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ANNUAL REPORT 2016

Nikkiso's Value Creation

Challenging the unchallenged to continue contributing to society

Nikkiso's products hold large market shares internationally. Our products and technologies have contributed to creating new markets where the Company continues to lead as a pioneer. With original technologies and ideas, Nikkiso has built a reputation for excellence among customers for its high quality.

In recent years, Nikkiso has expanded its overseas network while entering into M&As. We are building manufacturing, sales, and after-service platforms to meet the demands of our customers expanding globally from anywhere in the world.

In 2017, we welcomed Cryogenic Industries as a new member of the Nikkiso Group thereby further expanding our reach and business domain. Through these and other means, we are looking beyond the simple role of a supplier and endeavoring to be a business partner to our customers.

Challenging the unchallenged, Nikkiso will continue contributing to society with its unique technological capabilities. Nikkiso will continue on its course for future development and evolution.

1953

Special Pump Co., Ltd. established.

1955

Received orders of water conditioning system for thermal power plants.

1956

Introduced Japan's first leak-free canned motor pump technology and began production and sales of pumps.

1960

Completed construction of the Higashimurayama Plant.

1961

Listing on the second section of the Tokyo Stock Exchange.

1967

Began import and sales of dialysis machines for the first time in Japan.

1969

Completed Japan's first dialysis machine and begins production and sales of machines.

1971

Listing on the first section of the Tokyo Stock Exchange.

1974

Completed construction of the Shizuoka Plant. (currently the Research & Engineering Institute)

1975

Began production and sales of dialyzers for hemodialysis.

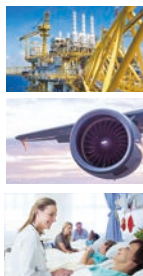
Foundation—Developing new markets and expanded business mainly in Japan

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Forward-Looking Statements

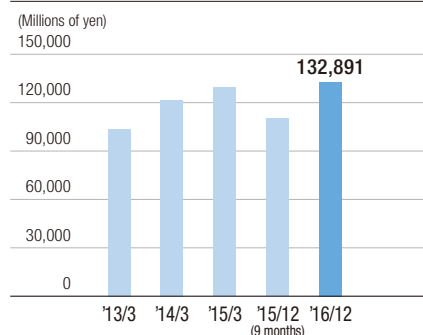
Forecasts regarding future performance in these materials are based on judgements made in accordance with information available at the time this presentation was prepared. As such, these projections involve risks and uncertainties. For this reason, investors are advised not to depend solely on these projections when making investment decisions. It is possible that actual results may change significantly from these projections due to a number of factors. Such factors include, but are not limited to, economic trends affecting the Company's operating environment, movements in the value of Japanese yen to the U.S. dollar, the euro, and other foreign currencies, and stock market trends in Japan. Also, the results projected here should not be construed in any way as being guaranteed by the Company.

Financial Highlight

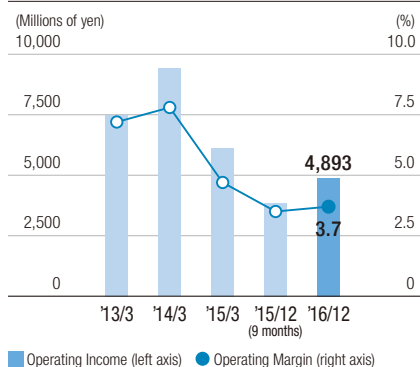
NIKKISO CO., LTD. and its Consolidated Subsidiaries

	'08/3	'09/3	'10/3	'11/3
Orders	¥ 77,375	¥ 67,605	¥ 74,771	¥ 84,537
Net sales	72,532	72,395	78,020	83,143
Gross profit	23,116	21,094	24,248	26,920
Selling, general and administrative expenses	16,208	16,323	18,585	21,521
Operating income	6,908	4,771	5,663	5,399
Net income attributable to owners of the parent	3,657	1,368	3,240	2,685
Capital investments	¥ 4,996	¥ 3,454	¥ 2,966	¥ 2,028
Depreciation expenses	2,411	3,173	2,982	2,802
R&D expenses	845	1,013	1,230	1,150
Total assets	¥ 91,157	¥ 83,688	¥115,131	¥122,009
Net assets	40,281	36,722	47,517	49,039
Interest-bearing debt and bonds	29,467	29,751	46,172	51,924
Cash flow:				
Cash flow from operating	¥ 4,102	¥ 4,410	¥ 11,674	¥ 6,005
Cash flow from investing	(4,840)	(3,921)	(25,208)	(609)
Cash flow from financing	5,275	(886)	15,005	6,624
Amounts per share: (Yen)				
Net assets	¥ 614.18	¥ 578.72	¥ 587.66	¥ 605.46
Net income attributable to owners of the parent	56.59	21.46	47.49	33.86
Cash dividend	12.00	12.00	12.00	12.00
Ratio:				
Equity ratio (%)	43.5	43.3	40.5	39.3
Return on equity (ROE) (%)	9.3	3.6	7.8	5.7
Return on assets (ROA) (%)	7.4	4.8	6.1	3.9
Payout ratio (%)	21.2	55.9	25.3	35.4
Debt/equity ratio (Times)	0.74	0.82	0.99	1.08
Number of employees	3,892	3,843	4,691	4,820

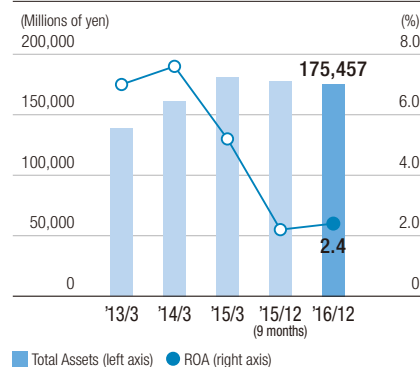
Net Sales



Operating Income/Operating Margin



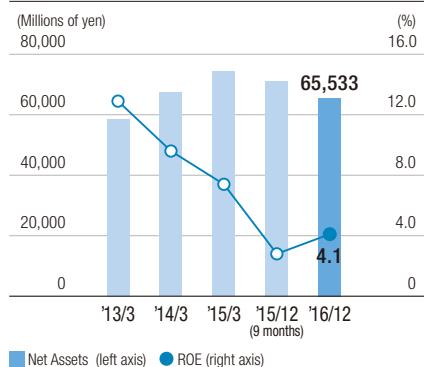
Total Assets/ROA



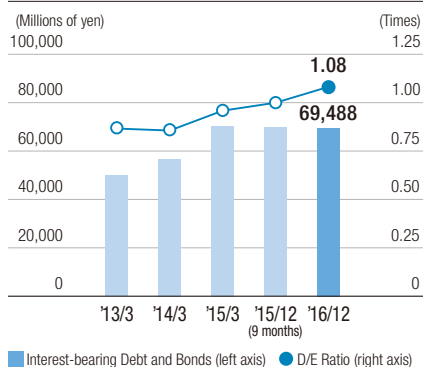
Notes The Company's consolidated fiscal yearend had been March 31 of every year. However, the Company has moved its consolidated fiscal yearend to December 31 from the fiscal period ended December 31, 2015. The aim of the global unification of the Nikkiso Group's fiscal yearend is to enhance the efficiency of management and business operations, such as financial disclosure and performance management. In accordance with the change, the profit and loss for nine months (Apr 1, 2015–Dec 31, 2015) for the Company and its subsidiaries whose closing date had been March 31 and the profit and loss for twelve months (Jan 1, 2015–Dec 31, 2015) for the subsidiaries whose fiscal year end had been December 31 are calculated on a consolidated basis for December 31, 2015 financial results. Performance figures for the same period of the previous fiscal year are reference figures that have not undergone an accounting audit.

(Millions of yen)					
'12/3	'13/3	'14/3	'15/3	'15/12 (9 months)	'16/12
¥ 94,922	¥103,410	¥122,325	¥133,752	¥113,060	¥ 130,980
90,138	103,670	121,549	129,256	110,218	132,891
29,626	34,239	43,954	47,913	40,856	45,225
23,045	26,757	34,530	41,792	37,012	40,332
6,581	7,482	9,424	6,121	3,844	4,893
3,317	6,898	5,897	5,100	2,031	2,729
¥ 3,243	¥ 4,378	¥ 9,093	¥ 7,467	¥ 4,829	¥ 7,635
2,738	2,841	3,453	4,982	4,739	5,150
1,126	1,434	1,889	1,812	1,688	1,679
¥118,235	¥138,345	¥161,284	¥181,187	¥177,646	¥ 175,457
50,393	58,558	67,372	74,464	71,142	65,533
44,332	49,844	56,737	70,302	69,843	69,488
¥ 3,961	¥ 8,399	¥ 5,588	¥ 8,184	¥ 3,265	¥ 12,609
(3,325)	(324)	(15,967)	(9,047)	(4,635)	(7,401)
(10,242)	3,653	2,048	11,579	(1,209)	(6,052)
¥ 639.98	¥ 742.03	¥ 853.06	¥ 945.30	¥ 904.40	¥ 902.45
42.47	89.41	76.46	66.12	26.34	36.93
12.00	14.00	16.00	16.00	16.00	16.00
41.8	41.4	40.8	40.2	39.3	36.6
6.8	12.9	9.6	7.4	2.8	4.1
5.3	7.0	7.6	5.2	2.2	2.4
28.3	15.7	20.9	24.2	60.7	43.3
0.90	0.87	0.86	0.96	1.00	1.08
5,185	5,408	6,198	6,389	6,558	6,870

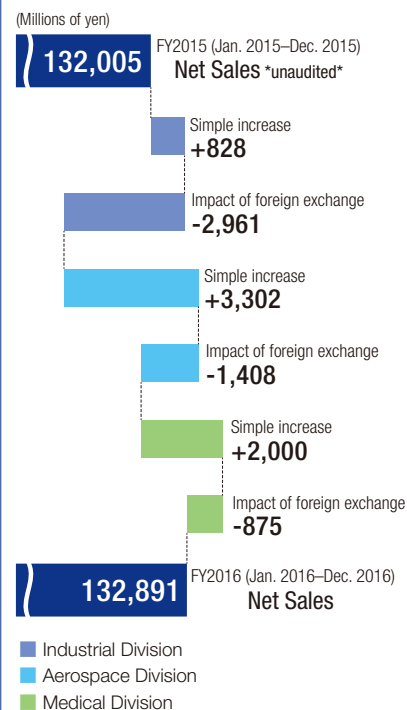
Net Assets/ROE



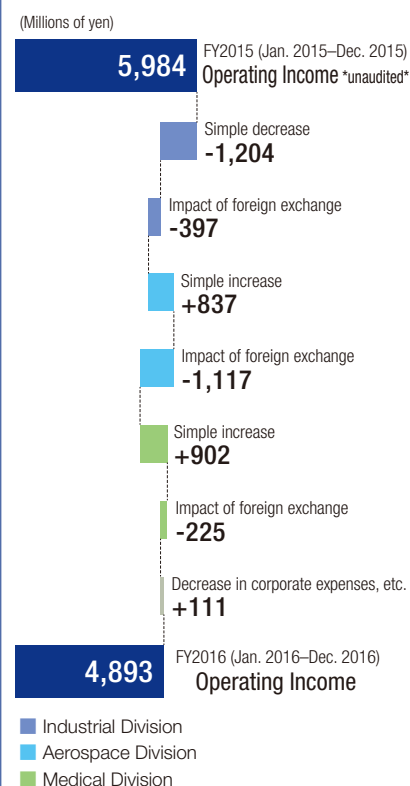
Interest-bearing Debt and Bonds & D/E Ratio



Analysis of Net Sales (FY2016 vs FY2015 *unaudited*)



Analysis of Operating Income (FY2016 vs FY2015 *unaudited*)





OUR ASPIRATIONS

Nikkiso's goal is to be a consistently unique and excellent company that attracts the expectations of customers.

Since the Company was first founded, Nikkiso has imported new and innovative technologies not readily available in Japan. Taking up the challenge of development geared toward commercial application, we have adopted a repetitive cycle of creation as the means to establish new markets. These efforts that span a wide range fields including special precision pumps, hemodialysis machines and carbon fiber reinforced plastic (CFRP) aircraft components, form the Company's core business.

In the past, market growth has triggered the shift away from specialized products. With this trend toward generalization, we have experienced a downturn in prices and profit margins. Overcoming these ebbs and flows within the market, and in line with business expansion from Japan to the world, we have become increasingly aware that our existence rests on an unwavering commitment to technology innovation. With this understanding, we recognize that the path ahead entails the consistent delivery of products and services that instill confidence in our customers, who comprise the world's leading players across a wide range of professional fields. Such overseas bases as LEWA GmbH and Geveke B.V., companies that joined the Nikkiso Group by way of merger and acquisition in recent years, have world-class technologies that boast high market shares in their specific fields, as well as the Company. Looking ahead, we will work diligently to be a company that attracts the expectations of customers more than ever, and to deliver products and services in difficult fields that other companies cannot easily imitate in an effort to meet customers' needs.

Leveraging its prominent technological capabilities, Nikkiso will work to achieve significant growth by providing high-level products and services that meet customers' needs.

PROGRESS UNDER THE MEDIUM-TERM BUSINESS PLAN NIKKISO 2020

Nikkiso has taken major steps toward achieving the goals set for 2020.

Nikkiso positions the fiscal year ended December 2016, the initial year of its medium-term business plan, Nikkiso 2020, as a “year to secure a firm foothold toward achieving business growth.” In doing so, the Company clarified issues to be addressed and implemented various measures such as the decision to establish the Miyazaki Factory in western Japan, in order to make its future vision of management more specific.

Meanwhile, expenses incurred primarily for implementing corrective measures aimed at raising the quality of products that fell below the required standards across all of the Company's businesses, and compensation paid for delays in delivery, placed downward pressure on profits. Having identified efforts to re-establish Nikkiso as a technology expert as a core initiative under the Nikkiso 2020 Plan, we do not see these recent quality-related issues as transient events. We fully acknowledge the gravity of these matters, which bring the very essence of management into question. Working in unison, the Group as a whole will make every effort to tackle and resolve these basic issues.

Medium-term business plan, “Nikkiso 2020”

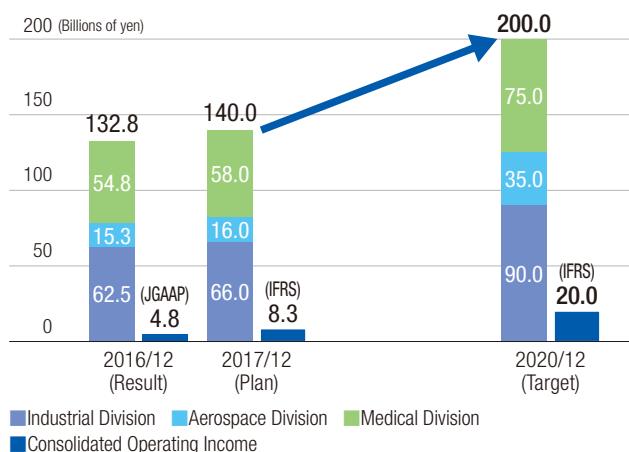
Basic Policies

- 1 Re-establish Nikkiso as technology expert**
Provide products and services that meet the true needs of customers by prominent technological capabilities in each business as a world-class supplier.
- 2 Strengthen management bases and profitability for further growth**
Reinforce structures that respond appropriately to changes in the business environment and the expanded business. Speed up strengthening each business's profitability and realizing returns on past investments.

Targets (Year ending December 2020)

Consolidated net sales: **200 billion yen**
Consolidated operating income: **20 billion yen**

*Under IFRS



CONSTRUCTION OF THE NEW MIYAZAKI FACTORY

We will nurture the Miyazaki Factory into a core production base that encompasses all of the Group's business domains generally in a bid to re-establish Nikkiso as a technology expert.

In line with the Company's public announcement in November 2016, Nikkiso decided to construct a new factory in Miyazaki City. Urgent preparations are currently underway in an effort to commence operations as an aerospace facility during the fiscal year ending December 31, 2018. Developed and designed by the Company, cascades made from carbon fiber reinforced plastic represent a mainstay Nikkiso product. Nikkiso has captured a lion's share of the world's commercial aircraft market. In order to ensure stable supply, the Company's production base was transferred from Shizuoka to Kanazawa in 2014. Driven by the upswing in commercial aircraft demand attributable to the growing needs of newly emerging nations as well as low cost carriers, calls for Nikkiso to lift its production capacity have exceeded expectations. In order to address this customer demand, the decision was made to commence production in Miyazaki as an addition to operations at the Kanazawa Plant.

In addition to increased production of cascades, our intentions are to utilize the new factory as a core facility to

manufacture highly complex aircraft components for which we anticipate receiving orders in the future and to develop and introduce new manufacturing technologies. Moreover, the new factory will have a key role in unifying management of the Group's aerospace production and technology bases in Japan and overseas. The Miyazaki Factory take the lead in establishing quality control and production technologies. After consolidating with the Research and Engineering Institute in Shizuoka, the factory will work to gain the necessary skills and capabilities to manufacture aircraft components in earnest.

With a view to expanding its business, Nikkiso's policy is to nurture the Miyazaki Factory into a core manufacturing base that covers the entire scope of the Group's business generally from 2020. Beginning with the construction of a test plant for liquefied natural gas (LNG) cryogenic pumps, which are expected to experience increased demand, this includes renewing and increasing production capacity in line with a review of the production function in the pump business, and boosting production of hemodialysis machines.

The new Miyazaki Factory will boast a number of appealing qualities. Despite its close proximity to the city, the Company has successfully secured a significant amount of land. For these and a variety of reasons, we are confident in our ability to attract excellent human resources. Focusing mainly on local recruitment, we plan to hire roughly 500 employees as of 2021.



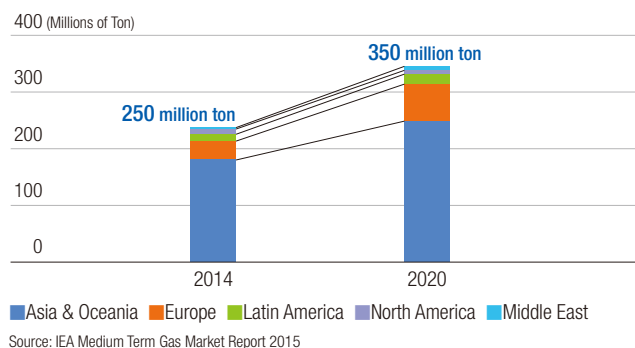
From left: Osamu Kushima (Chairman, Miyazaki City Council), Tadashi Tojiki (Mayor, Miyazaki City), Toshihiko Kai (President & CEO, Nikkiso Co., Ltd.), and Shunji Kono (Governor, Miyazaki Prefecture)

EXPANDING BUSINESS IN LNG-RELATED FIELDS

Nikkiso will endeavor strengthen its business activities and expand the scope of operations in LNG-related fields that can be expected to grow.

As a source of energy that emits less carbon dioxide and nitrogen oxide than crude oil during combustion and does not emit sulfur oxide, LNG is attracting interest due to its low environmental impact and is being increasingly used throughout world. In addition, the use and application of LNG is expected to expand even further as production volumes increase as a result of the shale gas revolution in the United States. Looking

Future Demand Growth of LNG



ahead, global demand is projected to increase especially in Asia. Estimates indicate an upswing of approximately 45% from 2014 to 2020.

Nikkiso's activities in the LNG-related field began when the Company entered into a technological alliance with J.C. Cater of the United States in 1982. Shortly thereafter, Nikkiso delivered the first cryogenic pump manufactured in Japan in 1985. Cryogenic pumps help to overcome the difficulties in handling the super-low temperature (minus 162°) of LNG and the need for advanced technologies. Nikkiso is one of only a handful of companies that can manufacture cryogenic pumps and that actively supplies products to the rest of the world.

In this instance, Nikkiso has decided to include the Cryogenic Industries Group, a major industrial gas and LNG plant and equipment manufacturer, under its Group. In addition to strengthening its technological capabilities in the LNG-related field, which is expected to enjoy future growth, this initiative is projected to help the Company expand the scope of its operations.

OUTLOOK FOR THE FISCAL YEAR ENDING DECEMBER 31, 2017

In addition to targeting an increase in both revenue and earnings, Nikkiso will adopt international financial reporting standards (IFRS).

In the fiscal year ending December 31, 2017, Nikkiso is projecting orders of ¥145.0 billion and net sales of ¥140.0 billion. The Company intends to adopt IFRS from the fiscal year ending December 31, 2017. On this basis, operating income is expected to come in at ¥8.3 billion and net income to total ¥6.7 billion. In line with generally accepted accounting principles in Japan, Nikkiso's orders, net sales, and operating income are forecast to increase 10.7%, 5.3%, and 22.6%, respectively compared with the fiscal year ended December 31, 2016.

Looking at the business environment in which the Company operates, conditions are far from perfect. This is mainly due to such factors as the strong yen and the slump in crude oil prices. Under these circumstances, Nikkiso will clarify those medium- and long-term management issues that need to be addressed. We will prioritize efforts to resolve these issues on a steady step-by-step basis, rather than overreact to changes in our external environment.

FY2017 Plan

(Billions of yen)

	FY2016 -JGAAP-	FY2017 -JGAAP-	FY2017 -IFRS-
Orders received	130.9	145.0	145.0
Net sales/ Sales IFRS	132.8	140.0	140.0
Operating income	4.8	6.0	8.3
Net income attributable to owners of the parent/ Profit IFRS	2.7	4.5	6.7

GLOBAL GOVERNANCE

Nikkiso will establish a global governance system in response to the rapid growth in its overseas network.

Following recent acquisitions, the Nikkiso Group will boast a total workforce in excess of 7,000 employees. Of this total, close to 80% are located overseas. As a result, we recognize more than ever the importance of reinforcing our global governance functions and capabilities. As one step in our efforts to reinforce global governance, we are initially focusing on the Group's LEWA-related operations. While the executive function and day-to-day operations are essentially carried out by local German staff, the Nikkiso director in charge together with responsible staff are working in concert with local external Board members to set up a supervisory board. Comprised of the aforementioned players, the supervisory board serves as an important decision-making mechanism while at the same time overseeing the executive function. Without exception, and including the recently acquired Cryogenic Industries Group, we plan to establish a uniform global governance structure and systems that equally cover every member of the Nikkiso Group. As unlisted companies, Cryogenic Industries Group is unfamiliar with the processes of consolidated account settlement as well as governance requirements as they apply to publicly listed companies. Moving forward, we will work to swiftly put in place the necessary structure and systems.

From the management and business perspectives, developing human resources with the ability and skills to assume management positions is an extremely important issue. This is especially true as the scale of the Company continues to expand. With this in mind, we have commenced study group meetings that could otherwise be referred to as management tutorials or academies. Starting from last year, we have invited around 10 to 20 participants to attend these meetings at one time on a monthly basis. Each meeting lasts for around half a day and includes myself, divisional general managers and their immediate subordinates. In addition to informal discussions, meetings cover a wide range of topics including my vision of the future as CEO. Despite the limited period of just one year, I can see a significant change in the mindsets of participants. I also sense that members are gaining deeper insights into business and management.

PROFIT ALLOCATION AND SHAREHOLDER RETURN POLICY

While Nikkiso will continue to undertake forward-looking investments aimed at medium- and long-term growth, the Company will also work to provide ongoing and stable returns to shareholders.

Nikkiso's basic capital policy is to secure sustainable growth and to improve the Company's medium- and long-term corporate value while pursuing optimal balance between the need to maintain a sound financial position, capital efficiency, and the proper return of profits to shareholders. Recognizing that the continuous and stable return of profits to shareholders is an important component of our capital policy, we work to allocate profits accordingly while taking into consideration our performance and business environment. At the same time, we strive to expand internal reserves with a view to developing new business and strengthening production systems.

For the fiscal year ended December 31, 2016, Nikkiso again declared an annual dividend of ¥16 per share. Split over two separate occasions, the Company also acquired and retired six million shares of treasury stock. In this manner, we worked diligently to increase our payout ratio.

As I have mentioned, we are currently carrying out the five-year medium-term business plan, Nikkiso 2020. During the first half of the plan, we intend to prioritize capital investment in a bid to expand the business. While we expect to declare the same dividend of ¥16 per share for the fiscal year ending December 31, 2017, we will place considerable emphasis on effectively applying internal reserves so that we can successfully achieve the targets set out under our medium-term business plan and ensure the definitive growth of our business going forward.

MESSAGE TO SHAREHOLDERS

The Nikkiso Group will work as one to promote the growth and development of its businesses so as to fully maximize its inherent potential.

Nikkiso is a company with unlimited potential as well as considerable technological expertise. Drawing on its ability to develop advanced technologies, the Company delivers products and services that are both functional and reliable. With the competitive advantage that these features provide, we are confident in our ability to secure substantial growth. As a part of efforts to ensure its ongoing expansion, Nikkiso has taken the bold steps to acquire the Cryogenic Industries Group and to construct a new factory in Miyazaki. Cognizant of its responsibilities as a going concern, the Company has at the same time adopted a prudent approach and identified associated risks.

Confident in the possibilities that the market provides, and fully aware of the expectations placed on the Company, we have a clear view of the next step in the road ahead. While working together as a unified group to realize our potential, we understand that it will take some time before our efforts bear fruit and generate profits. Nikkiso is committed to actively disclosing all pertinent information as a way of producing results. As we endeavor to achieve our goals, we kindly request the continued support and understanding of all our investors.

President & Chief Executive Officer
Toshihiko Kai



Aiming for one step further

TAKING ON THE CHALLENGE OF NIKKISO 2020

Nikkiso is implementing the medium-term business plan Nikkiso 2020 that aims to position Nikkiso as a corporate group with solid earnings power generated by its prominent technological capabilities as the source of future growth in the period of five years until December 31, 2020.

In this section, we will describe the core efforts in each business in order to strengthen our management base and profitability for further growth and to re-establish Nikkiso as a technology expert, as two basic policies under Nikkiso 2020.

Construction of New Plant in Miyazaki and Second Plant in Vietnam to Expand Production Capacity

Long-term demand for aircraft is robust, and the number of commercial aircrafts in operation is expected to increase by 1.8 times from 21,597 in 2016 to 38,866 in 2036. Recently, demand for medium to small aircraft with good fuel efficiency has grown significantly with the emergence of low cost carriers (LCCs), and accordingly demand is high for our cascades made of CFRP (carbon fiber reinforced plastic) that contribute to lighter aircraft and improved fuel efficiency. As a result, we are beginning to reach the limits of production capacity at the Kanazawa Plant where cascades are produced. For that reason, it was decided to construct a new plant in Miyazaki in order to respond to demands for increased production by aviation parts manufacturers.

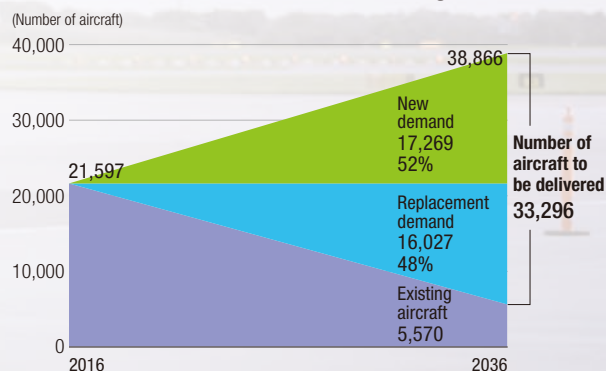
The new plant is near a port and airport in a location with transport infrastructure in place, and a sufficiently wide area of 12 hectares (approximately 2.5 times the size of the Tokyo Dome) has been secured for construction. The plant, which is scheduled to start operations in 2018, is initially capable of producing about the same volume of cascades as the Kanazawa Plant, and cascade production capacity is expected to double after the completion of this plant. In addition to cascades, we plan to produce aircraft components for which orders can be expected in the future at the Miyazaki Plant, and going forward, we will develop the plant as a key plant for all of the Company's business domains for the next generation, with an eye to the production of pump products utilizing advanced technologies and response to the increased production of hemodialysis machines.

If progress goes according to plan, the total investment up to FY2021 is expected to be ¥17.0 billion, and the number of employees who will consist mainly of those locally hired is expected to be about 500.

In addition, we have also commenced the construction of a second plant in Vietnam because we have begun to reach the limits of production capacity at the Vietnam Plant that has conducted production of engine parts and main wing parts since shipments began in 2011. The second plant is scheduled to start operations in 2018.

Going forward, we will steadily develop our business structure in line with the expansion of operations as we aim for further business growth as a leading company in aircraft components.

Results of Demand Forecast for Passenger Jets



Source: Japan Aircraft Development Corporation (March 2017), Worldwide Market Forecast 2017 – 2036





Tackling Overseas Dialysis Markets

Weigao Nikkiso (Weihai)
Dialysis Equipment Co., Ltd.

Since Nikkiso developed and introduced to the market Japan's first dialysis machine in 1969, the Company has responded to evolving medical treatments and the transformation of the healthcare environment as a dialysis machine pioneer in Japan, and has constantly endeavored to develop new technologies.

Based on its trustworthiness and track record, and having over 50% share of the hemodialysis machine market in Japan, Nikkiso is currently seeking to raise its profile in overseas markets and further expand its business.

One such market is China, which in recent years has seen a rapid rise in the numbers of dialysis patients. Currently, the country has the second highest number of patients, following the United States, and in front of Japan, which has the third highest number. Moreover, with regard to patients with kidney disease, it is said that there are also over 1.5 million potential patients who are not receiving dialysis therapy. Going forward, along with Chinese government-driven healthcare system reform, it is projected that the country will see even higher demand for dialysis therapy. This is why at Nikkiso we see the Chinese market as a giant that surpasses that of Japan, and we are committed to developing its potential.

The dialysis business in China has taken great strides, spurred on by the establishment in 2010 of Weigao Nikkiso (Weihai) Dialysis Equipment Co., Ltd., a joint venture with the China-based Weigao Group, a major maker of medical equipment in China, such as dialyzers and blood tubing lines.

Nikkiso brings to the table exceptional manufacturing capabilities cultivated over approximately 50 years, and high quality, detail-oriented maintenance services, while the Weigao Group offers its sales and customer network that extends throughout China. In this way, just as in Japan, we are building a manufacturing, sales and maintenance framework in which we can offer

a high standard of services.

Following first starting shipments in China in 2012, unit sales of Nikkiso Group dialysis machines have grown steadily, and in fiscal 2016, unit sales had increased by 22% compared to the same period of the previous fiscal year.

Under the goal that is "Nikkiso 2020," our medium-term business plan, in addition to the business in Japan, the Medical Business being able to significantly increase its presence in overseas markets will be, we believe, the difference between success and failure. In addition to our current main pillar of China, and following that country in terms of scale, Europe, moving forward we plan to expand our business in the United States, as well as Central and South America, and even in other markets.

By penetrating overseas dialysis markets with products and services that are available at the same high level that is standard in Japan, Nikkiso will also contribute to the development of dialysis therapy worldwide, and aims to further expand the scale of its business.












On-site assembly operations
at the factory in China



Training centers have been established at five locations, including Beijing and Shanghai, to conduct machine maintenance courses for customers

Major Applications of High-performance/High-quality Deep Ultraviolet LEDs

Environmental	Medical and Life science	Industrial
 Water and sewage  Air purification  Aquaculture	 Phototherapy  Measurement and analysis  Prevention of in-hospital infection	 Adhesive  Printing  Coating

Initiatives for Deep Ultraviolet LEDs

The 2014 Nobel Prize in Physics was bestowed for the invention of the blue light-emitting diode. Working together with Professor Hiroshi Amano, who was honored with the Nobel Prize for the blue LED, Nikkiso is currently endeavoring to commercialize the deep ultraviolet LED (“DUV-LED”).

The DUV-LED promises applications in a broad spectrum of fields in which Nikkiso excels, from industrial and environmental health to medical applications. This includes utilizing the powerful disinfection effects of UVB-/UVC-LEDs with wavelengths from 350nm to 255nm to replace the mercury lamps conventionally used for disinfection. We are moving forward on the development of water treatment systems that take advantage of DUV-LEDs with their many characteristics.

In addition to the strong disinfection effects DUV-LEDs have on water and air, compared to conventional mercury lamps, they also have the merits of being easily integrated, compact and energy saving. At Nikkiso, we have a bold dream of changing the world with DUV-LEDs, bringing to reality a future where clean water is available to anyone, anywhere around the world.

Topic

The Minamata Convention on Mercury Comes into Effect

The “Minamata Convention,” an international treaty that seeks to prevent mercury pollution, reached the milestone of ratification by 50 countries on May 18, 2017, thereby setting the stage for the convention to come into force on August 16, 2017. Consequently, it is anticipated that in line with the increasing prevalence of DUV-LEDs, an alternative product with a low environmental burden, ultraviolet mercury lamps will also become a controlled product.

2006

Based on the research results of Nobel laureates Professor Isamu Akasaki and Professor Hiroshi Amano, UV Craftory Co., Ltd. was established with the aim of commercializing DUV-LEDs

2012

Sample sales began for DUV-LEDs

2014

Completed Hakusan Factory for mass production of DUV-LEDs, as well as the design, development and fabrication of UV-LED modules

2015

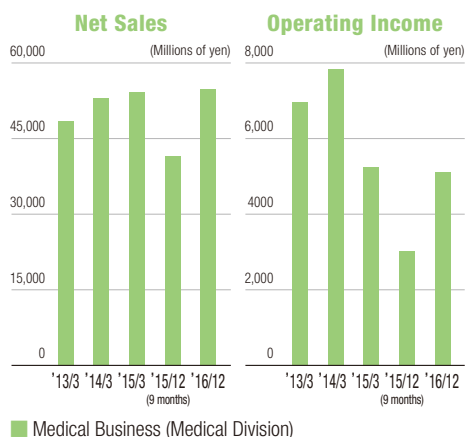
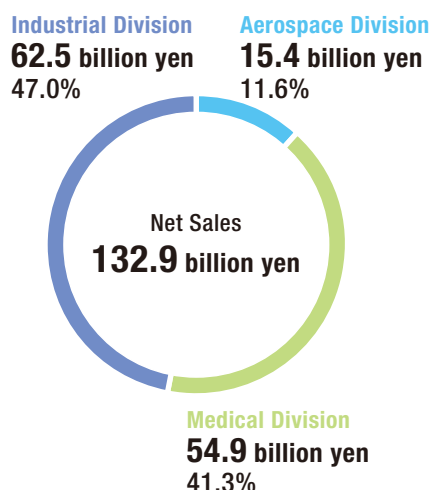
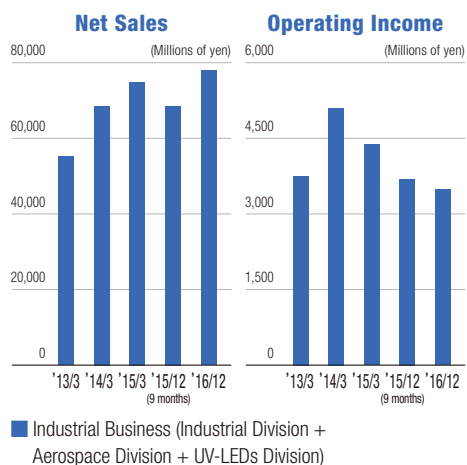
Successful development of mass-production-ready 50mW DUV-LEDs, which offer the world’s highest output

2015

Basic agreement with Taiwan-based Formosa Plastics Group regarding strategic business collaboration in the area of DUV-LEDs

2016

Acquisition of AquiSense Technologies LLC, a company that developed water disinfection-related applications and other work



Sales composition by region

Main customers

Main products

Market environment

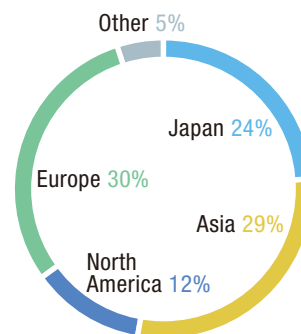
Customer value

Social value

Business activities

Value creation

Industrial Division



Major oil companies, EPCs, power companies, chemical manufacturers, etc.

- Reciprocating pumps/systems
- Cryogenic pumps
- Canned motor pumps (non-leakage)
- Systems for power plants



Canned motor pump



Cryogenic pumps for LNG



Reciprocating pumps/system

- Stagnant investment appetite in the crude oil and gas fields despite signs of recovery in crude oil prices
- Growth in LNG (liquefied natural gas) trading volumes
- Expansion trend of global demand for energy from a long-term viewpoint



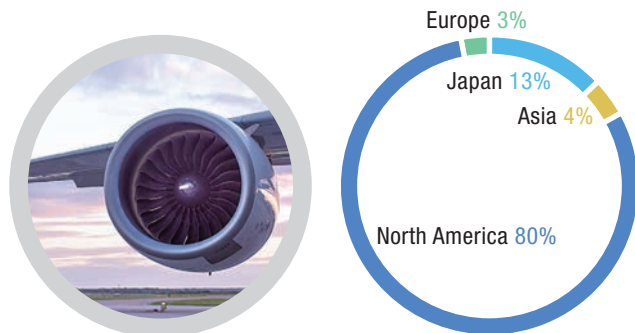
Achievement of stable system operations under harsh conditions

- Achieve stable system operations under harsh conditions, such as high pressure and extremely low temperatures, through advanced technical expertise that pursues the special characteristics of specific markets including crude oil and natural gas extraction and LNG transport

Contributions to the stable supply of energy and a reduction in environmental impact

- Contribute to the stable supply of energy for which global demand is increasing
- Contribute to a reduction in environmental impact through the supply of pumps for LNG that emits fewer pollutants when burned compared to coal and crude oil

Aerospace Division



Aircraft components manufacturers

- CFRP jet engine/nacelle parts (Cascades, blocker doors, torque boxes, fan case liners)
- CFRP main wing peripheral components (Fixed Leading Edge, Winglet)



Cascade

Fixed Leading Edge

- Robust commercial aircraft demand due to an increase in the number of passengers accompanying the economic development of emerging countries and an increase in LCCs (low-cost carriers)



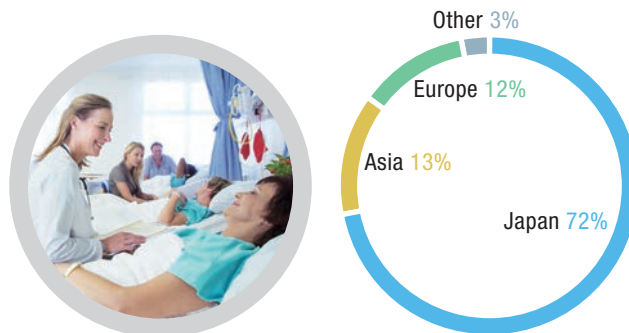
Contributions to improvements in aircraft fuel efficiency

- Contribute to improvements in aircraft fuel efficiency by manufacturing CFRP (carbon fiber reinforced plastic) cascades for jet engine nacelles, which were traditionally made of metal, allowing a reduction of weight by two-thirds without compromising strength and durability

Achievement of low-carbon air transport

- Contribute to reducing CO₂ emissions from air transport through improvements in aircraft fuel efficiency

Medical Division



Medical institutions

- Dialysis-related products (Dialysis machines, dialyzers, blood tubing lines, powder-type dialysate, etc.)
- CRRT (continuous renal replacement therapy)-related products (CRRT machine, disposables, etc.)
- Artificial pancreases
- Apheresis products
- Microwave surgical energy devices



hemodialysis machine, DBB-100NX



CRRT machine, Aquarius

- **Japan:** Downward trend in investment appetite toward medical institutions due to the government's policy to reduce medical costs and a slowdown in the growth of the number of dialysis patients



- **Overseas:** Expansion of global dialysis market mainly in China and emerging nations



Contribution to the development of dialysis therapy

- Contribute to the development of dialysis therapy by responding to the evolution of dialysis therapy and changes in the medical care environment as a dialysis machine pioneer since developing the first dialysis machines produced in Japan

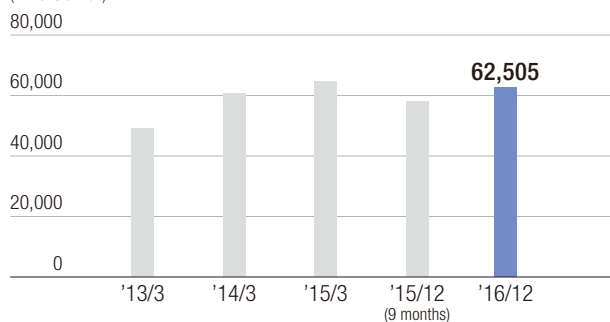
Contribution to improvements in QOL of patients

- Contribute to improvements in the QOL (quality of life) of the increasing worldwide number of patients with end-stage renal disease by providing high-quality dialysis machines in Japan and overseas

INDUSTRIAL DIVISION

Net Sales

(Millions of Yen)



Performance for 2016 (Fiscal Year Ended December 31, 2016)

During the fiscal year ended December 31, 2016, orders in the Industrial Division came to ¥61,013 million, and net sales amounted to ¥62,505 million. Orders were down 3.8%, and net sales were down 3.3% year on year. While orders and net sales increased on a local currency basis, they unfortunately declined on a yen basis as a result of the impact of exchange rates.

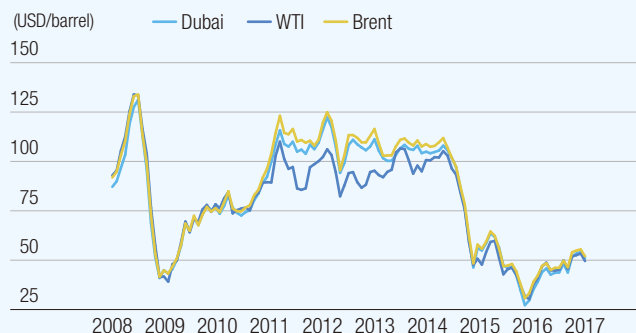
Looking at the market environment surrounding the Industrial Division, while there was a moderate increase in the crude oil price that was stagnant for a long period of time as a result of factors such as the reaching of an agreement among oil-producing countries to reduce production, it was not enough for a full-scale recovery of capital investments in the upstream sector by oil-producing countries and major oil companies.

While LEWA strengthened its business structure through the augmentation of production capacity and the acquisition of a pump package factory in the Middle East, and focused on projects in the petrochemical field and after-sales services, it was not enough to compensate for sluggishness in the upstream sector, including oil and gas mining.

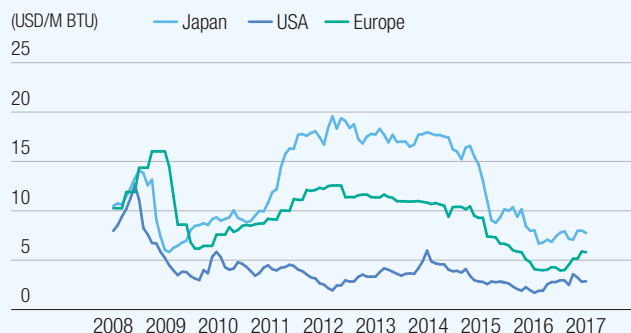
In our domestic business, we promoted efforts to obtain orders with more of a focus on profitability, in addition to the growth of sales of small high-speed pumps for the semiconductor industry and after-sales services, leading to improved profits.

In projects for power plants, we focused on obtaining orders for thermal power plants in which customers have continued to be keen to invest following the liberalization of retail sale of electricity, as well as the execution of projects that we have received orders for, in response to the stagnation of

Crude oil price



Natural gas prices



projects for nuclear power plants. In addition, sales of Warm Isostatic Laminator for the electronic component manufacturing industry grew.

Forecasts for 2017 (Fiscal Year Ending December 31, 2017)

In the Industrial Division, we will work to strengthen the production structure from a medium- to long-term perspective. We will also revise the production and sales structures for various pumps and systems in cooperation with overseas subsidiaries and affiliated companies such as LEWA, and rapidly pursue fundamental business restructuring in consideration of growing demand for LNG (liquefied natural gas) and industrial gas equipment, with the aim of improving profitability.

In April 2017, it was decided to incorporate the major industrial gas and LNG plant and equipment manufacturer, the Cryogenic Industries Group, within the scope of consolidation. Through this acquisition, we will strengthen conventional business in the LNG field and aim to enter new fields such as industrial gas and hydrogen.

Through these efforts, we will develop business foundations for medium- to long-term growth in the Industrial Division with the aim of achieving the goals of the medium-term business plan Nikkiso 2020.

Regarding the outlook for the fiscal year ending December 31, 2017, Nikkiso will aim for orders of ¥71,000 million (up 16.4% year on year), and net sales of ¥66,000 million (up 5.6% year on year) as signs of recovery in the market environment can be seen.

Increase in Demand for Cryogenic Pumps due to Growing LNG Trading Volumes

Natural gas is transported around the world and consumed as LNG (liquefied natural gas) because the volume of natural gas is reduced by about one six hundredth when it is cooled to minus 162 degrees and liquefied. There are high expectations towards LNG as a clean energy source for its lower levels of emissions of harmful substances when burned, including carbon dioxide and nitrogen oxide, compared to other fossil fuels such as coal and oil. The cryogenic pumps that the Company manufactures are essential for transporting this LNG from producer countries to consumer countries.

Cryogenic pumps are made of differing types of metal for each main component to ensure strength and durability. As metal that has a different shrinkage rate has to be operated in super-low temperature liquid, accuracy of one hundredth of one millimeter is required even for design of a large pump with a height of six meters. Therefore, cryogenic pumps cannot be easily manufactured. Nikkiso is unrivaled in the manufacturing of these cryogenic pumps that are among the largest in the world.



Installation of cryogenic pump

AEROSPACE DIVISION

Performance for 2016 (Fiscal Year Ended December 31, 2016)

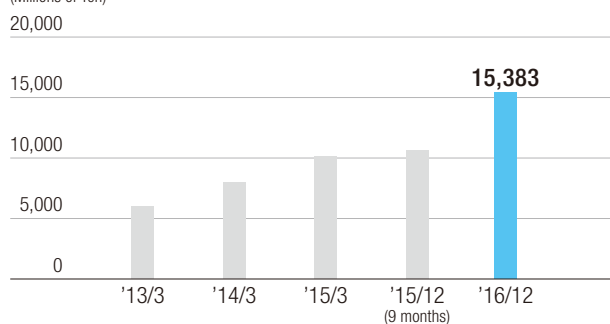
During the fiscal year ended December 31, 2016, orders in the Aerospace Division came to ¥15,383 million, and net sales amounted to ¥15,383 million. Orders were up 15.6%, and net sales were up 14.0% year on year, as there was steady growth. While exchange rates had a negative impact in the same manner as the Industrial Division, it was offset by growth in orders and net sales.

Looking at the related market environment, while there were some reductions in production of large aircraft, overall demand for aircraft remained robust. As a result, record-high shipments were achieved for our mainstay cascades in Japan, while production proceeded at full tilt for main wing parts including Fixed Leading Edge and Winglet at the Hanoi Plant in Vietnam.

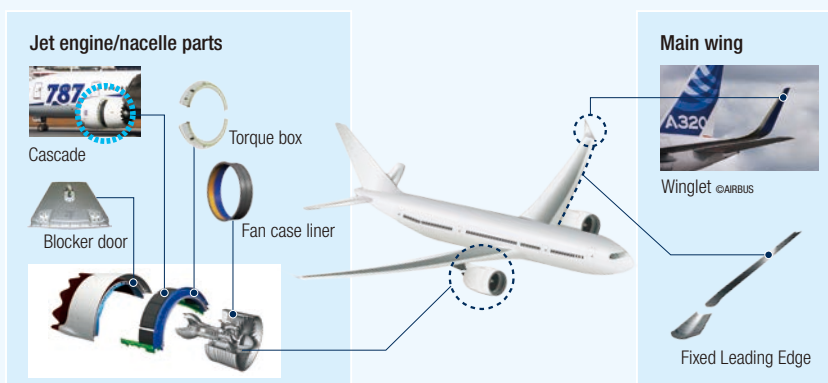
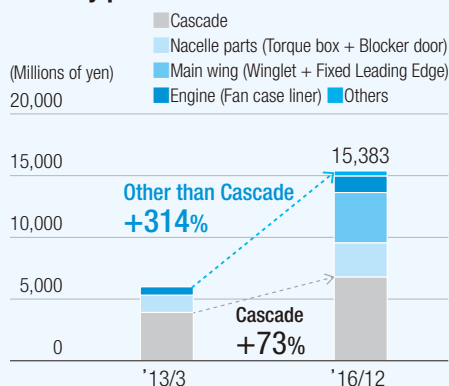
While orders and sales were steady for the Aerospace Division, profits were flat year on year as a result of factors such as an increase in expenses to develop our business structure in accordance with the expansion of operations, a response to quality defects at the Hanoi Plant in Vietnam, and a decrease in profit margins on products produced in Japan due to the progress of yen appreciation.

Net Sales

(Millions of Yen)



Sales by product



Forecasts for 2017 (Fiscal Year Ending December 31, 2017)

Looking at the market environment surrounding the Aerospace Division, commercial aircraft manufacturers actively pursue increased production of existing models and development of new models of aircraft, and the procurement of components in the Asia region has accelerated, against the backdrop of robust demand for air transport.

In order to steadily respond to these customer trends, the Company, with production bases in Japan and Vietnam, has implemented various measures to strengthen production capacity, including the establishment of new production facilities for fan case liners at the Higashimurayama Plant in August 2016 and implementation of the plan to expand the Hanoi Plant according to schedule.

Furthermore, Nikkiso decided to construct a new plant in Miyazaki City in order to promptly secure production capacity for cascades for which even further growth in demand is expected. In addition to pursuing increased cascade production and accepting orders for new products at the Miyazaki Plant, we plan to have it function as a key plant for the centralized management of the production systems of various plants in Japan and overseas, as well as quality management and the establishment of production technologies.

In consideration of the above, regarding the outlook for the fiscal year ending December 31, 2017, Nikkiso will aim for orders of ¥16,000 million (up 4.0% year on year), and net sales of ¥16,000 million (up 4.0% year on year).

Decision to Construct a Second Plant in Vietnam

The CFRP (carbon fiber reinforced plastic) cascades (jet engine nacelle parts) that we manufacture are used by major aircraft companies such as Boeing and Airbus around the world, and they currently have at least 90% of global market shares.

In recent years, we have made good use of the trust and advanced technologies cultivated in the production of cascades to expand into production of various components including engine nacelle parts such as torque boxes and main wing parts including Fixed Leading Edge and Winglet. Accordingly, we have gone from being known as a cascade manufacturer to an aircraft components manufacturer.

While the Vietnam Plant is equipped with state-of-the-art facilities, which began manufacturing and shipping CFRP aircraft components other than cascades in 2011, it has already begun to reach the limits of production capacity. Therefore, Nikkiso decided to construct a second plant. The total investment amount will be \$28.5 million, and operations are scheduled to start in 2018.



First Plant in Vietnam

MEDICAL DIVISION



Performance for 2016 (Fiscal Year Ended December 31, 2016)

In the fiscal period ended December 31, 2016, the Medical Business recorded orders of ¥54,477 million and net sales of ¥54,895 million. Compared to the same period of the previous fiscal year, orders were essentially flat, while net sales rose 2.1%. The Medical Business was also buffeted by the negative impact of currency exchange rates, but that was offset by the rise in net sales.

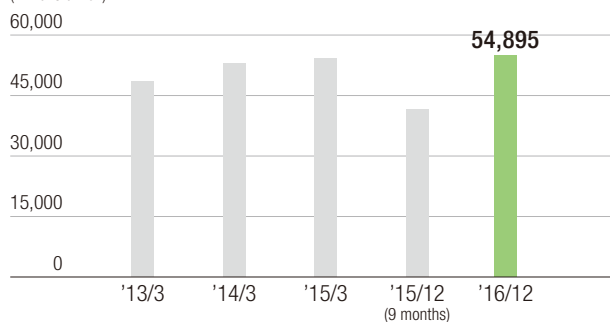
Confronted with an increasingly severe business environment in Japan, in the hemodialysis business we bolstered our sales framework that utilizes the appeal of our products and maintenance structures to increase sales of dialysis machines. In markets outside of Japan, we continued to proactively expand business operations, primarily in China with the local joint venture, Weigao Nikkiso (Weihai) Dialysis Equipment Co., Ltd., and expanded sales channels in the rapidly growing hemodialysis machine market. Furthermore, in addition to steady growth in the European market, sales grew in Central and South America, and in Southeast Asia.

With respect to disposable products, sales of powder-type dialysate and blood tubing lines, products that offer added value when combined with our dialysis machines, were robust, although sales of dialyzers struggled.

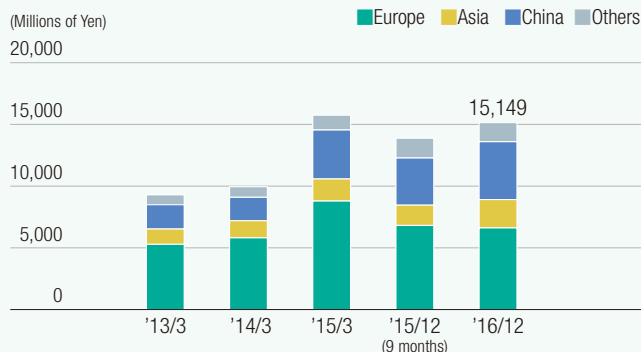
In the continuous renal replacement therapy (CRRT) business acquired from U.S.-based Baxter International Inc., we endeavored in the main markets in Europe and China, but the impact of escalating competition, depreciation of the British pound, and depreciation of the renminbi led to a deterioration in the business.

Net Sales

(Millions of Yen)



Overseas sales by region



Product inspection at a factory in China

Forecasts for 2017 (Fiscal Year Ending December 31, 2017)

Looking at the Medical Business market environment, in Japan, the Company's core market, the advance of government measures to curb medical costs, a slowing growth rate in the number of dialysis patients, and other factors are leading the business environment to a point of transition, and projections are for ongoing severe conditions.

Given this, at Nikkiso, we are working to develop new products with a precise grasp of improve efficiency, automation and other healthcare institution needs, and also to implement an optimal business structure. Moreover, in overseas markets, in addition to markets where we have normally placed emphasis, such as China and Europe, we will also strengthen our sales efforts to major providers of kidney care.

In the CRRT business, which in fiscal period ended December 31, 2016 experienced difficult conditions, we will strengthen our global sales structure, develop and introduce new types of machines in order to strengthen market competitiveness, and move forward on other initiatives that work to raise operating revenue.

In conjunction with this, we are also steadily progressing with products to introduce to new business fields, including the STG-55 artificial pancreas, Acrosurg., a microwave surgical energy device, and Immunopure Apheresis products for patients with ulcerative colitis.

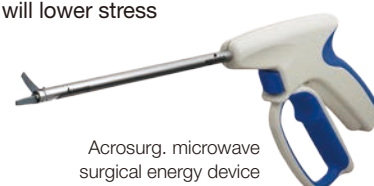
As a result of these factors, for the fiscal period ending December 31, 2017, projections are for orders of ¥58,000 million, up 6.5% from the same period of the previous fiscal year, and net sales of ¥58,000 million, an increase of 5.7%.

Sales Commence for Acrosurg., a Microwave Surgical Energy Device

In the Medical Business, by leveraging our technological prowess, maintenance skills and ability to communicate with customers, cultivated in our experience in the medical field, we are driving forward with the launch of new products that go beyond dialysis. As one part of our efforts, we have developed Acrosurg., a surgical device that utilizes microwaves, which was made available for sale as of April 2017.

Utilizing the same microwaves produced in a microwave oven, Acrosurg. oscillates the H₂O molecules of living tissue, heating that tissue to coagulate and sealing blood flow. There is no worry that tissue will be burned, and as peripheral damage is kept to approximately 1mm, rapid post-surgery healing of incisions can be expected.

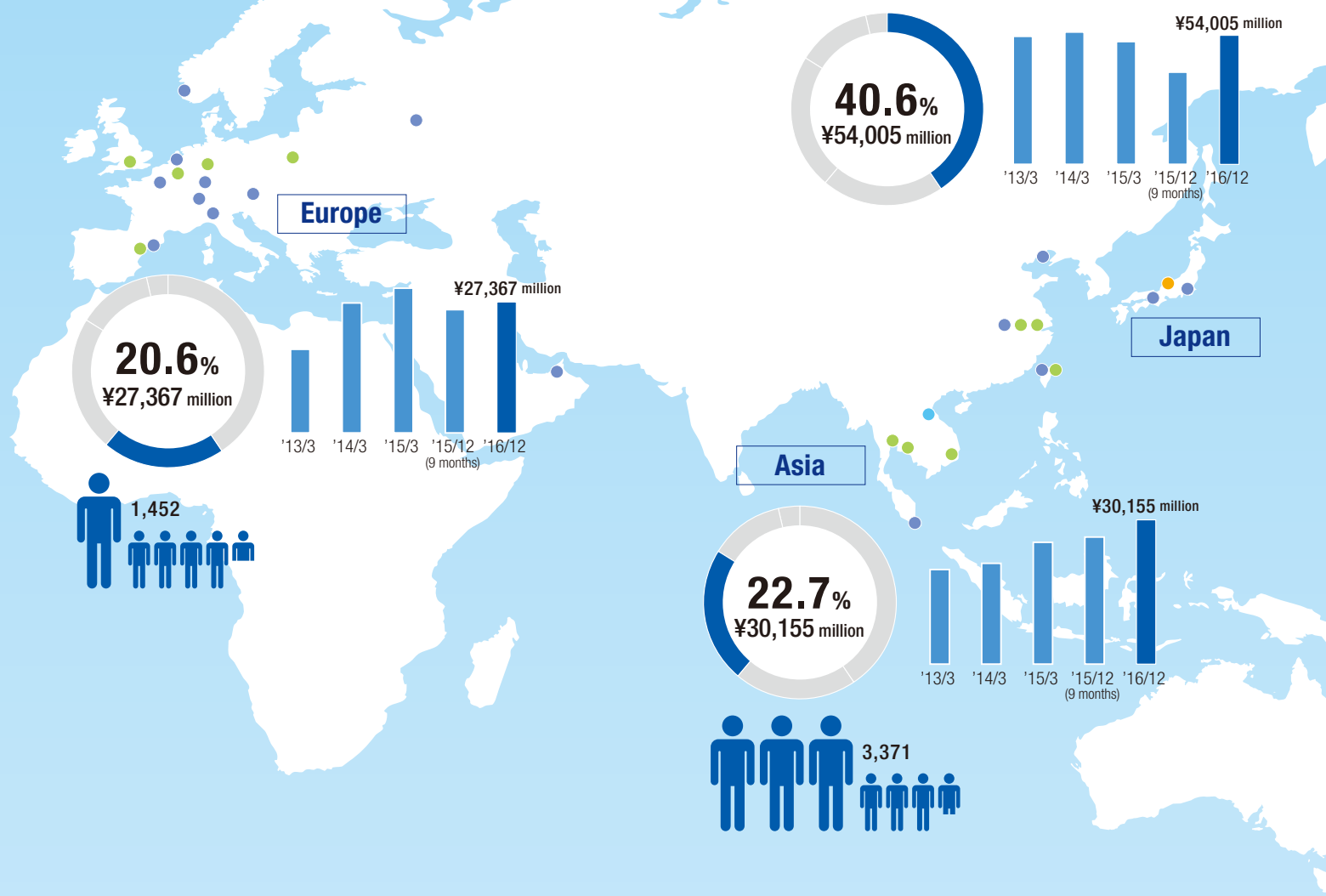
In the process of commercialization for the Japanese market, we aimed for a product that would have a shape and size that would fit well into the typical hand, and together with holding hearings of both male and female surgeons, pressed ahead on an easy-to-use design backed by ergonomics. Also, a scissors-handle shape enables one device to perform operations from subdermal cutting and dissection, to tissue and adhesion, internal organ and tissue incisions, hemostasis, and blood vessel cutting and sealing. As this leads to shortened operation times, it is expected that it will lower stress on both patients and surgeons.



Acrosurg. microwave surgical energy device

Nikkiso Group Network

Our Group has 6,870 employees in 29 countries and delivers optimal solutions to our customers all over the world.



Japan

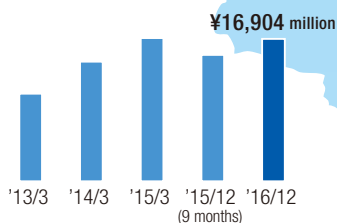
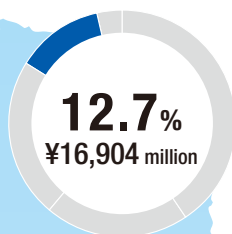
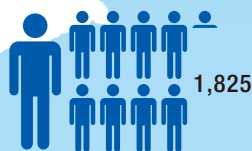
Higashimurayama Plant
The Research & Engineering Institute
Kanazawa Plant
Hakusan Factory
Nikkiso Eiko Co., Ltd.
MicrotracBEL Corp.
Nikkiso Giken Co., Ltd.

- Industrial Division
- Aerospace Division
- Medical Division
- UV-LEDs Division
- Others

Overseas

Europe

Geveke B.V. (Netherlands)
NIKKISO BELGIUM BVBA (Belgium)
Nikkiso Europe GmbH (Germany)
NIKKISO POLAND Sp. z o.o. (Poland)
NIKKISO SPAIN S.L. (Spain)
NIKKISO UK Co., Ltd. (U.K.)
LEWA AS (Norway)
LEWA GmbH/Headquarters (Germany)
LEWA Hispania, S.L. (Spain)
LEWA Middle East FZE (U.A.E)
LEWA Pumpen AG (Switzerland)
LEWA Pumpen GmbH (Austria)
LEWA S.A.S. (France)
LEWA S.R.L. (Italy)
LEWA OOO (Russia)



Americas

Circle graph: Net sales and sales ratio by region
Bar graph: Sales trend
People graph: Number of employees

Asia

Shanghai Nikkiso Non-Seal Pump Co., Ltd. (China)
Shanghai Nikkiso Trading Corporation (China)
Taiwan Nikkiso Co., Ltd. (Taiwan)
M. E. Nikkiso Co., Ltd. (Thailand)
Nikkiso Vietnam MFG Co., Ltd. (Vietnam)
Nikkiso Vietnam, Inc. (Vietnam)
Nikkiso Critical Care Medical Supplies (Shanghai) Co., Ltd. (China)
NIKKISO AUSTRALIA Pty. Ltd. (Australia)
LEWA-Nikkiso Singapore Pte. Ltd. (Singapore)
LEWA (Dalian) Sales Co., Ltd. (China)

America

Nikkiso America, Inc. (U.S.A.)
Nikkiso Cryo, Inc. (U.S.A.)
Microtrac, Inc. (U.S.A.)
NIKKISO COLOMBIA S.A.S. (Colombia)
AquiSense Technologies LLC (U.S.A.)
LEWA Bombas Ltda. (Brazil)
LEWA-Nikkiso America, Inc. (U.S.A.)
LEWA Process Technologies, Inc. (U.S.A.)

Since its founding, Nikkiso's unflagging mission has been to confront difficult issues with original ideas and advanced technologies, while continuing to contribute to society.

To remain a strong manufacturer that continues to evolve in the years to come, Nikkiso will create new innovations from technology.

Interview with Nikkiso Director Responsible for R&D

Our strength lies in our winning capabilities, which range from fundamental research to elemental technologies as well as product design and development.

Director, Senior Executive Officer
General Manager,
Research & Engineering Institute **Shotaro Fujii**



Nikkiso has been boldly tackling issues that others have found impossible to overcome, such as the first dialysis machine in Japan and aircraft components made from carbon fiber-reinforced plastic (CFRP). As a result, we have created many technologies and products, and have created entirely new markets. Nikkiso's products now hold high shares of markets in various fields all over the world.

We take as evidence of this the fact that our technologies and ideas as well as high quality continue to be held in high regard by our customers precisely because they are from Nikkiso. Serving as the starting point is the Research & Engineering Institute, Nikkiso's R&D hub.

At the Institute, we have established a system that enables us to efficiently conduct the full gamut of R&D activities, from fundamental research to elemental technologies as well as product design and development. To use a martial arts analogy, the Institute also serves as a dojo (training hall)-like entity for the human resource development of the Company's engineers, who work diligently together to apply their skills

and play a very important role in enhancing the technological capabilities of Nikkiso as a whole.

In recent years, we have been conducting R&D into deep ultraviolet LEDs (DUV-LEDs). These products are expected to have practical uses in a wide range of industrial applications, including disinfecting air and water against bacteria and viruses, as light sources in printing, painting, and resin curing as well as in analytical equipment. Having been the first in the world to achieve product development at the practical-use level, in 2015 Nikkiso succeeded in the mass production of a DUV-LED with a world-leading power output of 50mW.

Boldly confronting difficult issues and remaining on its avowed mission to lead society, Nikkiso in the years to come will focus on Groupwide R&D, such as the evolution of existing products and new product development, ensure that the Nikkiso brand remains synonymous with technology innovation, and continue to contribute to society through its technical capabilities.

Positioned as Hub of Group's R&D Activities: Research & Engineering Institute*

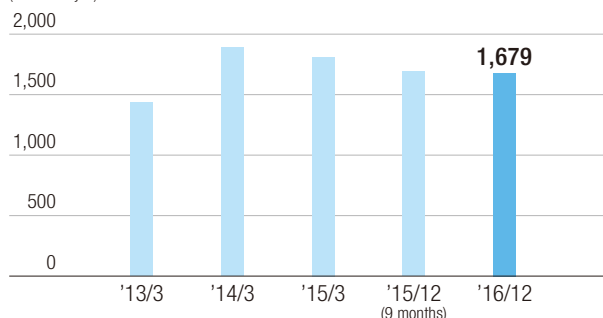
Nikkiso engages in technological development on a daily basis to resolve customer issues and society's problems. The 'brain center' for these activities is the Research & Engineering Institute, which is located in Shizuoka Prefecture. As the hub of the Nikkiso Group's R&D activities in Japan, the Institute oversees the evolution of existing products and supports new product development from a technical viewpoint and from a customer perspective.

To remain a strong manufacturer that continues to evolve without settling for existing technological standards, Nikkiso will launch unprecedented products while creating and bringing new value to its customers' businesses with its innovative ideas and technological capabilities.

* The name of the Shizuoka Plant was changed to the Research & Engineering Institute effective April 1, 2016.

Research and Development Expenses

(Millions of yen)



Research & Engineering Institute

Recent Research Results—Concept Home Dialysis Machine

In the field of dialysis, which up to now has customarily involved traveling to a hospital for treatment, we developed a concept home dialysis machine that enables the treatment to take place at home and thus can significantly reduce the strain placed on patients. We displayed a prototype of the machine at the Japanese Society for Dialysis Therapy.

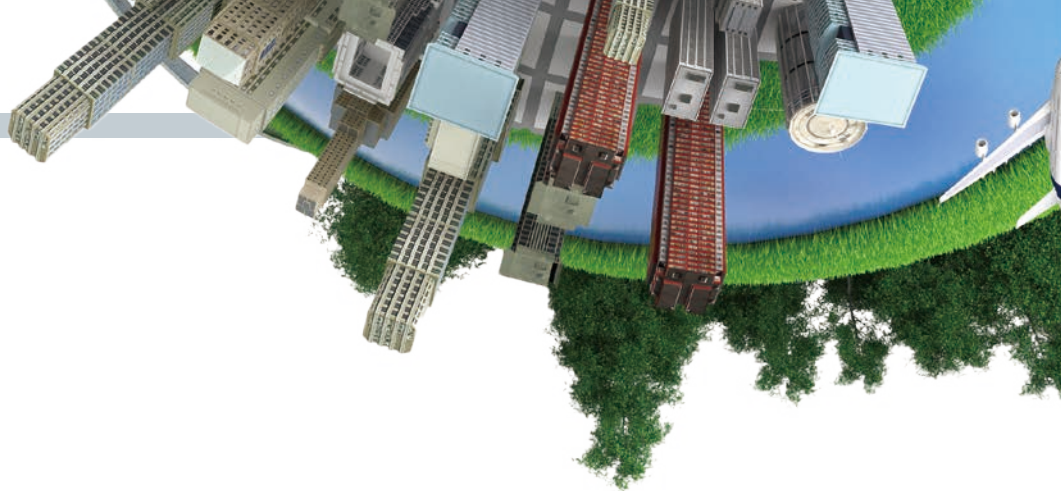


The concept home dialysis machine on display at the 61st Annual Meeting of the Japanese Society for Dialysis Therapy (June 9–12, 2016)

Open Innovation

In addition to technological development centered on its Research & Engineering Institute, Nikkiso places great importance on cooperation with universities, public institutions, and business partners while collaborating with various engineers and organizations. To give an example, in 2016 we concluded a

joint research collaboration agreement with Miyazaki University and aim to create innovation through industry-academia collaboration that links all the Company's business domains with Miyazaki University's extensive academic fields.



Environment



Nikkiso Environmental Declaration

Nikkiso's corporate philosophy is to contribute to the world using its proprietary technologies, focusing on "human life" and the "environment." Modern-day society is in a stage of transition, seeking both harmony with nature and sustainable development. Nikkiso aims to grow and develop with society and offer technologies, products, and services to help realize these objectives.

To achieve these objectives, we announced the Nikkiso Environmental Declaration composed of philosophy and action guidelines in 1998 and took our first step as a company to contribute to a recycling-oriented society.

The action guidelines composed of four items state the development of environmentally friendly products, minimizing the amount of waste and pollutants generated in each process ranging from production to distribution and disposal, striving to meet and surpass our own environmental management targets, and the importance of striving to conserve the environment as a member of society by devoting considerable resources to educating employees about environmental issues.

Environmental Management System

Nikkiso began to work early to build its environmental management system through efforts including environmental surveys, the identification of significant impacts on the environment, the formulation and implementation of environmental management plans, and reviews of plans by management, and has received ISO14001 (an international standard for environment management systems) accreditation for its main business locations in Japan. Going forward, we will work to prevent environmental pollution and make ongoing improvements in environmental preservation.

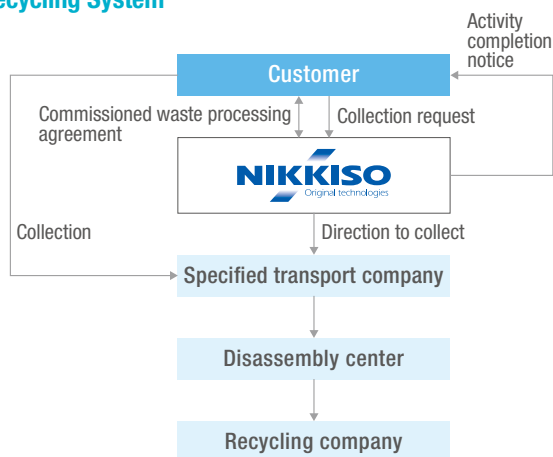
Efforts to Reduce Our Environmental Impact

The Nikkiso Group aims to reduce its burden on the natural environment through innovative technological reform in each area of businesses and contribute to the achievement of a sustainable environment. In accordance with this policy, the Group promotes the development and provision of products contributing to reduction of its burden in terms of both environmental pollution and environmental impact.

Dialysis Machine Recycling System

Nikkiso signs waste disposal agreements with customers to dispose of their Nikkiso dialysis machines after use, including reusing and recycling as appropriate. This system lightens the workload for customers and contributes to a recycling-oriented society.

Recycling System



Environmental Action Plans—Efforts to Reduce CO₂

At the Nikkiso Head Office and our three main business locations in Japan (the Higashimurayama Plant, the Kanazawa Plant, and the Research & Engineering Institute), we promote reductions in greenhouse gas (CO₂) emissions and energy consumption with annual targets.

For example, the Head Office is working to reduce energy use and CO₂ emissions by 1% compared to the previous fiscal year or FY2015, the Higashimurayama Plant is working to reduce CO₂ emissions by 9% over three years from FY2015 to FY2017, and the Kanazawa Plant is working to reduce energy use (electricity and heavy oil) and CO₂ emissions by at least 1% with energy use (electricity and heavy oil) in FY2015 as the guideline for units of output.



Social

Efforts to Ensure Diversity

Nikkiso is working to establish a working environment in which diverse human resources can be active in optimal positions regardless of gender or nationality, based on the recognition that the presence of a diverse range of viewpoints and values reflecting different experiences, skills, and attributes within the Group will be a strength for achieving sustainable growth.

Efforts to Promote the Active Participation of Women

Nikkiso is striving to develop frameworks and systems above and beyond those required by the law so that women can fully realize their capabilities, including the provision of a child care leave system, shorter working hours system, and flex-time system, as we believe the resignation of female employees due to child raising or child birth results in the loss of valuable human resources. The average length of employment by gender for FY2016 was 13.4 years for men and 13.9 years for women, and as the length is longer for women, we believe this reflects our success in the development of an environment that is comfortable for women to work in.

On the other hand, while the number of women in management positions at the end of FY2016 increased by four compared to the end of the previous fiscal year, this is not yet

sufficient. We also recognize as issues the low ratio of women in career-track positions, and the low hiring rate for women compared to the ratio of male to female applicants.

For that reason, we have devised and implemented an action plan that aims to increase the ratio of women in career-track positions to 20% or above, in a period of three years from April 2016. We are implementing two initiatives to achieve this goal, specifically “efforts to increase the number and promote the hiring of female applicants for career-track positions” and “the expansion of duties in each business division and the formulation and implementation of individual and specific development measures, to promote the hiring of women for career-track positions and develop their candidacy for management positions in the future.”



Utilization and Development of Global Human Resources

Recently, Nikkiso has expanded its business overseas and the number of overseas bases has grown accompanying this business expansion. The overseas sales ratio grew to 59% and the overseas employee ratio grew to 73% as of the end of FY2016, and accordingly global human resources who serve as a bridge between business in Japan and overseas are essential. For that reason, we actively hire outstanding human resources regardless of nationality. In addition, we dispatch young employees to overseas bases and have them participate in the LEWA Young Talent Program, a training program



LEWA Young Talent Program



QC circle presentation

for young employees conducted by LEWA GmbH as part of efforts towards human resource exchange within the Group.

Furthermore, we are engaged in QC circle activities for quality improvement as an entire Group. The QC circles in Vietnam and China in addition to Japanese business base circles participate in the annual company-wide QC circle meeting. By presenting and sharing the efforts in each region, we are mutually motivated, and make use of such experiences for further improvements.

Through these efforts, we aim to develop human resources who have a global perspective and are capable of proposing optimal solutions for customers around the world.

Efforts to Contribute to the Local Community

At Nikkiso, we believe that companies do not come into existence independently, but rather they come to exist through cooperation and coexistence with local communities. Therefore, Nikkiso conducts locally based community contribution activities and various support activities mainly at its bases in Kanazawa, Higashimurayama, and Shizuoka in Japan, where it has production and technology development bases, as well as at its subsidiaries like LEWA.



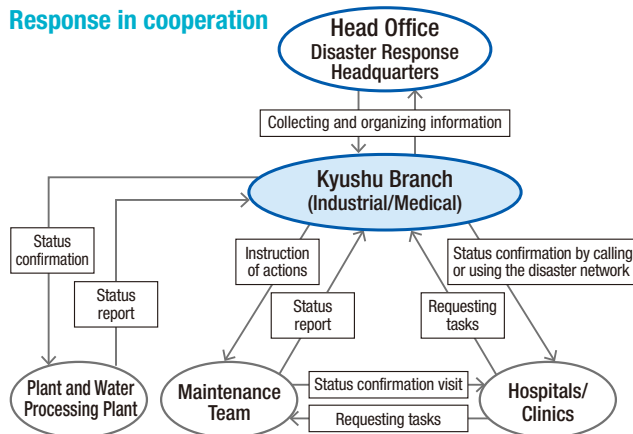
Emergency Response to the Kumamoto Earthquake

Immediately following the earthquake of April 14, 2016, 9:26 p.m., the Nikkiso established the Kumamoto Earthquake Disaster Response Headquarters and confirmed the status of customers and conducted relief activities.

The Medical Division Kyushu Branch organized two teams, a maintenance team and an information management team, responded with a system in which the maintenance team assessed the situation at local hospitals and clinics in pairs of two people, and the information management team confirmed the dialysis implementation status by calling or using the disaster network of The Japanese Society for Dialysis Therapy, provided feedback of new information to the maintenance team as well as the Disaster Response Headquarters, and conducted disaster-relief activities, including rapid dispatch of maintenance staffs from other business bases to Kumamoto, in cooperation with local medical institutions.

As dialysis had to be suspended at many dialysis facilities due to a cutoff of the water supply as a result of the earthquake, main activities consisted of operation confirmation

Response in cooperation



Kyushu Branch at the time of disaster

and repairs of dialysis machines after recovery from the water cutoff. We succeeded in promptly achieving normal operations for all dialysis machines as a result of joint efforts by the entire Group.

Efforts to Help Customers

Nikkiso aims to be a company that customers continue to choose by sincerely engaging with the issues of customers and providing the technology needed to resolve these issues. For Nikkiso that has a mission of stably supplying products and services that are trusted by the world's top players in various specialized areas, we view quality as our lifeline. Furthermore, the entire Group is working to improve QCD that incorporates quality, cost, and delivery.

Winner of Supplier of The Year 2016

We were awarded as the Supplier of The Year 2016 by our major customer Spirit AeroSystems, Inc. (hereinafter, "Spirit") in September 2016 in our Aerospace Division.

This award takes into comprehensive consideration factors including quality, deliveries, and future strategy and innovative challenges, and Nikkiso was selected to receive the award among the approximately 650 suppliers that regularly conduct business with Spirit. Spirit has bestowed the Supplier of The Year award since 2011, and this is the second time we have received the award since 2014.

Award ceremony, from left: Spirit's Senior VP Mr. Rabe, the Company's President & CEO Toshihiko Kai, Spirit's President & CEO Mr. Gentile, Spirit's Senior VP Mr. Young





Corporate Governance

Nikkiso has reinforced its corporate governance system as described below and has, thereby, prepared the way for transparent and fair management as well as prompt and decisive decision making. As a member of society, the Company maintains social ethics and a set of values that are sound and works to build close ties with its stakeholders, while at the same time upholds the corporate philosophy of providing its unique technology to contribute to fields that form the bedrock of our lives in a creative manner, with the aim of achieving sustainable growth as well as medium- to long-term enhancement of corporate value.

Basic Approach to Corporate Governance

- We respect the rights of the shareholders and secure their equality.
- We respect the interests of the stakeholders and cooperate with them, appropriately.
- We disclose the Nikkiso Group's information in an appropriate manner and ensure transparency.
- We effectively separate supervision and execution of management. We ensure the effective supervision and audit of management through the coordination of independent outside directors, independent outside Audit & Supervisory Board Members, internal auditors and the accounting auditor, and at the same time, develop an environment within the Nikkiso Group that allows our business execution divisions to focus on improving business profitability.
- We engage in constructive dialogue with shareholders who have investment policies aligned with the shareholders' interests in the medium to long term.

Major Recent Reforms in Corporate Governance

2001

- Introduced the Executive Officer System

2006

- Abolished officers' retirement benefit system

2008

- Shortened term of office of directors from two years to one year

2012

- Elected one outside director
- Introduced a system of stock options as stock-based compensation for directors excluding outside directors

2015

- Increased the number of outside directors from one to two
- Abolished anti-takeover measures
- Established Nikkiso Group Corporate Governance Guideline

2016

- Examined the effects of cross-shareholdings
- Conducted monitoring of related party transactions
- Introduced "stock price/performance-based compensation plan" (Phantom Stock Plan) for all directors excluding outside directors and executive officers of the Company and the officers of affiliates
- Conducted analysis and evaluation of the effectiveness of the Board of Directors

Independent Outside Board Members

For outside directors, the Company elects people who do not have any personal relationship, capital relationship, transactional relationship or any other interest other than the relationship as an outside officer with the Company and who have no conflicts of interest with general shareholders. Elected outside directors are expected to play their full part to supervise decision-making and execution of duty by directors from an objective and expert standpoint independently from the Company's business execution, and to provide proper advice from the viewpoint of promoting the Company's sustainable growth and increasing corporate value over the medium- to long-term based on their own knowledge and experience.

Furthermore, given that all outside directors and outside audit & supervisory board members have met the independence standards provided for by the Tokyo Stock Exchange, which the Company has adopted as its independence standards for outside officers, they have been registered as such with the Tokyo Stock Exchange.

Outside directors

Kenjiro Nakane

Certified Public Accountant and tax accountant

Present position from June 2012

●Reason for election

As a Certified Public Accountant and a tax accountant, he provides a high level of expertise on general corporate management based on his specialized skills in accounting and finance.

Yutaro Kikuchi

Attorney

Present position from June 2015

●Reason for election

Having held various key positions during his career, including that of the vice chairperson of the Japan Federation of Bar Associations and chairperson of the Tokyo Bar Association, he has deep insight as an attorney, and has a broad range of specialized knowledge regarding company law and business management.

Outside Audit & Supervisory Board Members

Eisuke Nagatomo

Visiting Professor, Graduate School of Commerce, Waseda University

Present position from June 2012

●Reason for election

Having held major positions during his career, including being former Managing Director of the Tokyo Stock Exchange, Inc., former member of the Financial Services Agency Business Accounting Council, and commissioner of the Financial Accounting Standards Foundation, he has close familiarity with corporate governance and compliance systems, in addition to his extensive knowledge of finance and accounting.

Mitsuaki Nakakubo

Attorney

Present position from June 2015

●Reason for election

He is an attorney and has been active in a wide range of corporate legal matters. He also has deep insight into corporate governance and compliance systems.

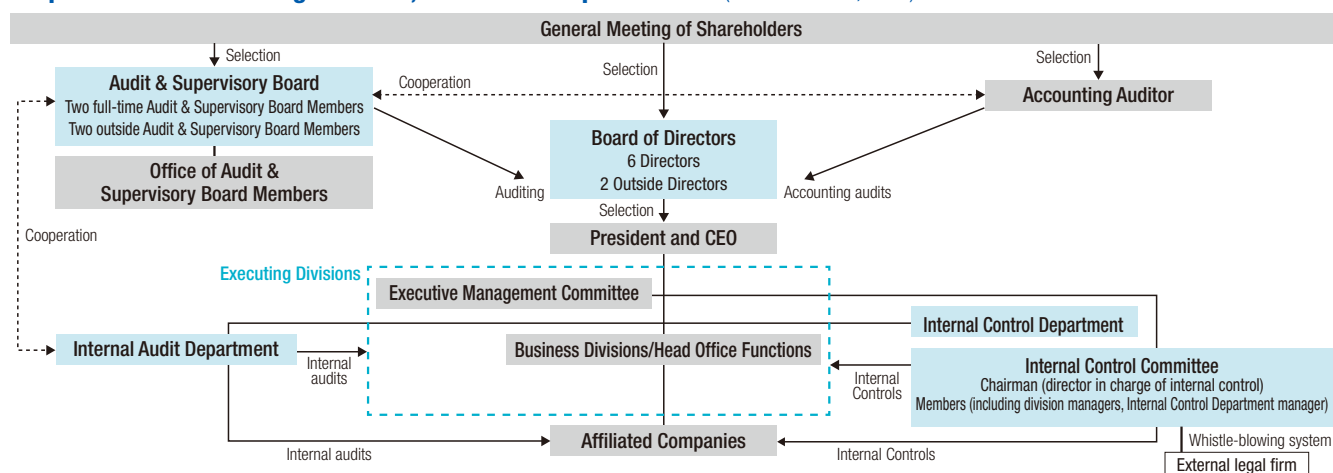
Executive Compensation

The Board of Directors determines the proper portion of fixed compensation, short-term performance-based compensation and medium- to long-term performance-based compensation so that the compensation of executive directors may serve as a sound incentive for sustainable growth. In addition, a draft for the compensation of directors is explained to independent outside officers in advance, and after receiving their advice, is submitted to the Board of Directors. As a part of the compensation, a stock option plan, in which stock options are granted to directors excluding outside directors as stock-based compensation, has been adopted since 2012. Furthermore, in April 2016, a "stock price/performance-based compensation plan" (Phantom Stock Plan) was adopted as an incentive to achieve the medium-term business plan "Nikkiso 2020," and the enhancement of corporate value.

(Unit: millions of yen, people)

Executive Category	Total Compensation Amount	Basic Compensation	Bonus	Stock Option	Number of People
Directors	168	102	42	24	8
Audit & Supervisory Board Members	51	51	—	—	4
Of which, Outside Directors and Outside Audit & Supervisory Board Members	33	33	—	—	4

Corporate Governance Organization, Roles and Responsibilities (as of March 30, 2017)



Board of Directors

There are eight directors, of which two are outside directors. As a general rule, the Board of Directors meets regularly once a month, and passes resolution in writing, as necessary, from the standpoint of making prompt and efficient decision-making. Individual business execution is delegated to the executing divisions whenever possible, to ensure prompt and decisive decision-making. Partial amendments are made to the Board of Directors Resolution Standards in an appropriate manner in an effort to establish an environment for the Board of Directors to dedicate itself to the roles of “indicating the overall direction of management, including management strategies,” “developing internal systems that support prompt and decisive management decisions” and “demonstrating supervisory functions over management in general and ensuring fair and transparent management.”

Executing Divisions

The Executive Officer System and Operating Division System have been adopted in order to build an internal system that ensures prompt and decisive decision-making. Executive Management Committee, which is comprised mainly by the President, Vice President and Senior Executive Officers, has been established to deliberate on important business execution matters, including resolutions by the Board of Directors. In addition, as the Company engages in a diverse range of businesses, the Operating Division System has been adopted to delegate each business to executives who are well-informed regarding the specific business and market to enable prompt and market-oriented decision-making.

Audit & Supervisory Board

The main responsibility of Audit & Supervisory Board Members and the Audit & Supervisory Board is to determine by audits whether the directors and the Board of Directors are

performing their duties in fulfillment of their responsibilities appropriately and in compliance with laws and regulations, from an independent standpoint. Currently, the Audit & Supervisory Board comprises four Audit & Supervisory Board Members (including two outside Audit & Supervisory Board Members).

Internal Control System

As part of its internal control system, the Company has formed a company-level Internal Control Committee chaired by the director in charge of internal controls. In addition, the Company has established the “Nikkiso Group Global Code of Conduct,” which stipulates basic matters to be fulfilled by officers and employees of the Nikkiso Group, in order to follow their conscience and contribute to society. Furthermore, a “whistle-blowing system” is in place both in Japan and overseas that allows employees of the Nikkiso Group to make reports directly and either anonymously or in their own names to experts such as outside attorneys, in the event that an illicit act such as violation of laws and regulations is discovered within the Nikkiso Group.

Internal Audits and Audits of Audit & Supervisory Board Members

The Nikkiso Group has formed an Internal Audit Department under the direct control of the President, as an internal auditing body to conduct internal audits. The Internal Audit Department and the Audit & Supervisory Board Members regularly exchange information and opinions, additionally exchange opinions and deliberating with the accounting auditor on a regular basis or as needed.

Accounting Auditor

The Company has appointed Deloitte Touche Tohmatsu LLC as its accounting auditor to provide advice regarding audits during the settlement of accounts and on general accounting matters as needs dictate.

Board of Directors and Audit & Supervisory Board Members

As of June 30, 2017

Board of Directors

1 President & Chief Executive Officer Toshihiko Kai

February 1996 General Manager, Dai-ichi Kangyo Bank Nederland N.V.
 March 2000 Joined the Company
 April 2001 Executive Officer of the Company
 April 2002 President, Medical Equipment Unit of the Company
 June 2003 Director of the Company (present position)
 December 2004 President & Representative Director of the Company (present position)

2 Director, Executive Vice President Hiroshi Nakamura

January 2006 Executive Officer, General Manager of Nihonbashi Branch, The Bank of Tokyo-Mitsubishi UFJ, Ltd.
 March 2007 Joined the Company
 June 2007 Director of the Company
 October 2009 Managing Director, Nikkiso Europe GmbH (the Company's subsidiary in Germany)
 June 2011 Senior Executive Officer of the Company
 April 2013 General Manager, Precision Equipment Business Division of the Company
 November 2013 General Manager, Corporate Planning Department of the Company
 June 2015 Audit & Supervisory Board Member of the Company
 January 2017 Senior Officer of the Company
 March 2017 Director, Executive Vice President of the Company (present position)

3 Director, Executive Vice President Naota Shikano

April 1977 Joined the Company
 April 2010 Executive Officer of the Company
 Industrial Solutions & Overseas Business Headquarter, Industrial Division of the Company
 January 2013 Managing Director & CEO, LEWA GmbH (the Company's consolidated subsidiary)
 January 2016 Senior Executive Officer of the Company
 March 2016 Director, Executive Vice President of the Company (present position)

4 Director, Senior Executive Officer Shotaro Fujii

April 2008 General Manager, IVD Technology Center, Nihon Kohden Corporation
 November 2011 Joined the Company
 October 2012 General Manager, Shizuoka Plant (currently Research & Engineering Institute) (present position)
 General Manager, Medical Shizuoka Factory, Shizuoka Plant of the Company
 April 2013 Executive Officer of the Company
 April 2015 General Manager, Biomedical Engineering Center, Medical Division of the Company
 June 2015 Director of the Company (present position)
 January 2016 Senior Executive Officer of the Company (present position)

5 Director, Executive Officer Hisakazu Nakahigashi

April 1978 Joined the Company
 April 2011 General Manager, Manufacturing Department, Kanazawa Plant, Medical Division of the Company
 October 2011 Technical senior Manager, Medical Shizuoka Factory, Shizuoka Plant of the Company
 April 2014 General Manager, Medical Products Factory, Kanazawa Plant of the Company
 April 2015 Executive Officer, General Manager of Kanazawa Plant (present position), and General Manager of Medical Products Factory of the Company
 March 2017 Director of the Company (present position)

6 Director, Executive Officer Yoshihiko Kinoshita

April 1989 Joined the Company
 April 2009 General Manager, Market Development Department, Medical Division of the Company
 October 2011 Deputy General Manager, Medical Division of the Company
 April 2013 General Manager, Planning & Strategy, Medical Division of the Company
 January 2016 General Manager, Medical Division of the Company (present position)
 January 2017 Executive Officer of the Company
 March 2017 Director of the Company (present position)

7 Outside Director Kenjiro Nakane

8 Outside Director Yutaro Kikuchi

Audit & Supervisory Board Members

9 Audit & Supervisory Board Member Nobuhiko Ban

10 Audit & Supervisory Board Member Kenji Hida

11 Outside Audit & Supervisory Board Member Eisuke Nagatomo

12 Outside Audit & Supervisory Board Member Mitsuaki Nakakubo

Executive Officers

Shoichi Nagato

General Manager, Precision Equipment Business Division

Susumu Koito

Environment & Risk Management
 General Manager, Administration Division

Hiroshi Bamba

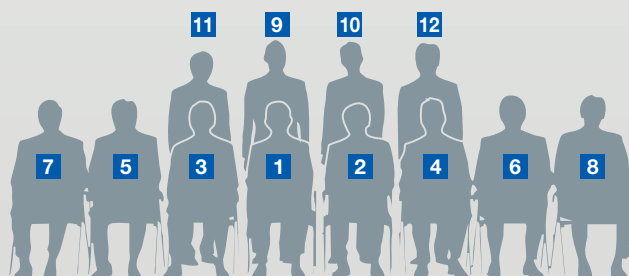
General Manager, Global Information Management Department, Corporate Planning Division

Takashi Ozeki

General Manager, Aerospace Division

Satoru Matsuzawa

General Manager, Higashinihon Branch



Management's Discussion and Analysis

Change in Content Due to Change in Fiscal Year-end

Nikkiso has changed the end of its fiscal year to December 31 beginning from the irregular fiscal period ended December 31, 2015. The length of the accounting periods is different for the fiscal period ended December 31, 2015 and the fiscal year ended December 31, 2016. The following discussion and analysis therefore omits year-on-year comparisons of performance.

Operating Environment

Regarding the business environment for the Nikkiso Group during the fiscal year, in the Industrial Division, capital investment by oil-producing nations and the oil majors failed to recover fully, despite a moderate increase in crude oil prices following a prolonged slump. In the Aerospace Division, overall demand was strong for aircraft, including small- and medium-size aircraft, even though production of large aircraft was reduced.

In the Medical Division, on the Japanese market, business conditions remained challenging for dialysis medical institutions amid curbs on medical expenditures and slower growth in the number of dialysis patients. In overseas markets, however, the number of dialysis patients has continued to increase worldwide. Demand for dialysis equipment was robust in regions where Nikkiso operates, including China, Europe, Latin America and Southeast Asia.

Overview of Operating Performance

For the fiscal year ended December 31, 2016, the Nikkiso Group received orders worth ¥130,980 million and posted net sales of ¥132,891 million and operating income of ¥4,893 million. Net income attributable to owners of the parent was ¥2,729 million.

Shipments of aircraft components expanded sharply. The domestic pumps and systems business regained its footing while domestic and overseas sales of hemodialysis systems gradually recovered. However, overseas businesses performed poorly, including LEWA, owing to the slump in crude oil prices, and the continuous renal replacement therapy (CRRT) business, in which market competition has flared up. Moreover, the Aerospace Division struggled with weakening

margins due to yen appreciation. Profits were also depressed by costs incurred for measures taken to address product quality issues across all businesses, and for compensating customers for missed delivery schedules. Compared with our earnings forecasts announced in August 2016, orders and net sales came in higher owing to a rebound at domestic businesses through the second half, operating income was slightly lower due to the aforementioned factors, while profit attributable to the parent was higher.

The fiscal year under review was the first fiscal year of Nikkiso 2020, the five-year medium-term business plan. Under this plan, Nikkiso identified issues to address, implemented measures to turn management's vision for the future into reality, and decided to construct a new plant in Miyazaki. The Miyazaki Plant will initially handle newly ordered products and increased production of gaskets in the Aerospace Division, while being readied for production of high-tech pump products and expanded production of hemodialysis systems. Plans call for turning the Miyazaki Plant into a core plant for manufacturing next-generation products across all of the Company's operations.

On an International Financial Reporting Standards (IFRS) basis, the Nikkiso Group targets net sales of ¥200 billion and operating income of ¥20 billion in the fiscal year ending December 31, 2020, through the consistent implementation of growth measures in each business domain.

Research and Development

The Nikkiso Group spends heavily on research and development to create new products and technologies that address the needs of its customers, applying innovative technologies in each business domain.

In the industrial field, Nikkiso has been developing deep ultraviolet LEDs, which in addition to conserving electricity and having a long service life, protect the environment by avoiding the use of toxic mercury. Moreover, we are working to enhance the functionality and efficiency of large pumps for LNG exploration sites. In addition, we are developing new applications for carbon fiber reinforced plastic (CFRP) products that help reduce weight and thus fuel consumption in civilian jet aircraft.

In the medical field, Nikkiso has been pursuing basic research for next-generation dialysis therapy by augmenting the functionality of dialysis machines and developing next-generation dialysis machines. Leveraging our accumulated dialysis-related technologies, we continue to perform clinical research into blood purification therapy models with the aim of contributing to the treatment of ulcerative colitis and other immunological diseases. As a product now available in the field of internal medicine and surgery, we are working to further improve artificial pancreases while developing new products for the acute medical care field.

R&D expenditures for the fiscal year under review totaled ¥1,679 million.

Financial Position

As of December 31, 2016, total assets were ¥175,457 million, down ¥2,188 million compared with a year earlier. The main reasons for this decline was the amortization of goodwill and a decrease in cash and cash equivalents as a result of share buybacks.

Total liabilities were ¥109,923 million, an increase of ¥3,419 million compared with the end of the previous fiscal year, reflecting an increase in notes and accounts payable and income taxes payable.

Net assets totaled ¥65,533 million, a decline of ¥5,608 million from a year ago, owing mainly to the acquisition of the Company's own stock.

Cash Flows

As of December 31, 2016, cash and cash equivalents totaled ¥25,920 million, a decrease of ¥1,483 million from the end of the previous fiscal year.

Cash flows from operating activities increased ¥12,609 million, mainly from the posting of income before income taxes.

Cash flows from investing activities decreased ¥7,401 million. The principal reason for this decline was payments for the purchase of property, plant and equipment.

Cash flows from financing activities declined ¥6,052 million. The main reason for this was the repurchase of treasury stock.

Capital Expenditure and Depreciation

During the fiscal year under review, capital investments totaling ¥7,635 million were mainly allocated to the expansion of production capacity, and also included investments in facility upgrades and rationalization.

Looking at capital investment by segment, a total of ¥6,260 million was invested in the Industrial Business for the Higashimurayama Plant and in new and expanded production facilities for CFRP products in Vietnam, as well as for expanding production facilities for reciprocating pumps in Germany.

In the Medical Business, Nikkiso invested a total of ¥1,074 million in expanding and upgrading production facilities at the Kanazawa Plant, and increasing production capacity at plants that make blood tubing lines in Thailand and Vietnam. Companywide investments amounting to ¥300 million were mainly for upgrading equipment at the head office.

There were no instances of a major facility disposal or sale. Depreciation was ¥5,150 million.

ROE

Nikkiso regards ROE as a key management indicator, but does not rely solely on ROE as a measure of performance.

Under the new medium-term business plan Nikkiso 2020, the Company has set targets for net sales of ¥200 billion and operating income of ¥20 billion as easily recognizable management objectives for the entire Group, and has not created a specific target for ROE.

For the fiscal year ended December 31, 2016, ROE was 4.1%, partly reflecting a decline in net income due to the appreciation of the yen. ROE has averaged 7.4% over the past five years. Management intends to improve ROE through profit growth.

Shareholder Return Policy

Nikkiso's basic capital policy is to achieve sustained growth and improve corporate value over the medium- to long-term while pursuing an optimal balance in financial health, capital efficiency and shareholder returns. From a basic recognition that reliable and consistent shareholder returns are a key pillar of our capital policy, management endeavors to return profits to shareholders based on a comprehensive assessment of

performance and the operating environment, while enhancing internal reserves for the purpose of nurturing new businesses and strengthening the production structure.

For the fiscal year ended December 31, 2016, Nikkiso distributed an annual dividend of ¥16 per share. On two occasions, Nikkiso bought back and retired six million of its own shares, enhancing overall shareholder returns. For the fiscal year ending December 31, 2017, Nikkiso plans to again pay an annual dividend of ¥16 per share.

Forecasts for the Next Fiscal Year

The business environment surrounding Nikkiso remains challenging with sluggish crude oil prices, government curbs on medical expenditures in Japan, and international uncertainty. The fiscal year ending December 31, 2017, the second year of the medium-term business plan Nikkiso 2020, has been designated the year we solidify our footing for future business growth. We will make every effort to maintain our position as a corporate group with world-class advanced technologies.

Moreover, the Company intends to reinforce the quality management systems of plants that caused earnings to worsen in the previous fiscal year due to unacceptable product quality and missed delivery schedules. We will work hard to restore customer trust and improve profitability at the same time. Based on this outlook, Nikkiso has formulated the following estimates for consolidated performance in the current fiscal year.

Nikkiso plans to voluntarily adopt IFRS from December 31, 2017, which means the end to goodwill amortization (¥1.9 billion per year) among other changes. Taking these factors into account, the Company forecasts orders of ¥145 billion, revenues of ¥140 billion, operating income of ¥8.3 billion, and net income of ¥6.7 billion. Nikkiso forecasts net income per share of ¥94.17.

(Millions of yen)	FY2016 results (2016/01–2016/12)	FY2017 forecasts (2017/01–2017/12)	Change
Orders received	130,980	145,000	10.7%
Net sales	132,891	140,000	5.3%
Operating income	4,893	6,000	22.6%
Net income attributable to owners of the parent	2,729	4,500	64.9%

Business and Other Risks

The following are recognized as the main risk factors that could adversely affect the business results, stock price and financial condition of the Nikkiso Group.

Please note also that forward-looking statements herein represent the expectations of the Group as of the end of the fiscal period described in this report.

Changes in Product Markets

Our principal customers in the industrial sector are in such industries as energy, petrochemicals and power generation. Shrinking demand or a decline in competitiveness in these industries could have a negative impact on the Nikkiso Group's operating performance and financial position. Furthermore, aircraft industries account for the majority of the Group's customers in the Aerospace Business. Should an incident such as a synchronized terrorist attack that substantially impacts aircraft demand occur, the Nikkiso Group's operating performance and financial position could be negatively affected.

Medical Insurance

In the Medical Business, government regulations on medical insurance affect dialysis-related markets, which are key sources of its sales. Such regulation can have both direct and indirect effects on the markets and prices for products in this business. If markets were to shrink or prices to fall as a result of changes in government policies, the Nikkiso Group's operating performance and financial condition could be negatively affected.

Fluctuations in Currency Exchange Rates

The assets and liabilities of the Nikkiso Group's overseas subsidiaries are denominated in foreign currencies, and the Group has foreign currency sales, purchases, assets, liabilities and other items that are converted into Japanese yen when preparing its consolidated financial statements. Fluctuations in the exchange rates for the major non-yen currencies, notably the U.S. dollar and the euro, could affect the Nikkiso Group's operating performance and financial condition.

For the Nikkiso Group as a whole, the Nikkiso Group's foreign currency sales exceed its purchases that are

denominated in foreign currencies, and foreign currency assets outweigh foreign currency liabilities. As a result, appreciation of Japanese yen against these currencies could have a negative effect on the Nikkiso Group's operating performance and financial condition.

Overseas Production

As overseas sales grow in relation to the Nikkiso Group's total sales, its overseas production ratio is also rising. In the Industrial Business, we manufacture pump products mainly in Germany and the United States, some parts in China, Taiwan and other countries. The Company manufactures some aircraft components in Vietnam, as well. In the Medical Business, the Group manufactures disposables such as blood tubing lines in Vietnam and Thailand, and some dialysis machines through a joint venture in China. Accordingly, changes in laws and regulations or changes in political and economic factors in those regions could affect normal company operations and production activities at overseas subsidiaries. Such changes could have a negative effect on the Nikkiso Group's operating performance and financial condition.

Performance of Overseas Subsidiary

The Nikkiso Group acquires and invests in companies and businesses in Japan and overseas in an effort to enhance its lineup of products and technologies in existing businesses, reinforce sales routes and acquire new businesses. The Nikkiso Group believes that such acquisitions and investments will strengthen its operations and lead to higher growth in the future. However, if the performance of such businesses were to fall significantly, the Nikkiso Group's performance and financial condition could be negatively affected.

Other

In addition to the factors described above, should certain events such as a downturn in the global economic environment or a large-scale natural disaster that would significantly affect the Group's operating environment occur, the Nikkiso Group's operating performance and financial position could be negatively affected.

Consolidated Balance Sheet

NIKKISO CO., LTD. and Consolidated Subsidiaries
December 31, 2016

	Millions of Yen		Thousands of U.S. Dollars
ASSETS	2016/12	2015/12	2016/12
Current Assets:			
Cash and cash equivalents	¥ 25,920	¥ 27,403	\$ 223,445
Short-term investments	812	590	6,999
Notes and accounts receivable:			
Trade	39,534	40,392	340,812
Unconsolidated subsidiaries and affiliated companies	1,262	964	10,877
Other	983	2,144	8,471
Allowance for doubtful accounts	(677)	(574)	(5,833)
Inventories	29,069	29,070	250,596
Deferred tax assets	2,394	1,948	20,637
Other current assets	1,719	1,254	14,821
Total current assets	101,016	103,191	870,825
Property, Plant and Equipment:			
Land	6,156	4,770	53,072
Buildings and structures	33,278	32,005	286,881
Machinery and equipment	25,349	24,771	218,528
Lease assets	328	348	2,830
Construction in progress	2,619	2,196	22,573
Others	11,441	11,227	98,623
Accumulated depreciation	(45,312)	(43,547)	(390,617)
Property, plant and equipment, net	33,859	31,770	291,890
Investments and Other Assets:			
Investment securities	10,720	11,669	92,414
Investments in unconsolidated subsidiaries and affiliated companies	977	1,000	8,420
Long-term loans receivable	199	215	1,717
Goodwill	20,160	21,411	173,797
Lease assets	47	96	405
Deferred tax assets	710	370	6,119
Other assets	7,988	8,149	68,863
Allowance for doubtful accounts	(219)	(225)	(1,886)
Total investments and other assets	40,582	42,685	349,849
Total	¥ 175,457	¥ 177,646	\$ 1,512,564

	Millions of Yen		Thousands of U.S. Dollars
LIABILITIES AND SHAREHOLDERS' EQUITY	2016/12	2015/12	2016/12
Current Liabilities:			
Short-term bank loans	¥ 13,795	¥ 13,479	\$ 118,927
Current portion of long-term debt	4,062	9,434	35,015
Notes and accounts payable:			
Trade	19,355	18,146	166,850
Unconsolidated subsidiaries and affiliated companies	13	13	116
Construction and other	2,176	2,189	18,755
Income taxes payable	2,127	806	18,335
Accrued expenses	5,184	4,365	44,694
Deposits received:			
Unconsolidated subsidiaries and affiliated companies	54	67	465
Other	390	432	3,358
Allowance for loss on factory restructuring		30	
Provisions for loss on orders received	390	300	3,361
Provisions for product warranties	175		1,506
Deferred tax liabilities	234	236	2,020
Other current liabilities	3,932	3,475	33,897
Total current liabilities	51,887	52,972	447,299
Long-term Liabilities:			
Long-term debt	51,825	47,188	446,771
Liability for employees' retirement benefits	3,451	3,259	29,750
Allowance for retirement benefit for Directors and Audit & Supervisory Board Members	16	16	140
Deferred tax liabilities	2,395	2,783	20,648
Other long-term liabilities	350	286	3,009
Total long-term liabilities	58,037	53,532	500,318
Commitments and Contingent Liabilities			
Equity:			
Common stock authorized, 249,500,000 shares; issued, 74,286,464 shares and 80,286,464 shares at December 31, 2016 and 2015, respectively	6,544	6,544	56,417
Capital surplus	10,661	10,664	91,900
Stock acquisition rights	86	78	742
Retained earnings	46,663	49,795	402,270
Treasury stock-at cost, 3,140,763 shares and 3,154,202 shares at December 31, 2016 and 2015, respectively	(2,578)	(2,306)	(22,228)
Accumulated other comprehensive income (loss):			
Unrealized gain on available-for-sale securities	3,773	3,980	32,524
Deferred gain (loss) on derivatives under hedge accounting	(4)	3	(33)
Foreign currency translation adjustments	948	2,775	8,168
Defined retirement benefit plans	(1,802)	(1,697)	(15,525)
Total	64,291	69,836	554,235
Non-controlling interests	1,242	1,306	10,712
Total Equity	65,533	71,142	564,947
Total	¥ 175,457	¥ 177,646	\$ 1,512,564

Consolidated Statement of Income

NIKKISO CO., LTD. and Consolidated Subsidiaries

Year Ended December 31, 2016

*Fiscal year ended December 31, 2015, was a nine-month period due to a change in the Company's fiscal year-end.

	Millions of Yen		Thousands of U.S. Dollars
	2016/12	2015/12*	2016/12
Net Sales	¥ 132,891	¥ 110,218	\$ 1,145,609
Cost of Sales	87,666	69,362	755,736
Gross profit	45,225	40,856	389,873
Selling, General and Administrative Expenses	40,332	37,012	347,692
Operating income	4,893	3,844	42,181
Other Income (Expenses):			
Interest and dividend income	297	280	2,558
Interest expense	(607)	(538)	(5,232)
Gain on sale of investment securities	425	16	3,660
Gain on sale of property, plant and equipment	287	17	2,477
Loss on sale and disposal of property, plant and equipment	(30)	(41)	(261)
Loss on impairment of long-lived assets		(211)	
Equity in earnings (losses) of affiliated companies	177	(265)	1,524
Foreign exchange gain (loss), net	(1,180)	291	(10,174)
Other, net	607	299	5,245
Other income (expenses) - net	(24)	(152)	(203)
Income before Income Taxes	4,869	3,692	41,978
Income Taxes:			
Current	3,152	1,770	27,173
Deferred	(1,091)	(96)	(9,404)
Total income taxes	2,061	1,674	17,769
Net Income	2,808	2,018	24,209
Net Income attributable to Non-controlling Interests	79	(13)	680
Net Income attributable to Owners of the Parent	¥ 2,729	¥ 2,031	\$ 23,529

Per Share of Common Stock:

	Yen		U.S. Dollars
	2016/12	2015/12	2016/12
Basic net income	¥ 36.93	¥ 26.34	\$ 0.32
Diluted net income	32.77	23.49	0.28
Cash dividends applicable to the year	16.00	16.00	0.14

Consolidated Statement of Comprehensive Income

NIKKISO CO., LTD. and Consolidated Subsidiaries

Year Ended December 31, 2016

*Fiscal year ended December 31, 2015, was a nine-month period due to a change in the Company's fiscal year-end.

	Millions of Yen		Thousands of U.S. Dollars
	2016/12	2015/12*	2016/12
Net Income	¥ 2,808	¥ 2,018	\$ 24,209
Other Comprehensive Income (Loss):			
Unrealized gain on available-for-sale securities	(206)	(992)	(1,775)
Deferred gain on derivatives under hedge accounting	(7)	3	(63)
Foreign currency translation adjustments	(1,832)	(2,180)	(15,797)
Defined retirement benefit plans	(105)	(759)	(901)
Shares of other comprehensive income in associates	(62)	(80)	(534)
Total other comprehensive income (loss)	(2,212)	(4,008)	(19,070)
Comprehensive Income (Loss)	¥ 596	¥ (1,990)	\$ 5,139
Total Comprehensive Income (Loss) attributable to:			
Owners of the parent	¥ 583	¥ (1,880)	\$ 5,026
Non-controlling interests	13	(110)	113

Consolidated Statement of Changes in Equity

NIKKISO CO., LTD. and Consolidated Subsidiaries

Year Ended December 31, 2016

*Fiscal year ended December 31, 2015, was a nine-month period due to a change in the Company's fiscal year-end.

Millions of Yen						
	Outstanding number of shares of common stock	Common stock	Capital surplus	Stock acquisition rights	Retained earnings	Treasury stock
Balance, April 1, 2015	77,122,362	¥ 6,544	¥ 10,701	¥ 60	¥ 48,998	¥ (2,313)
Net income attributable to owners of the parent					2,031	
Cash dividends, ¥16.00 per share					(1,234)	
Purchase of treasury stock	(1,100)					(1)
Disposal of treasury stock	11,000		3			8
Change of scope of consolidation			(40)			
Net change in the year				18		
Balance, December 31, 2015*	77,132,262	6,544	10,664	78	49,795	(2,306)
Net income attributable to owners of the parent					2,729	
Cash dividends, ¥16.00 per share					(1,210)	
Purchase of treasury stock	(6,000,561)					(4,940)
Disposal of treasury stock	14,000		2			12
Retirement of treasury stock			(5)		(4,651)	4,656
Net change in the year				8		
Balance, December 31, 2016	71,145,701	¥ 6,544	¥ 10,661	¥ 86	¥ 46,663	¥ (2,578)

Millions of Yen							
	Accumulated other comprehensive income (loss)				Total	Non-controlling interests	Total equity
	Unrealized gain on available-for-sale securities	Deferred gain on derivatives under hedge accounting	Foreign currency translation adjustments	Defined retirement benefit plans			
Balance, April 1, 2015	¥ 4,973		¥ 4,938	¥ (937)	¥ 72,964	¥ 1,500	¥ 74,464
Net income attributable to owners of the parent					2,031		2,031
Cash dividends, ¥16.00 per share					(1,234)		(1,234)
Purchase of treasury stock					(1)		(1)
Disposal of treasury stock					11		11
Change of scope of consolidation					(40)		(40)
Net change in the year	(993)	¥ 3	(2,163)	(760)	(3,895)	(194)	(4,089)
Balance, December 31, 2015*	3,980	3	2,775	(1,697)	69,836	1,306	71,142
Net income attributable to owners of the parent					2,729		2,729
Cash dividends, ¥16.00 per share					(1,210)		(1,210)
Purchase of treasury stock					(4,940)		(4,940)
Disposal of treasury stock					14		14
Retirement of treasury stock							
Net change in the year	(207)	(7)	(1,827)	(105)	(2,138)	(64)	(2,202)
Balance, December 31, 2016	¥ 3,773	¥ (4)	¥ 948	¥ (1,802)	¥ 64,291	¥ 1,242	¥ 65,533

Thousands of U.S. Dollars						
	Common stock	Capital surplus	Stock acquisition rights	Retained earnings	Treasury stock	
Balance, December 31, 2015*	\$ 56,417	\$ 91,928	\$ 669	\$ 429,267	\$ (19,882)	
Net income attributable to owners of the parent				23,529		
Cash dividends, \$0.13 per share				(10,432)		
Purchase of treasury stock					(42,586)	
Disposal of treasury stock		19			99	
Retirement of treasury stock		(47)		(40,094)	40,141	
Net change in the year			73			
Balance, December 31, 2016	\$ 56,417	\$ 91,900	\$ 742	\$ 402,270	\$ (22,228)	

Thousands of U.S. Dollars							
	Accumulated other comprehensive income (loss)				Total	Non-controlling interests	Total equity
	Unrealized gain on available-for-sale securities	Deferred gain on derivatives under hedge accounting	Foreign currency translation adjustments	Defined retirement benefit plans			
Balance, December 31, 2015*	\$ 34,309	\$ 30	\$ 23,921	\$ (14,623)	\$ 602,036	\$ 11,260	\$ 613,296
Net income attributable to owners of the parent					23,529		23,529
Cash dividends, \$0.13 per share					(10,432)		(10,432)
Purchase of treasury stock					(42,586)		(42,586)
Disposal of treasury stock					118		118
Retirement of treasury stock							
Net change in the year	(1,785)	(63)	(15,753)	(902)	(18,430)	(548)	(18,978)
Balance, December 31, 2016	\$ 32,524	\$ (33)	\$ 8,168	\$ (15,525)	\$ 554,235	\$ 10,712	\$ 564,947

Consolidated Statement of Cash Flows

NIKKISO CO., LTD. and Consolidated Subsidiaries

Year Ended December 31, 2016

*Fiscal year ended December 31, 2015, was a nine-month period due to a change in the Company's fiscal year-end.

	Millions of Yen		Thousands of U.S. Dollars
	2016/12	2015/12*	2016/12
Cash flows from operating activities:			
Income before income taxes	¥ 4,869	¥ 3,692	\$ 41,978
Adjustments for:			
Income taxes paid	(1,998)	(4,293)	(17,227)
Income taxes refunded	894	4	7,708
Depreciation and amortization	7,090	6,683	61,121
Loss on impairment of long-lived assets		211	
Gain on sale of investment securities	(425)	(16)	(3,660)
Gain on sale of property, plant and equipment	(287)	(11)	(2,473)
Loss on sale and disposal of property, plant and equipment	30	34	261
Equity in losses (earnings) of affiliated companies	(177)	265	(1,524)
Provision for doubtful accounts	152	27	1,312
Foreign exchange losses (gain)	220	242	1,899
Changes in assets and liabilities:			
Increase in notes and accounts receivable	(479)	(2,429)	(4,134)
Increase in inventories	(699)	(3,529)	(6,024)
Decrease in interest and dividend receivable	73	89	628
Increase in notes and accounts payable	1,755	2,319	15,124
Increase (decrease) in liability for employees' retirement benefits	132	(56)	1,138
Other	1,459	33	12,568
Net cash provided by operating activities	12,609	3,265	108,695
Cash flows from investing activities:			
(Increase) decrease in short-term investments, net	(276)	22	(2,382)
Payments for purchases of property, plant and equipment	(6,845)	(4,185)	(59,009)
Proceeds from sale of property, plant and equipment	625	43	5,386
Payments for purchase of investment securities	(152)	(23)	(1,312)
Proceeds from sale of investment securities	1,062	35	9,154
Collection of loans receivable	11	10	97
Payments for loans receivable	(73)	(8)	(618)
Payment for acquisition of business	(1,753)	(529)	(15,116)
Net cash used in investing activities	(7,401)	(4,635)	(63,800)
Cash flows from financing activities:			
Increase in short-term bank loans	637	2,281	5,490
Proceeds from long-term debt	8,945	600	77,110
Repayment of long-term debt	(9,407)	(2,732)	(81,095)
Payments from changes in ownership in interests in subsidiaries that do not result in change in scope of consolidation		(32)	
Repurchase of treasury stock	(4,940)	(1)	(42,586)
Disposal of treasury stock	0	0	0
Cash dividends paid	(1,210)	(1,234)	(10,432)
Cash dividends paid to non-controlling interests	(77)	(92)	(660)
Net cash used in financing activities	(6,052)	(1,210)	(52,173)
Effect of exchange rate changes on cash and cash equivalents	(639)	(1,317)	(5,506)
Net decrease in cash and cash equivalents	(1,483)	(3,897)	(12,784)
Cash and cash equivalents at beginning of period	27,403	31,300	236,229
Cash and cash equivalents at end of period	¥ 25,920	¥ 27,403	\$ 223,445

Company Information

As of December 31, 2016

Company Name	NIKKISO CO., LTD.
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Date of Establishment	December 26, 1953
Paid-in Capital	¥6,544,339,191
Number of Employees	6,870 (Consolidated) 1,654 (Non-Consolidated)
Fiscal Year	From January 1 to December 31

Investor Information

As of December 31, 2016

Share Information

Securities Code	6376
Number of Shares Issued (Contained Treasury Stocks)	74,286,464 (3,140,763)
Number of Shareholders	10,589
Stock Exchange Listing	First Section of Tokyo Stock Exchange

Major Shareholders

	Number of Shares Held (Thousands)	Percent of Total Shares Outstanding (%)
Japan Trustee Services Bank, Ltd. (Trust Account)	3,066	4.31
The Master Trust Bank of Japan, Ltd. (Trust Account)	3,005	4.22
Nikkiso Shareholders Association	2,620	3.68
Mizuho Bank, Ltd.	2,500	3.51
JP Morgan Chase Bank 385632	2,247	3.15
Mitsui Sumitomo Insurance Co., Ltd.	1,966	2.76
Nikkiso Employee Shareholders Association	1,874	2.63
CBLDN FULL TAX JAS-CLIENT AC	1,764	2.47
Nippon Life Insurance Company	1,650	2.31
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	1,622	2.28

* The Company maintains 3,140,763 shares of treasury stock, which does not include the holdings of the major shareholders in the above list.
In addition, the shareholding ratio is calculated deducting treasury stock.

Detailed Financial Information

For detailed financial information, please see the Financial Statements.

URL: <http://www.nikkiso.com/ir/annualreport.html>



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