscal 2006 Overview

In the year under review, we recorded a sharp but temporary drop in unit prices. This was the result of discounts implemented under our sales policy, which gives top priority to orders, rather than profit margins, as a way to expand market share and thus generate future business from consumables and maintenance services.

Medium-Term Plan

Shift Emphasis from Market Share to Profit

In the second half of the period under review, we adopted a profit-oriented approach to orders to ensure a certain level of earnings. This change of course recognizes some excesses in our previous policy, which focused on market share. We expect the change to be reflected in our results for the current fiscal year.

Develop Attractive New Products

As previously noted, an important challenge for the Group is to release competitive new products in overseas markets. To this end, we will emphasize responsiveness to user needs rather than simply raising prices.

In our intensely competitive industry, we face constant pressure to reduce prices. To succeed, we must be able to develop reasonably priced products and technologies while accurately addressing user needs. For example, although the domestic market for ECGs is contracting, it is still possible to achieve a competitive edge in such a mature market by releasing attractive new products.

Digital holter recorder FM-180

During the period under review, our research and development activities resulted in the launch of the following products.

Physiological Diagnostic Equipment

• Multifunctional electrocardiogram capable of conventional 12-lead and 15-lead ECG analyses, as well as Latepotential, Brugada and Holter ECG analyses.

• New stress test system using a new digital signal processing method to conduct more stable ECGs while patient engages in physical exercise.

• Compact, lightweight digital Holter recorder that can record body position information and perform 24-hour ECGs while the patient leads a normal daily life. It is also waterproof, meeting the IPX8 standard enabling use while bathing (weighs 78 grams, including card and heavy-duty battery)

Patient Monitoring Equipment

• Wireless central monitor for two beds. Capable of two-way communication with a bedside monitor, it enables faster response in times of patient emergency. Via a bedside monitor, it can also display patient alarm information from servo ventilators—among the mainstay products in our medical treatment equipment lineup. This unit also meets the needs of nursing stations in small medical facilities.

Other Products and Accessories

• New snap-on ECG disposable electrodes. Designed to reduce the problem of gel drying out, these electrodes allow stable readouts of waveforms in monitoring electrocardiograms when using patient monitoring equipment over extended periods of time.

Stress test system ML-9000

Central monitor DS-7520

Costs:
Initiatives to Reduce Costs

Fiscal 2006 Overview

In the year under review, cost of sales totaled ¥51,383 million, up 25.7% from the previous period. During the year, we sought to expand market share, with a view to securing future business in consumables and maintenance services. This led to an increase in large-scale orders, as well as sales of products purchased from other companies. The cost-to-sales ratio increased as a consequence.

Medium-Term Plan

Expand Ratio of Fukuda-Brand Products

There are some fields where the Group is unable to provide technologies and products independently. In order to meet user needs, we bring in first-rate technologies and products of other companies. In the case of our top-selling automated external defibrillators (AEDs), for example, we use products supplied by Philips Medical Systems Japan, as well as mechanical ventilators made by MAQUET Clitical Care AB.

However, the rise in large-scale orders received during the period resulted in an increase in the percentage of products made by other companies. Going forward, we plan to make more in-home therapeutic equipment ourselves, with a view to raising the ratio of Fukuda-brand products in net sales to 60% in the medium term.

Expand Maintenance Services

By expanding our maintenance service business, we will seek to increase profit margins and reduce the cost-to-sales ratio.

Our Maintenance and Service Promotion Department spearheads our activities in this growing area. In 2005, the government amended the Pharmaceutical Affairs Law, with the objective of maintaining the safety and effectiveness of medical equipment. As a result, medical institutions are now required to conduct maintenance inspections, which we expect will boost our business.

SG&A:
Initiatives to Reduce Expenses

Fiscal 2006 Overview

In the year under review, selling, general and administrative expenses climbed 12.4% to ¥29,832 million. Factors leading to this increase included investment in human resources, and research and development (centering on medical information systems, basic research and core technologies) with a view to expanding our overseas businesses. Another factor was the increase in costs incurred for the introduction of a Group integration system aimed at establishing more effective internal controls.

EMC Center, completed in 2004, is a facility for diagnostic electromagnetic compatibility (EMC).

Sales Expenses
Sales expenses, including advertisements, promotional activities and services, increased 27.1% from ¥1,719 million to ¥2,191 million, reflecting the rise in net sales.

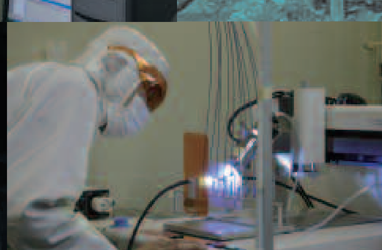
Personnel Expenses
Personnel expenses climbed 8.3%, from ¥14,959 million to ¥16,197 million, primarily due to the addition of employees to strengthen the sales activities of our overseas operations.

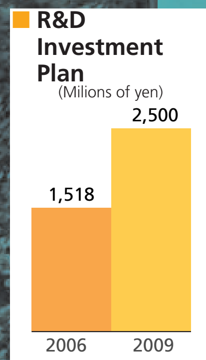
R&D Expenses
During the period under review, we focused on the development of new products for overseas markets. As a result, research and development expenses jumped 35.1% to ¥1,518 million, equivalent to 1.8% of net sales.

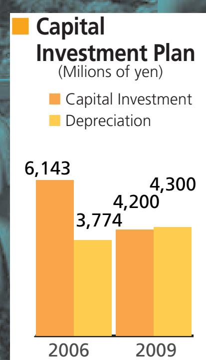
Other Expenses
Other expenses rose 13.5% from the previous period to ¥9,924 million. These included expenses related to the introduction of a Group integration system.

Medium-Term Plan

R&D Investment
Reinforcement of our development capabilities is vital for future growth. We plan to increase the ratio of R&D expenses to net sales to 2.5%, and maintain the ratio at that level. The







Fukuda Denshi Group is well-known in the field of cardiovascular and respiratory systems. The market for cardiovascular equipment is growing in tandem with the aging of society and the increase in lifestyle-related diseases. We intend to develop new treatment systems that combine this type of medical equipment with devices used for diagnostic and rehabilitation purposes. By developing in-home therapeutic equipment and systems that are safe and easy to use, we aim to introduce products that can meet the diverse lifestyles and needs of the future while enhancing the quality of life.

Capital Investment
Capital investment during the year reached ¥6,143 million. We plan to reduce capital investment costs by 17.8% annually and are targeting annual costs of ¥4,200 million by the fiscal year ending March 2009.

Review Business Processes
We will proceed with a review of all aspects of our operations, including personnel expenses, purchasing, operating efficiency and productivity levels, with a view to achieving across-the-board cost reductions.

The New Hongo Office, constructed in 2006 to raise business efficiency, features enhanced security and other intelligent features.

Management's Discussion and Analysis

Performance Overview

During the fiscal year ended March 2006, Fukuda Denshi expanded its market share in an effort to position itself for future growth. As a result, we reported consolidated net sales of ¥86,613 million, up 16.0% from the previous year.

However, consolidated operating income declined 25.3% to ¥5,397 million. This stemmed from increased investment in human resources and R&D aimed at expanding market share and broadening our businesses in consumables and maintenance services, as well as our overseas presence.

Consolidated net income fell 85.1% to ¥606 million due primarily to a provision for business losses totaling ¥4,105 million. In May 2005, we acquired two companies — Kontron Medical SAS in France and Kontron Medical AG in Switzerland — with the aim of expanding the Group's overseas business. We had planned to secure additional marketing bases in Europe and generate product synergies, which we hoped would lead to a recovery in the performances of the two companies. Due to subsequent problems, however, we concluded that continuing to operate these two companies as subsidiaries may not necessarily be in the best interests of the Group. These problems included the termination of supply contracts for purchased goods and a problem concerning the quality of a new product made by Kontron Medical. Consequently, the Board of Directors passed a resolution to withdraw from these businesses, thus incurring extraordinary losses.

Performance by Business Segment

Physiological Diagnostic Equipment: Segment sales of ¥26,754 million (up 15.2%)

During the fiscal year, we reported increased sales of diagnostic ultrasound imaging equipment, automatic blood cell counter devices and respiratory diagnostic equipment. Sales of items purchased from other companies rose substantially thanks to the success of large-scale sales negotiations. However, such sales made a minimal contribution to earnings. Overseas sales rose 33.1%.

Electrocardiogram-related products accounted for 30% of sales in this segment. Although domestic sales of these products declined, unit sales and market share increased following the release of new items. Overseas, sales of electrocardiograms to China grew, offsetting the decline in domestic sales.

Patient Monitoring Equipment: Segment sales of ¥6,822 million (up 30.5%)

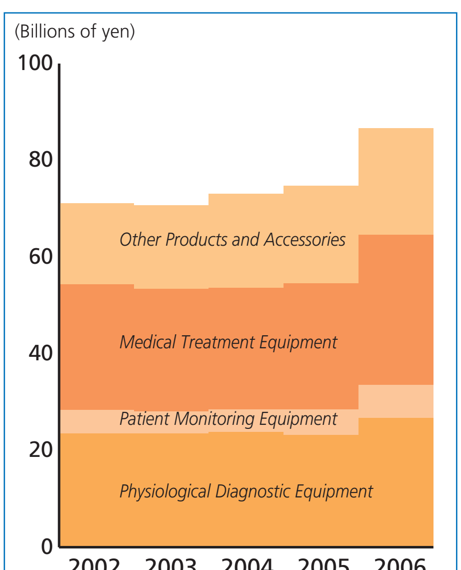
Sales in this segment increased in volume and value terms, both in Japan and overseas. Domestically, we stepped up sales negotiations related to major orders for system-based products. Accordingly, we posted higher unit sales and secured a greater share of the general hospital market.

The increased emphasis on large-scale sales negotiations, together with intense price competition, resulted in an increase in the cost-to-sales ratio. Overseas sales climbed 18.6% thanks to the release of new competitive products.

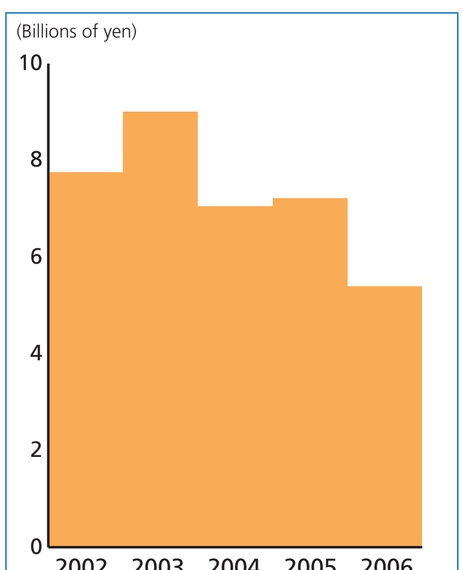
Medical Treatment Equipment: Segment sales of ¥31,020 million (up 18.7%)

During the year, sales of automated external defibrillators (AEDs) rose significantly due to growing awareness of diseases causing sudden death by cardiac arrest. We also reported growth in our medical equipment rental business, which covers oxygen concentrators, equipment used to treat sleep apnea syndrome and in-home ventilators. Sales of ventilators to medical institutions were impacted by the curtailment of capital expenditures by many such

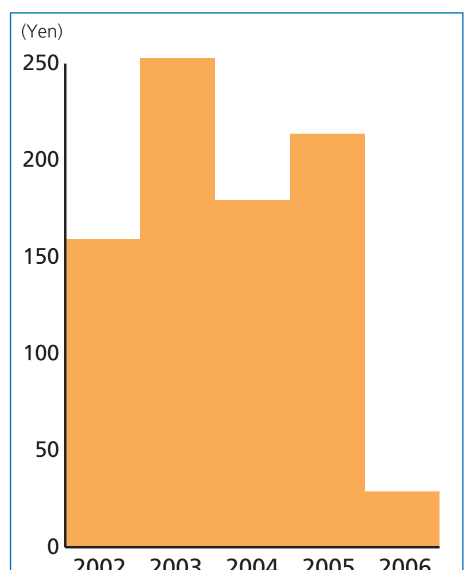
Net Sales by Segment



Operating Income



Net Income per Share of Common Stock



institutions. However, unit sales were up, primarily in the low-end of the market, resulting in higher segment sales.

Other Products and Accessories: Segment sales of ¥22,014 million (up 9.6%)

In this segment, we handle recording paper, disposable electrodes and accessories, as well as consumables used for devices handled by other segments.

Sales of accessories and consumables increased during the year, benefiting from sales growth in the other three segments.

Financial Position

Assets

As of March 31, 2006, total assets stood at ¥105,041 million, up ¥5,613 million from a year earlier. Despite a decline in cash on hand and in bank, current assets grew ¥994 million, to ¥68,036 million, mainly due to increases in trade receivables accompanying the increase in net sales. Investments and other assets increased ¥3,218 million to ¥20,442 million due mainly to the purchase of shares in business partner companies and the introduction of a new system to reinforce our business administration procedures.

Liabilities

Total current and long-term liabilities increased ¥4,289 million to ¥31,388 million. This was due to a ¥4,401 million increase in current liabilities stemming from a ¥2,781 million business loss reserve due to the Company's sale of two overseas consolidated subsidiaries. Because the increase in current liabilities overshadowed the 1.5% rise in current assets, the current ratio at year-end fell to 253.4% from 298.7% a year earlier.

Shareholders' Equity

Shareholders' equity increased ¥1,322 million to ¥73,642 million. This was largely due to a ¥2,537 million increase in net unrealized holding gains on securities. Consequently, equity per share rose ¥71.12 to ¥3,837.24 at fiscal year-end. Despite the increase in shareholders' equity, equity ratio fell from 72.7% to 70.1%, due to the 5.6% increase in total assets. Meanwhile, return on equity (ROE) fell from 5.9% to 0.8% and return on assets (ROA) slipped from 4.2% to 0.6%, due to the decline in net income.

Cash Flows

Cash and cash equivalents at fiscal year-end stood at ¥24,329 million, down ¥2,247 million from a year earlier.

Net cash provided by operating activities amounted to ¥6,463 million, down ¥406 million from the previous year. This was due to a decline in income before income taxes and a provision for business losses.

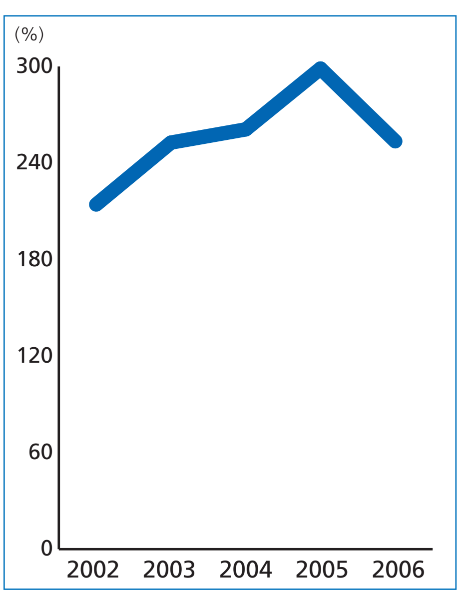
Net cash used in investing activities during the fiscal year totaled ¥6,321 million, up ¥406 million. This was mainly due to payment for purchase of shares of subsidiaries, namely, the acquisition of Kontron Medical SAS and Kontron Medical AG and the introduction of a new business administration system.

Net cash used in financing activities was ¥2,452 million, down ¥36 million from the previous year, due mainly to a decline in repayment of debt, which offset an increase in dividend paid to shareholders.

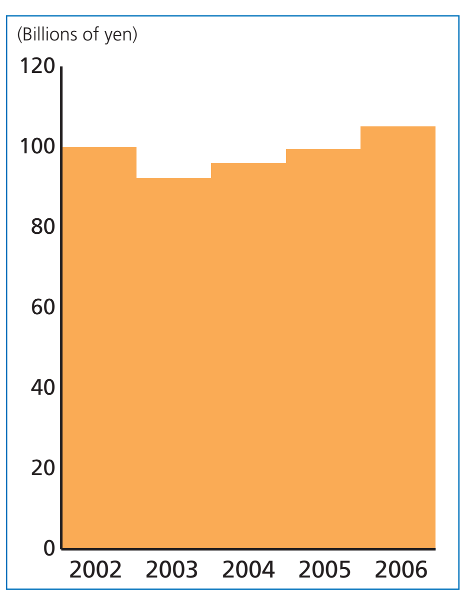
Capital Investment, Accumulated Depreciation and R&D Expenditures

The bulk of funds required for working capital and capital investment are generated internally. Net cash provided by operating activities is also used to finance capital investment.

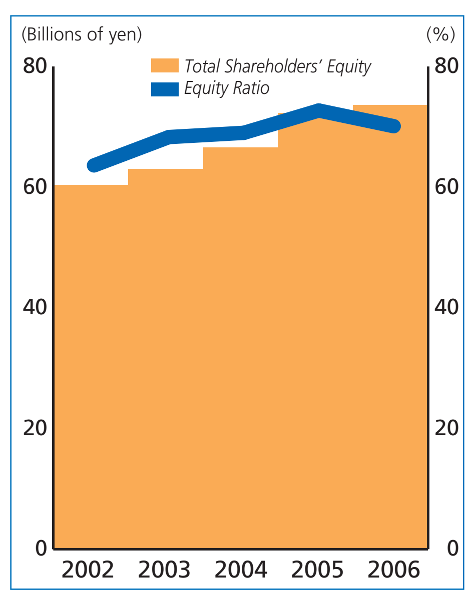
Current Ratio



Total Assets



Total Shareholders' Equity/ Equity Ratio



For the year, the Company's capital investment totaled ¥6,143 million, up 40.7% from ¥4,365 million in the previous fiscal year. This was mainly due to the purchase of assets for rental use. All necessary capital was covered by funds on hand. The Company did not sell or dispose of major equipment or facilities during the year. Depreciation expense declined 4.6% from ¥3,956 million to ¥3,774 million.

R&D expenditures, which are included in general and administrative expenses and manufacturing costs, increased 35.1% to ¥1,518 million. The ratio of R&D expenditures to net sales was 1.8%, up 0.3 percentage points from the previous year.

Business Risks

High dependence on continued transactions with certain business partners

The Fukuda Denshi Group imports and sells ventilators, pacemakers, defibrillators, cardiovascular catheters and other devices and equipment. We work hard to ensure the stable continuation of transactions while taking sufficient care to avoid excessive reliance on such transactions.

Legal regulations

Regulations pertaining to the sale of medical equipment were tightened when revisions of the Pharmaceutical Affairs Law were implemented in 2005. Companies are required to have safety departments and appoint safety managers, as well as compile manuals outlining procedures for equipment investigations. The Group is working to strengthen its safety management systems. For example, it has established a department specializing in the consolidation and management of safety-related information.

Time required to launch new products and technologies

The manufacture and sale of medical equipment are subject to regulations prescribed in the Pharmaceutical Affairs Law. Consequently, there are cases where a certain period of time is required before approval is granted by the relevant independent administrative authority. In addition, some medical equipment requires clinical trials to be undertaken. In many cases, therefore, significant time is needed to bring a product to market.

Impact of health authority actions

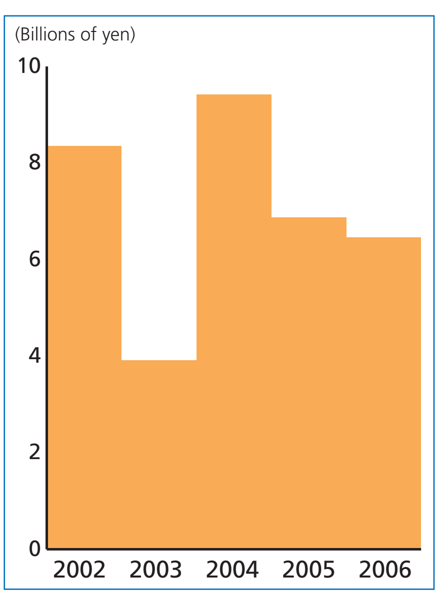
The medical equipment sector must adapt to changes in the operating environment brought about by government policies aimed at raising the quality of medical care and curtailing medical treatment expenses, as well as major policy shifts by health authorities.

Moreover, once every two years, the government implements official revisions affecting treatment payments, pharmaceutical prices and the official prices of medical devices covered by special insurance. Such revisions may lead to intensified price competition, causing a reduction in sales prices.

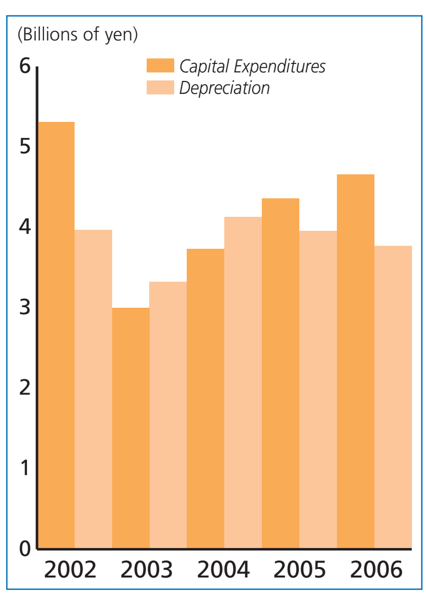
Risks accompanying overseas businesses

The Fukuda Denshi Group not only supplies products to distributors overseas, but also has its own overseas sales, development and production operations. It is possible that unforeseen changes to local laws, as well as terrorist acts, natural disasters or other incidents, could adversely affect the Company's business performance and financial position.

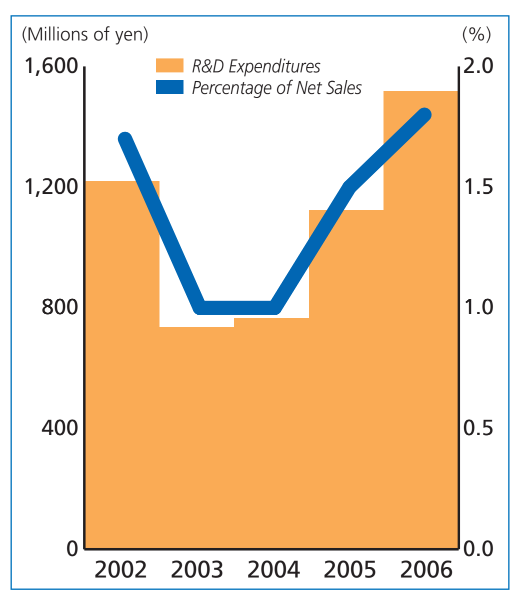
Net Cash Provided by Operating Activities



Capital Expenditures/ Depreciation



R&D Expenditures/Percentage of Net Sales



Corporate Social Responsibility

Fukuda Denshi is committed to "endevor medical progress and contributing to people's health through the development of medical equipment." Though this commitment, we engage in fair and proper business practices in our quest to play a beneficial role in society.

A company's responsibility is to create new value from the assets entrusted to it by society, and also to "give something back" to the community. This ultimately leads to enhanced corporate value. The Company's involvement in the Fukuda Foundation for Medical Technology and new sports initiatives are based on this principle. Furthermore, recognizing the indispensability of fair and transparent management, we are strengthening our corporate governance functions.

Naming Rights for Soga Soccer Stadium in Chiba City

In the summer of 2005, Fukuda Denshi acquired naming rights for Soga Stadium, a soccer-dedicated stadium in Japan. Consequently, the stadium was named the Fukuda Denshi Arena.

Fukuda Denshi Arena (above) and the signing ceremony for the naming rights

The stadium is situated inside the Chiba City Soga Sports Park, where additional facilities are being established under a concept promoted by Chiba City for a "sports forest that will contribute to the health and sporting activities of citizens." In full agreement with this concept, the Company, which does not have a particularly high profile with regard to sports-related activities, decided to acquire naming rights for the stadium. We hope to use the know-how we have accumulated in our business activities to promote sports and health initiatives.

"Fukuda Seats": Each time a match is played in the Fukuda Denshi Arena, we will provide 100 free seats to Chiba City residents.

Automated external defibrillators (AEDs): We have already installed 11 AEDs within the stadium. In this way, we will continue to help manage and maintain the health of visitors, players, athletes and staff, taking full advantage of our strengths as a manufacturer of medical equipment.

Formal school soccer matches: We plan to make the Fukuda Denshi Arena available as a venue for formal soccer matches played by teams from elementary, junior high and senior high schools.

Fukuda Foundation for Medical Technology

The Fukuda Foundation for Medical Technology was established in 1990. Every year, the Foundation provides financial assistance for research projects related to medical technology, holds research seminars and conferences, and sponsors international exchanges. In fiscal 2006, we provided assistance to 23 researchers.

Financial assistance presenting ceremony

Corporate Governance

- During the fiscal year, the Board of Directors held meetings on 17 occasions, during which directors discussed important issues and monitored the execution of the Company's business.
- The Company's Executive Council meets at least once every month to discuss important business matters.
- A department with a management supervisory function has been established within the Office of the President. The department's duties include management of the Group's businesses (including subsidiaries), information management and the timely disclosure of corporate information.
- The Audit Office, reporting directly to the president, undertakes internal audits. The audit results are reported to the Board of Corporate Auditors.
- All members of the Board of Corporate Auditors are from outside the Company.
- All corporate auditors attend meetings of the Board of Directors to monitor proceedings and decisions and, where necessary, offer their opinions. Corporate auditors also attend other important meetings and conduct investigations of business departments according to the division of business. These results are reported at meetings of the Board of Corporate Auditors. The auditors also attend business results meetings held at subsidiary companies, whose directors provide performance reports.

Board of Directors and Auditors

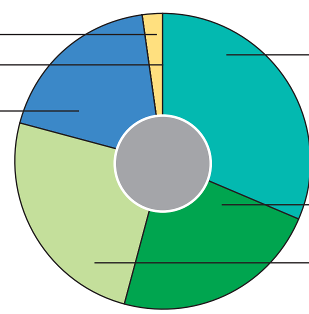
(As of June 29, 2006)

President	Kotaro Fukuda
Senior Managing Director	Takashi Takahashi
Managing Director	Junzo Fujiwara
Directors	Susumu Segawa
	Masayuki Iwamoto
	Yoshiyuki Ariyoshi
	Osamu Shirakawa
	Kenji Ozaki
Standing Corporate Auditor	Yoshimasa Ogawa
Corporate Auditors	Yoshinori Okamoto
	Tatsuo Izawa
	Masatugu Iishiba

Corporate Data Fukuda Denshi Co., Ltd., as of March 31, 2006

Established	July 6, 1948 (under the name of Fukuda Denki Seisakujo)	
Capital	¥4,621,600,000	
Number of Employees	Consolidated:	2,630
	Nonconsolidated:	566
Number of Shares	Authorized:	30,000,000
	Issued:	19,588,000
Fiscal Year-End	March 31	
Annual Meeting	The annual meeting of shareholders is normally held in June in Tokyo	
Stock Listing	JASDAQ (Code: 6960)	
Transfer Agent and Registrar	Sumitomo Trust & Banking Co., Ltd. 4-4, Marunouchi 1-chome, Chiyoda-ku, Tokyo 100-8233, Japan	
Independent Public Accountants	KPMG AZSA & Co.	

Composition of Shareholders



Major Shareholders

	Number of shares owned (thousands)	Ratio of the total voting rights (%)
Steel Partners Japan Strategic Fund (Offshore) L.P.	2,760	14.40
Atomic Sangyo Co., Ltd.	2,438	12.73
Tokyo Enterprise Co., Ltd.	1,447	7.56
Mizuho Trust & Banking Co., Ltd.*	922	4.81
Mizuho Bank, Ltd.	778	4.06
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	725	3.79
The Melon Bank Treaty Clients Omnibus	714	3.73
Nippon Life Insurance Company	702	3.67
The Bank of New York Treaty JASDAQ Account	609	3.18
Junko Fukuda	550	2.87

*The Tokyo Tomin Bank, Ltd. Retirement Benefit Trust Account re-entrusted by Mizuho Trust & Banking Co., Ltd.

History

1939

Takashi Fukuda established Fukuda Medical Electronics Co., Ltd.

1948

Production and marketing of ECGs resumed following the end of World War II.

1953

First sales offices established in Osaka, Fukuoka and Sapporo as part of a strategy to establish a nationwide network.

1969

Company name changed to Fukuda Denshi Co., Ltd., through a merger.

1973

Shiroi Factory established in Chiba Prefecture.
Marketing alliances formed with Siemens AG and Siemens Elema AB (now MAQUET Critical Care AB).

1975

Exclusive distribution rights obtained covering sales of Siemens medical equipment such as Mingograf® products, patient monitors, ventilators and pacemakers in Japan.

1982

Company shares registered on Tokyo's over-the-counter market (now JASDAQ).
European Depository Receipts (EDRs) issued.

1987

Developed and started producing the world's first intravascular monitoring video system.

1988

Developed and started producing a patient monitoring system using LAN.

1990

Established the Fukuda Foundation for Medical Technology.

1994

Fukuda Life Tech Co., Ltd., specializing in the rental, sale and maintenance of concentrated-oxygen supply systems for in-home use, established with offices nationwide.
Joint venture, Beijing Fukuda Denshi Medical Instruments Co., Ltd., established in China.

1995

Obtained ISO 9001 international quality assurance certification.

1996

Fukuda Denshi USA, Inc. established to develop and manufacture products.
UK branch office opened.
Tripolar global network established covering Europe, North America and Asia.

1997

Division established to develop and manufacture diagnostic ultrasound imaging equipment.

2001

Medical Data Co., Ltd., established for the storage of healthcare data.

2002

Developed and started marketing proprietary oxygen enrichment devices and vascular screening system.

2003

Fukuda Medical Solutions Co., Ltd., established to develop and provide support for clinical information systems.
Shiroi Factory awarded ISO 14001 certification.

2004

EMC Center inaugurated in compliance with Electro-Magnetic Compatibility regulations.
Marketing tie-up established with Philips Medical Systems Japan concerning patient monitoring equipment and defibrillators.

2005

Decision made to acquire Kontron Medical SAS in France and Kontron Medical AG in Switzerland to establish as European sales and manufacturing bases.

2006

Completed construction of the new Hongo Office.
Established Fukuda Cardiac Laboratory Co., Ltd., to specialize in the sale of medical treatment devices.

Consolidated Financial Statements

Consolidated Balance Sheets

March 31, 2005 and 2006

ASSETS	Millions of yen 2005	Millions of yen 2006	Thousands of U.S. dollars (Note 1) 2006
Current assets:			
Cash on hand and in bank (Note 3)	¥26,721	¥24,480	$209,232
Marketable securities (Note 5)	600	600	5,128
Trade receivables:			
Accounts and notes	23,071	24,740	211,453
Allowance for doubtful accounts	(212)	(330)	(2,819)
Inventories (Note 4)	13,333	13,990	119,575
Deferred tax assets (Note 8)	1,701	2,868	24,514
Other current assets	1,828	1,688	14,425
Total current assets	67,042	68,036	581,508
Property, plant and equipment:			
Land	5,236	5,383	46,005
Buildings and structures	7,187	8,288	70,837
Machinery and equipment	17,582	18,673	159,598
Construction in progress	105	7	57
	30,110	32,351	276,497
Accumulated depreciation and accumulated impairment losses	(14,948)	(15,788)	(134,936)
	15,162	16,563	141,561
Investments and other assets:			
Investment securities (Note 5)	7,998	12,560	107,352
Investments in unconsolidated subsidiaries and affiliated companies	261	52	448
Deferred tax assets (Note 8)	4,797	3,254	27,813
Other	4,168	4,576	39,104
	17,224	20,442	174,717
	¥ 99,428	¥105,041	$897,786

The accompanying notes are integral to these financial statements.

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of yen 2005	Millions of yen 2006	Thousands of U.S. dollars (Note 1) 2006
Current liabilities:			
Short-term bank loans (Note 7)	¥ 3,634	¥3,053	$26,091
Long-term debt due within one year (Note 7)	3	119	1,021
Trade payables-accounts and notes	14,527	14,980	128,034
Income taxes payable (Note 8)	702	1,180	10,087
Business loss reserve	—	2,781	23,766
Accrued expenses and other current liabilities	3,577	4,731	40,434
Total current liabilities	22,443	26,844	229,433
Long-term liabilities:			
Long-term debt (Note 7)	206	104	892
Employees' severance and retirement benefits (Note 10)	3,155	3,197	27,328
Retirement benefits for directors and corporate auditors	1,272	1,220	10,429
Other long-term liabilities	23	23	198
Total long-term liabilities	4,656	4,544	38,847
Minority interest in consolidated subsidiaries	9	11	93
Contingent liabilities (Note 16)			
Shareholders' equity (Note 11):			
Common stock Authorized - 30,000,000 shares Issued - 19,588,000 shares in 2005 and 2006	4,622	4,622	39,501
Capital surplus	9,851	9,851	84,198
Retained earnings	57,409	56,088	479,383
Net unrealized holding gains on securities	1,389	3,926	33,559
Foreign currency translation adjustments	(21)	86	731
	73,250	74,573	637,372
Less treasury stock at cost	(930)	(931)	(7,959)
	72,320	73,642	629,413
	¥ 99,428	¥105,041	$897,786

The accompanying notes are integral to these financial statements.

Consolidated Statements of Income

Years ended March 31, 2005 and 2006

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2005	2006	2006
Net sales (Note 15)	¥ 74,659	¥86,613	$740,283
Costs and expenses:			
Cost of sales	40,892	51,384	439,176
Selling, general and administrative	26,547	29,832	254,978
	67,439	81,216	694,154
Operating income (Note 15)	7,220	5,397	46,129
Other income (expense):			
Interest and dividend income	84	150	1,282
Interest expense	(56)	(39)	(335)
Equity in loss of affiliated companies	(207)	(175)	(1,494)
Loss on devaluation of investment securities	(12)	(39)	(337)
Gain on life insurance surrender value	361	560	4,787
Litigation settlement	—	200	1,709
Gain on sales of investment securities	77	101	861
Loss on sales of property	(3)	(15)	(127)
Impairment loss of fixed assets (Note 12)	—	(133)	(1,136)
Write-down of inventories (Note13)	—	(824)	(7,042)
Provision for business losses (Note14)	—	(4,105)	(35,084)
Extra payment of retirement benefits for early-retirement employees	—	(82)	(701)
Penalty for cancellation of contract	(469)	—	—
Other, net	21	197	1,686
	(204)	(4,204)	(35,931)
Income before income taxes	7,016	1,193	10,198
Income taxes (Note 8):			
Current	1,343	1,951	16,672
Deferred	1,595	(1,365)	(11,666)
	4,078	607	5,192
Minority interest in net income of consolidated subsidiaries	(3)	(1)	(13)
Net income	¥4,075	¥606	$5,179

Amounts per share of common stock:	Yen		U.S. dollars (Note 1)
	2005	2006	2006
Net income	¥ 213.78	¥28.70	$0.25
Diluted net income	212.57	28.68	0.25
Cash dividends applicable to the year	80.00	80.00	0.68

The accompanying notes are integral to these financial statements.

Consolidated Statements of Shareholders' Equity

Years ended March 31, 2005 and 2006

		Millions of yen					
	Number of shares of common stock (thousands)	Common stock	Capital surplus	Retained earnings	Net unrealized holding gains (losses) on securities	Foreign currency translation adjustments	Treasury stock
Balance at March 31, 2004	19,404	¥4,387	¥8,684	¥54,611	¥761	¥(4)	¥(1,847)
Net income	—	—	—	4,075	—	—	—
Exercise of stock purchase warrants	184	235	263	—	—	—	—
Translation of foreign currency financial statements	—	—	—	—	—	(17)	—
Net unrealized holding gains on securities	—	—	—	—	628	—	—
Treasury stock	—	—	—	—	—	—	917
Cash dividends paid (￥50.00 per share)	—	—	—	(927)	—	—	—
Bonuses to directors and statutory auditors	—	—	—	(86)	—	—	—
Decrease resulting from inclusion of equity method affiliates	—	—	—	(258)	—	—	—
Employees' bonus and welfare fund	—	—	—	(6)	—	—	—
Surplus from sale of treasury stock	—	—	904	—	—	—	—
Balance at March 31, 2005	19,588	4,622	9,851	57,409	1,389	(21)	(930)
Net income	—	—	—	606	—	—	—
Translation of foreign currency financial statements	—	—	—	—	—	107	—
Net unrealized holding gains on securities	—	—	—	—	2,537	—	—
Treasury stock	—	—	—	—	—	—	(1)
Cash dividends paid (￥95.00 per share)	—	—	—	(1,822)	—	—	—
Bonuses to directors and statutory auditors	—	—	—	(99)	—	—	—
Employees' bonus and welfare fund	—	—	—	(6)	—	—	—
Balance at March 31, 2006	19,588	¥4,622	¥9,851	¥56,088	¥3,926	¥86	¥(931)

The accompanying notes are integral to these financial statements.

Consolidated Statements of Shareholders' Equity

Years ended March 31, 2005and 2006

	Thousands of U.S. dollars (Note 1)					
	Common stock	Capital surplus	Retained earnings	Net unrealized holding gains on securities	Foreign currency translation adjustments	Treasury stock
Balance at March 31, 2005	$39,501	$84,198	$490,671	$11,876	$(180)	$(7,947)
Net income	—	—	5,179	—	—	—
Translation of foreign currency financial statements	—	—	—	—	911	—
Net unrealized holding gains on securities	—	—	—	21,683	—	—
Treasury stock	—	—	—	—	—	(12)
Cash dividends paid ($0.81 per share)	—	—	(15,571)	—	—	—
Bonuses to directors and statutory auditors	—	—	(845)	—	—	—
Staff and workers' bonus and welfare fund	—	—	(51)	—	—	—
Balance at March 31, 2006	$39,501	$84,198	$479,383	$33,559	$731	$(7,959)

The accompanying notes are integral to these financial statements.

Consolidated Statements of Cash Flows

Years ended March 31, 2005 and 2006

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2005	2006	2006
Cash flow from operating activities:			
Income before income taxes	¥ 7,016	¥1,193	$10,198
Adjustments to reconcile income before income taxes to net cash provided by operating activities			
Depreciation expense	3,956	3,774	32,255
Impairment loss of fixed assets	—	133	1,136
Equity in loss of affiliated companies	207	175	1,494
Increase in employees' severance and retirement benefits	25	42	362
Increase (Decrease) in retirement benefits for directors and corporate auditors	30	(52)	(443)
Interest expense	56	39	335
Loss on devaluation of investment securities	12	39	337
Penalty for cancellation of contract	469	—	—
Provision for business losses	—	4,105	35,084
Gain on sales of investment securities	(77)	(101)	(861)
Litigation settlement	—	(200)	(1,709)
Loss on sales of property	3	15	127
Gain on life insurance surrender value	(361)	(560)	(4,787)
Increase in trade receivables- accounts and notes	(3,572)	(1,092)	(9,330)
(Increase) Decrease in inventories	(705)	79	676
Increase (Decrease) in trade payables-accounts and notes	3,371	(312)	(2,666)
Other	(87)	348	2,970
Subtotal	10,343	7,625	65,178
Interest and dividend received	84	150	1,279
Interest paid	(59)	(37)	(319)
Payment for litigation settlement	(1,000)	—	—
Receipt of litigation settlement	—	200	1,709
Income taxes paid	(2,499)	(1,475)	(12,610)
Net cash provided by operating activities	6,869	6,463	55,237
Cash flow from investing activities:			
Payment for purchase of property, plant and equipment	(4,365)	(4,658)	(39,808)
Payment for purchase of intangible assets	—	(1,485)	(12,690)
Payment for purchase of marketable securities and investment securities	(2,843)	(1,534)	(13,116)
Proceeds from sale of marketable securities and investment securities	701	1,344	11,491
Payment of short-term loans receivable	(23)	(306)	(2,619)
Payment to life insurance fund for directors	(277)	(394)	(3,372)
Proceeds from life insurance fund for directors	726	1,748	14,940
Payment for acquisition of shares of newly consolidated subsidiaries (Note3)	—	(1,075)	(9,188)
Other	166	40	340
Net cash used in investing activities	(5,915)	(6,321)	(54,022)
Cash flow from financing activities:			
Net decrease in short-term bank loans	(3,198)	(588)	(5,023)
Proceeds from long-term debt	200	100	855
Repayment of long-term debt	(87)	(145)	(1,242)
Repayment of bonds payable	(765)	—	—
Dividend paid to shareholders	(926)	(1,817)	(15,529)
Payment for purchase of treasury stock	(765)	(1)	(12)
Proceeds from sale of treasury stock	2,586	—	—
Proceeds from issuance of stock	469	—	—
Other	(2)	(1)	(6)
Net cash used in financing activities	(2,488)	(2,452)	(20,957)
Effect of exchange rate change on cash and cash equivalents	3	62	531
Net decrease in cash and cash equivalents during year	(1,531)	(2,248)	(19,211)
Cash and cash equivalents at beginning of year	28,107	26,576	227,148
Cash and cash equivalents at end of year (Note 3)	¥ 26,576	¥24,329	$207,936

The accompanying notes are integral parts of these financial statements.

1. Basis of presenting consolidated financial statements

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 generally accepted in Japan ("Japanese GAAP"), which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards.

The accounts of overseas subsidiaries are based on their accounting records maintained in conformity with generally accepted accounting principles prevailing in the respective countries of domicile. The accompanying consolidated financial statements have been restructured and translated into English (with some expanded descriptions and the inclusion of consolidated statements of shareholders' equity) from the consolidated financial statements of the Company prepared in accordance with Japanese GAAP and filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Securities and Exchange Law. Some supplementary information included in the statutory Japanese language consolidated financial statements, but not required for fair presentation, is not presented in the accompanying consolidated financial statements.

The translation of the yen amounts into U.S. dollars is included solely for the convenience of readers outside Japan, using the prevailing exchange rate at March 31, 2006, which was ¥117 to US$1.00. The convenience translations should not be construed as a representation that the yen amounts have been, could have been, or could in the future be, converted into U.S. dollars at this or any other rate of exchange.

2. Summary of significant accounting policies

(a) Principles of consolidation

FUKUDA DENSHI CO., LTD. (the "Company") had 52 and 57 subsidiaries as of March 31, 2005 and 2006, respectively. The consolidated financial statements include the accounts of the Company and 47 of such subsidiaries in the years ended March 31, 2005 and 49 of such subsidiaries in the years ended March 31, 2006. The consolidated subsidiaries are mainly sales agents of the Company.

The Company and its consolidated subsidiaries are together referred to as the "Group." For the purpose of preparing the consolidated financial statements, all significant intercompany transactions, account balances and unrealized profits within the Group have been eliminated, and the effect of eliminating such unrealized profits has been entirely charged to consolidated net income of the Group without regard to a portion attributable to minority interests.

All consolidated subsidiaries have the same balance sheet date, March 31, with that of the Company, except for BEIJING FUKUDA DENSHI MEDICAL INSTRUMENTS CO., LTD., FUKUDA DENSHI USA, INC., KONTRON MEDICAL SAS and KONTRON MEDICAL AG for which the fiscal year-end is December 31. Significant transactions, if any, in the three months ended March 31, 2006, are adjusted in the respective consolidated financial statements.

The acquisition date for record of KONTRON MEDICAL SAS and KONTRON MEDICAL AG was treated as June 30, 2005; therefore the balance sheets as of December 31, 2005 and statements of income and cash flows for the six months then ended were consolidated.

Upon consolidating subsidiaries, the assets and liabilities of the subsidiaries, including the portion attributable to minority shareholders, are recorded based on the fair value at the time the Company acquired control of the respective subsidiaries.

The difference between the cost of an investment in a subsidiary and the amount of underlying equity in net assets of the subsidiary is amortized over a period of five years on a straight-line basis.

(b) Investments in unconsolidated subsidiaries and an affiliated company

Affiliated company accounted for using the equity method at March 31, 2005 and 2006 were as follows:

eVent Medical Ltd.

Except for the above-mentioned company, the Company had five unconsolidated subsidiaries and two affiliated companies as of March 31, 2005 and eight unconsolidated subsidiaries and two affiliated companies as of March 31, 2006.

Investments in these unconsolidated subsidiaries and affiliated companies are stated at the moving-average cost because their net income and retained earnings would have had no material effect on the consolidated financial statements even if the Company had accounted for them using the equity method.

(c) Cash and cash equivalents and cash flow statements

For the purpose of the consolidated statements of cash flows, the Group classifies cash on hand, readily available bank deposits and short-term highly liquid investments with maturities not exceeding three months at the time of purchase as cash and cash equivalents.

(d) Securities

Under the Japanese accounting standard for financial instruments, the group is required to examine the intent of holding each security and classify those securities as (1) securities held for trading purposes (hereafter, "trading securities"), (2) debt securities intended to be held to maturity (hereafter, "held-to-maturity debt securities"), (3) equity securities issued by subsidiaries and affiliated companies or (4) all other securities that are not classified in any of the above categories (hereafter, "available-for-sale securities").

The Group had no trading securities. Held-to-maturity debt securities are stated at amortized cost. Equity securities issued by subsidiaries and affiliated companies that are not consolidated or accounted for using the equity method are stated at the moving-average cost. Available-for-sale securities with available fair market values are stated at the fair market value. Unrealized gains and unrealized losses on these securities are reported, net of applicable income taxes, as a separate component of shareholders’ equity. Realized gains and losses on the sale of such securities are computed using the moving-average cost.

Debt securities with no available fair market values are stated at amortized cost, net of the amount considered not collectible. Other securities with no available fair market value are stated at the moving-average cost.

If the market value of held-to-maturity debt securities, equity securities issued by unconsolidated subsidiaries and affiliated companies that are stated at cost and available-for-sale securities declines significantly, such securities are stated at the fair market value and the difference between the fair market value and the carrying amount is recognized as a loss in the period of the decline. If their fair market values are not readily available, they should be written down to net asset value with a corresponding charge in the income statement in the event the net asset value declines significantly. In these cases, such fair market value or the net asset value will be the carrying amount of the securities at the beginning of the next year.

Investments in investment limited partnership and other similar partnership are valued at the net amount of the percentage of interests held based on the latest financial statements on a reporting date stipulated by partnership contract.

(e) Inventories

Inventories are stated primarily at cost, cost being determined by the first-in, first-out method for merchandise and products; by the average method for raw materials; by the specific identified cost method for work-in-process; and by the last purchase price cost method for supplies.

(f) Property, plant and equipment

Property, plant and equipment are stated at cost. Depreciation is computed primarily by the declining-balance method. The range of useful lives is principally from 3 to 60 years for buildings and structures, and from 2 to 20 years for machinery and equipment. Buildings, excluding building fixtures, acquired after March 31, 1998, are depreciated using the straight-line method. Depreciation of assets for which the acquisition costs are ¥100,000 – ¥200,000 is provided by the straight-line method over three years. Depreciation of rental equipment (e.g., the home-use enriched oxygen supply system), however, is computed by the straight-line method over the estimated rentalterms (4 years).

(g) Impairment of fixed assets

Effective April 1, 2005, the Group adopted the new accounting standard for impairment of fixed assets (“Opinion Concerning Establishment of Accounting Standard for Impairment of Fixed Assets” issued by the Business Accounting Deliberation Council on August 9, 2002) and the implementation guidance for the accounting standard for impairment of fixed assets (the Financial Accounting Standard Implementation Guidance No.6 issued by the Accounting Standard Board of Japan on October 31, 2003). As a result of the adoption of these standards, income before taxes and minority interests decreased by ¥1,457million ($12,453 thousand).

(h) Business loss reserve

To prepare losses that will occur in the future due to the business withdrawal, the expected loss amount is computed.

(i) Employees’ severance and retirement benefits

The Group provides two types of post-employment benefit plans, unfunded lump-sum payment plans and funded non-contributory pension plans, under which all eligible employees are entitled to benefits based on the level of wages and salaries at the time of retirement or termination, length of service and certain other factors. The pension plans cover 100% of total severance and retirement benefits.

Under the Japanese accounting standard, the liabilities and expenses for employees’ severance and retirement benefits are determined based on the amounts actuarially calculated using certain assumptions.

The Group provided allowance for employees’ severance and retirement benefits based on the estimated amounts of projected benefit obligation and the fair value of the plan assets.

Prior service costs are recognized in expenses using the declining-balance method over 10 years, which is not longer than the estimated average remaining services lives.

Actuarial gains and losses are recognized in expenses using the declining-balance method over 10 years, which is not longer than the estimated average remaining services lives, commencing with the following period.

(j) Retirement benefits for directors and corporate auditors

An allowance for accrued severance indemnities to directors and corporate auditors of the Group has been set up in accordance with the Group's regulations.

Effective the shareholders’ meeting of the Company, held on June 29, 2005, the Company abolished the retirement benefits plan for directors and corporate auditors. Accordingly, the Company recognizes liabilities for retirement benefits for directors and corporate auditors till the completion of shareholders' meeting on June 29, 2005, which will be paid upon their retirement.

(k) Income taxes

The Company recognizes tax effects of temporary differences between the financial statement carrying amounts and the tax basis of assets and liabilities. The provision for income taxes is computed based on the pretax income included in the consolidated statements of income. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences.

(l) Research and development costs

Research and development costs are charged to income as incurred.

(m) Foreign currency translations

Receivables and payables denominated in foreign currencies are translated into yen at the year-end rates.

Financial Statements of consolidated overseas subsidiaries are translated into yen at the year-end rate, except that shareholders' equity accounts are translated at historical rates. Any resulting differences are reflected as foreign currency translation adjustments in shareholders' equity.

(n) Amounts per share of common stock

Net income per share is computed based on the average number of common stock outstanding during each period, exclusive of treasury stock.

Diluted net income per share is calculated based on the assumption that all dilutive convertible debentures are converted at the beginning of the year.

Cash dividends per share represent the actual amount declared as applicable to the respective year.

(o) Accounting for certain lease transactions

Finance leases that do not transfer ownership of the leased assets to the lessee are accounted for in the same manner as operating leases.

(p) Reclassifications

Certain reclassifications have been made in the 2005 financial statements to conform to the presentation for 2006.

3. Cash and cash equivalents

(a) The relations between cash and cash equivalents and consolidated balance sheet items at March 31, 2005 and 2006, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2006	2006
Cash on hand and in bank	¥ 26,721	¥24,480	$209,232
Less: Deposit with maturity exceeding three months at the time of purchase	145	151	1,296
Cash and cash equivalents	¥ 26,576	¥24,329	$207,936

(b) Assets and liabilities of the newly consolidated subsidiaries of shares at the inception of their consolidation, related acquisition cost and net expenditure for acquisition of share were as follows:

Kontron Medical SAS (As of June 30, 2005)

	Millions of yen	Thousands of U.S. dollars
	2006	2006
Current assets	¥1,110	$9,483
Fixed assets	108	926
Consolidated adjustment account	1,141	9,748
Current liabilities	△1,206	△10,304
Long-term liabilities	△341	△2,916
Acquisition cost of shares	812	6,937
Cash and cash equivalents of acquired companies	—	—
Payment for acquisition of shares of newly consolidated subsidiaries	¥812	$6,937

Kontron Medical AG (As of June 30, 2005)

	Millions of yen	Thousands of U.S. dollars
	2006	2006
Current assets	¥164	$1,400
Fixed assets	5	44
Consolidated adjustment account	220	1,883
Current liabilities	△122	△1,045
Acquisition cost of shares	267	2,282
Cash and cash equivalents of acquired companies	4	32
Payment for acquisition of shares of newly consolidated subsidiaries	¥263	$2,250

4. Inventories

Inventories at March 31, 2005 and 2006, comprised the following:

	Millions of yen		Thousands of U.S. dollars
	2005	2006	2006
Merchandise and products	¥ 10,728	¥11,671	$99,758
Work-in-process	709	384	3,280
Materials and supplies	1,896	1,935	16,537
	¥ 13,333	¥13,990	$119,575

5. Securities

(a) The following tables summarize acquisition costs, book values and the fair value of securities with available fair values as of March 31, 2005 and 2006:

Available-for-sale securities:

	Millions of yen					
	2005			2006		
Type	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference
Securities with book values exceeding acquisition costs:						
Equity securities	¥2,758	¥5,167	¥2,409	¥4,413	¥11,057	¥6,644
Others	144	154	10	—	—	—
Total	¥2,902	¥5,321	¥2,419	¥4,413	¥11,057	¥6,644
Other securities:						
Equity securities	¥999	¥982	¥(17)	—	—	—
Others	100	100	(0)	—	—	—
Total	¥1,099	¥1,082	¥(17)	—	—	—

	Thousands of U.S. dollars					
	2005			2006		
Type	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference
Securities with book values exceeding acquisition costs:						
Equity securities	$25,779	$48,293	$22,514	$37,722	$94,507	$ 56,785
Other	1,343	1,438	95	—	—	—
Total	27,122	49,731	22,609	37,722	94,507	56,785
Other securities:						
Equity securities	$9,341	$9,178	$(163)	—	—	—
Others	934	932	(2)	—	—	—
Total	$10,275	$10,110	$(165)	—	—	—

(b) Total sales of available-for-sale securities sold in the year ended March 31, 2005 and 2006, and the related gains were as follows.

	Millions of yen		Thousands of U.S. dollars
	2005	2006	2006
Proceeds from sales	¥201	¥344	$2,944
Gross realized gains	77	101	861

(c) The following tables summarize the book values of securities with no available fair values as of March 31, 2005 and 2006:

(1) Held-to-maturity debt securities

Type	Millions of yen		Thousands of U.S. dollars
	2005	2006	2006
Discounted bonds	¥600	¥600	$5,128

(2) Available-for-sale securities

Type	Millions of yen		Thousands of U.S. dollars
	2005	2006	2006
Non-listed equity securities	¥1,520	¥1,244	$10,636
Investment business of limited partnership in capital	—	256	2,192
	¥1,520	¥1,500	$12,828

(d) Available-for-sale securities with maturities and held-to-maturity debt securities are as follows:

Type	Millions of yen				
	Within one year	More than one year but within five years	More than five years but within 10 years	Over 10 years	Total
2005:					
Discounted bonds	¥ 600	—	—	—	¥ 600

Type	Millions of yen				
	Within one year	More than one year but within five years	More than five years but within 10 years	Over 10 years	Total
2006:					
Discounted bonds	¥600	—	—	—	¥600

Type	Thousands of U.S. dollars				
	Within one year	More than one year but within five years	More than five years but within 10 years	Over 10 years	Total
2006:					
Discounted bonds	$5,128	—	—	—	$5,128

6. Derivative transactions

The Group did not use any derivative transactions for the years ended March 31, 2005 and 2006.

7. Bank loans and long-term debt

Bank loans at March 31, 2005 and 2006, were unsecured and bore interest ranging from 0.6% to 2.6% per annum and 0.6% to 2.4% per annum, respectively.

Long-term debt at March 31, 2005 and 2006, comprised the following:

	Millions of yen		Thousands of U.S. dollars
	2005	2006	2006
Unsecured loans from banks, with interest ranging from 0.7% to 1.6% per annum	¥209	¥223	$1,913
Less: Portion due within one year	3	119	1,021
	¥206	¥104	$892

The annual maturities of long-term debt outstanding at March 31, 2006, were as follows:

Years ending March 31	Millions of yen	Thousands of U.S. dollars
2007	¥119	$1,021
2008	90	773
2009	14	119
	¥223	$1,913

8. Income taxes

The company is subject to corporation, enterprise and inhabitants' taxes, which resulted in an aggregate statutory tax rate of approximately 41% for the years ended March 31, 2005 and 2006, respectively.

The following table summarizes the significant differences between the statutory tax rate and the effective tax rates for financial statement purposes for the years ended March 31, 2006:

	2006	
Statutory tax rate	40.7	%
Adjustments :		
Exclusion of dividends received from taxable income	(1.6)	
Non-deductible expenses	7.6	
Per capita levy residents tax	2.2	
Change in valuation reserve	8.2	
Tax credits for research and development costs	(9.2)	
Other	1.2	
Effective tax rate	49.1	%

Data for the year ended March 31, 2005, have been omitted because the difference between statutory tax rate and effective tax rate was not material.

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

	Millions of yen		Thousands of U.S. dollars
	2005	2006	2006
Deferred tax assets:			
Fixed assets	¥2,091	¥1,203	$10,284
Inventories	895	1,106	9,456
Net operating loss carryforwards of subsidiaries	723	520	4,440
Employees' severance and retirement benefits	1,285	1,301	11,120
Reserve for litigation settlement	81	—	—
Provision of business losses	—	1,912	16,338
Impairment losses of fixed assets	—	54	462
Other	3,947	4,339	37,088
Total deferred tax assets	9,022	10,435	89,188
Less: Valuation allowance	(1,318)	(1,369)	(11,697)
Net deferred tax assets	7,704	9,066	77,491
Deferred tax liabilities:			
Allowance for doubtful accounts	(205)	(194)	(1,660)
Deferred gains on real properties for tax purposes	(34)	(34)	(289)
Other	(967)	(2,716)	(23,215)
Total deferred tax liabilities	(1,206)	(2,944)	(25,164)
Deferred tax assets, net of deferred tax liabilities	¥ 6,498	¥ 6,122	$52,327

9. Information for certain leases

(1) Finance leases as a lessee

Assumed data of the Group as to acquisition cost, accumulated depreciation, accumulated impairment losses and net book value of the leased assets under the finance leases that are accounted for in the same manner as operating leases at March 31, 2005 and 2006, inclusive of interest, were summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2006	2006
Machinery and equipment	¥1,253	¥1,284	$10,975
Others	209	187	1,602
Accumulated depreciation	(798)	(771)	(6,592)
Accumulated impairment losses	—	(14)	(120)
	¥664	¥686	$5,865

Future lease payments at March 31, 2005 and 2006, of the Group, inclusive of interest, under such leases were as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2006	2006
Due within one year	¥272	¥255	$2,181
Over one year	392	439	3,756
	¥664	¥694	$5,937
Accumulated impairment loss on leaseholds	—	¥ 8	$71

Lease expenses and assumed data as to depreciation of the leased assets for the years ended March 31, 2005 and 2006, of the Group were as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2006	2006
Lease expenses	¥353	¥300	$2,563
Adjustment of impaired leased assets	—	6	49
Assumed depreciation	353	300	2,563
Loss of impaired assets	—	14	120

Assumed depreciation is computed by the straight-line method, using lease terms as estimated useful lives and assuming the estimated residual value to be zero.

10. Employees' severance and retirement benefits

The liabilities for employees' severance and retirement benefits included in the liability section of the consolidated balance sheets as of March 31, 2005 and 2006, consisting the following:

	Millions of yen		Thousands of U.S. dollars
	2005	2006	2006
Projected benefit obligation	¥8,382	¥8,748	$74,766
Unrecognized prior service costs	(8)	(7)	(56)
Unrecognized actuarial differences	(604)	338	2,888
Less fair value of pension assets	(4,615)	(5,882)	(50,270)
Liability for severance and retirement benefits	¥3,155	¥3,197	$27,328

Included in the consolidated statements of income for the years ended March 31, 2005 and 2006, are employees' severance and retirement benefit expenses comprised of the following:

	Millions of yen		Thousands of U.S. dollars
	2005	2006	2006
Service costs – benefits earned during the year	¥608	¥633	$5,415
Interest cost on projected benefit obligation	162	168	1,432
Expected return on plan assets	(82)	(92)	(789)
Amortization of prior service costs	2	2	14
Amortization of actuarial differences	174	124	1,062
Severance and retirement benefit expenses	¥864	¥835	$7,134

The discount rate and the rate of expected return on plan assets used by the Company were 2.0 % and 2.0%, respectively.

11. Shareholders' equity

Under the Code, the entire amount of the issued price of shares is required to be accounted for as capital, although a company may, by resolution of its board of directors, account for an amount not exceeding one-half of the issued price of the new shares as additional paid-in capital.

Effective October 1, 2001, certain amounts of retained earnings equal to at least 10% of cash dividends and bonuses to directors and corporate auditors must be set aside as a legal reserve until the total amount of legal reserve and additional paid-in capital equals 25% of common stock. The legal reserve is not available for dividends but may be used to reduce a deficit by resolution of the shareholders or may be capitalized by resolution of the Board of Directors. On condition that the total amount of the legal reserve and additional paid-in capital remains being equal to or exceeding 25% of common stock, it is available for distribution by a resolution of the shareholders' meeting. The legal reserve is included in the retained earnings.

The maximum amount that the Company could distribute as dividends is calculated based on the non-consolidated financial statements of the Company in accordance with the Code.

12. Impairment loss of fixed assets

			Millions of yen	Thousands of U.S. dollars
Use	Location	Asset kind	2006	
Idle assets	Nasu-gun, Tochigi and 2 others	Land, Investment real estate	¥27	$230
Assets used for business	Chiba-shi, Chiba and 3 others	Buildings and structures, Machinery and equipment, Leased assets	¥106	$906

The company classified fixed assets into groups by the type of respective operating division.The consolidated subsidiaries classified fixed assets into groups by the type of respective companies or business establishments. With respect to idle assets and rental estates, each asset is treated as an individual unit to apply the accounting for the impairment.

Carring amounts of idle assets were devalued to their recoverable amounts, owing to declining land prices. Carring amounts of certain assets used for business were not recovered by estimated future cash flows due to a decrease in operating income, and their carring amounts were devalued to their recoverable amounts.

As a result, the company recognized loss on impairment in the amount of ¥133 million ($1,136 thousand), which consisted of building and structures ¥24 million ($209 thousand), machinery and equipment ¥41 million ($349 thousand) and other ¥68 million ($578 thousand), as other expenses.

Recoverable amount of each group of assets is net selling price, market value of each group of assets is price adjusted rationally road rate and assessed value of fixed assets.

13. Write-down of inventories

This loss occurred by remarkable fall of software stocks' market value.

14. Provision for business losses

Provision for business losses were caused by business withdrawal of two companies of Kontron Medical SAS and Kontron Medical AG. Components were as follows;

Provision for business losses reserve	¥2,781 million	($23,766 thousand)
Impairment loss of fixed assets	1,324 million	($11,318 thousand)
Total	4,105 million	($35,084 thousand)

			Millions of yen	Thousands of U.S. dollars
Use	Location	Asset kind	2006	
Assets used for business	Plaisir, France and 1 other	Buildings and structures, Machinery and equipment, Consolidated adjustment account, and other	¥1,324	$11,318

The company classified fixed assets into groups by the type of respective operating division. The consolidated subsidiaries classified fixed assets into groups by the type of respective companies or business establishments. With respect to idle assets and rental estates, each asset is treated as an individual unit to apply the accounting for the impairment.

Carring amounts of assets of consolidated subsidiaries were devalued to their recoverable amounts, owing to decision withdrawal.

As a result, the company recognized loss on impairment in the amount of ¥1,324 million ($11,318 thousand), which consisted of building and structures ¥17 million ($143 thousand), machinery and equipment ¥81 million ($691 thousand), consolidated adjustment account ¥1,225 million ($10,468 thousand) and other ¥2 million ($16 thousand), as special expenses.

Recoverable amount is net selling price, zero.

15. Segment information

None of the information (1) by business segment, (2) by geographic area and (3) for overseas net sales is shown due to (1) net sales, operating income and identifiable assets of medical electronic equipment business being in excess of 90% of the consolidated amounts, (2) domestic net sales and identifiable assets being in excess of 90% of consolidated amounts and (3) net sales outside Japan being less than 10% of consolidated net sales, respectively.

16. Contingent liabilities

Contingent liabilities at March 31, 2006, were export bills of exchange discounted in the amount of ¥238 million ($2,036 thousand).

17. Related party transactions

The Group purchases recording papers used in medical equipment and accounting slips used in its offices from Atomic Sangyo Co., Ltd. ("Atomic"), and also pays the rent of offices and warehouses to Atomic. More than 50% of Atomic is owned by a director of the Company and his close relatives.

During the years ended March 31, 2005 and 2006, the Group had the following transactions with Atomic:

	Millions of yen		Thousands of U.S. dollars
	2005	2006	2006
Purchase of recording papers	¥1,346	¥1,349	$11,530
Purchase of accounting slips	27	27	230
Payment of rent	41	41	350

Dues to Atomic as of March 31, 2005 and 2006, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2006	2006
Trade payables: accounts and notes	¥ 299	¥ 297	$2,534
Other current assets	26	23	196
Other current liabilities	3	3	30
Other non-current assets	13	12	102

18. Subsequent event

At the June 29, 2006, annual general meeting, the Company's shareholders approved the appropriation of retained earnings at March 31, 2006, as follows:

	Millions of yen	Thousands of U.S. dollars
Cash dividends, ¥40.00 ($0.34) per share	¥767	$ 6,556

Independent Auditors' Report

To the Board of Directors of
FUKUDA DENSHI CO., LTD.:

We have audited the accompanying consolidated balance sheets of FUKUDA DENSHI CO., LTD. and consolidated subsidiaries as of March 31, 2005 and 2006, and the related consolidated statements of income, shareholders' equity and cash flows for the years then ended, expressed in yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to independently 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 consolidated financial position of FUKUDA DENSHI CO., LTD. and subsidiaries as of March 31, 2005 and 2006, and the consolidated results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in Japan.

Without qualifying our opinion, we draw attention to Note 2 (g) to the consolidated financial statements, effective April 1, 2005, FUKUDA DENSHI CO., LTD. and consolidated subsidiaries adopted the new accounting standards for impairment of fixed assets.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2006, are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

KPMG AZSA & Co.

Tokyo, Japan
June 29, 2006

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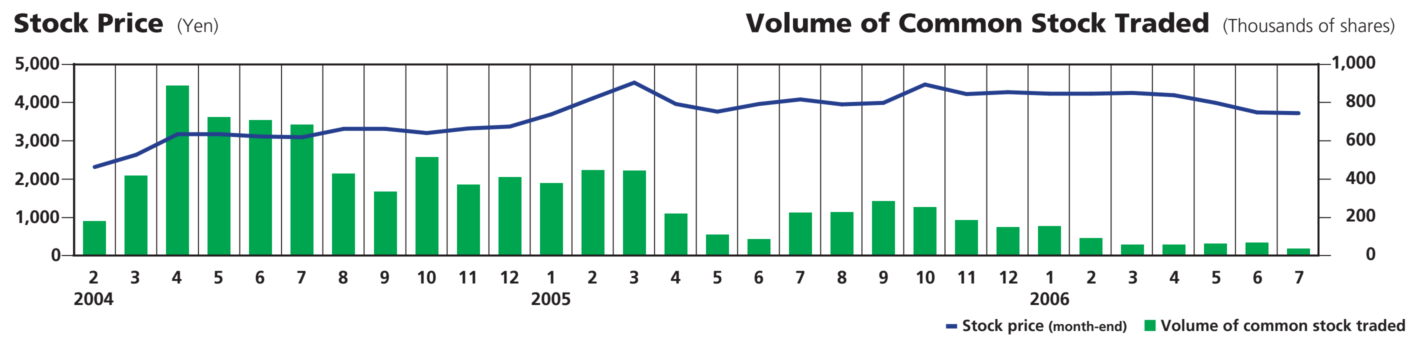
Japan
Philips Electronics Japan, Ltd.
Horiba, Ltd.
Hitachi Medical Corp.
Konica Minolta Group
Fujitsu Ltd.
TDK Corp.
Gunze Ltd.

Germany
MAQUET Gmbh & Co. KG

Sweden
MAQUET Critical Care AB

U.S.A.
St. Jude Medical, Inc.
Airsep Corp.

France
SAIME



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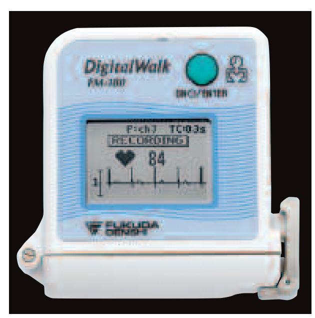

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