



Annual Report 2011

Year Ended March 31, 2011



NIKKISO Profile

Nikkiso Co., Ltd., was established in 1953 by a founder, Mr. Keijiro Oto. Since its foundation, the Nikkiso Group has provided a host of products worldwide based on its core fluid control technology expertise. These include fluid equipment, water conditioning systems for thermal and nuclear power plants, medical products and carbon fiber products. We plan to continue in our endeavors to build a brighter future for industry.

In 2006, the Nikkiso Group made a major change in direction, navigated by globally aware management, from its former focus on the domestic Japanese market to future high-growth overseas regions. As a result of this strategic shift, Nikkiso products are now readily available throughout the world.

We aim to maintain the leading position in our field by responding to the ever-changing needs of industry and society through our extensive accumulated experience and innovative research and development.

The ideals we pursue are not fixed, nor are they a mere extension of the past. While being firmly grounded, we will set high goals and continually consider and promptly carry out measures to achieve them. We believe that deepening the connection between technology and the market, without losing sight of the value of the technologies and products we have developed and the close relationships we have fostered with our customers, as well as fulfilling our social responsibility to protect and nurture “life” and “the environment,” will lead to greater flourishing of the Nikkiso Group.

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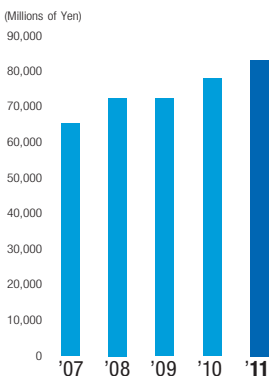
Consolidated Financial Highlights

NIKKISO CO., LTD., AND CONSOLIDATED SUBSIDIARIES
For the years ended March 31

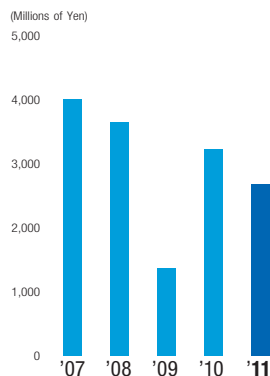
	Millions of Yen					Thousands of U.S. Dollars
	2011	2010	2009	2008	2007	2011
Results of Operations						
Net sales	¥ 83,143	¥ 78,020	¥ 72,395	¥ 72,532	¥ 65,400	\$ 1,001,729
Gross profit	26,920	24,248	21,094	23,116	20,354	324,337
Operating income	5,399	5,663	4,771	6,908	5,737	65,043
Income before income taxes and minority interests	4,718	5,027	2,327	6,682	6,248	56,838
Net income	2,685	3,240	1,368	3,657	4,015	32,345
Financial Position						
Total assets	¥ 122,009	¥ 115,131	¥ 83,688	¥ 91,157	¥ 80,144	\$ 1,469,992
Inventories	14,638	13,861	14,198	14,589	11,442	176,363
Property, plant and equipment, net	19,051	20,677	19,036	20,514	17,070	229,530
Total liabilities	72,970	67,614	46,966	50,876	40,714	879,155
Equity	49,039	47,517	36,722	40,281	39,430	590,837
Equity ratio (%)	39.3	40.5	43.3	43.5	48.5	
Per Share (Yen and U.S. dollars)						
Net income						
Basic	¥ 33.86	¥ 47.49	¥ 21.46	¥ 56.59	¥ 60.44	\$ 0.41
Diluted	—	—	—	—	—	—
Cash dividend applicable to the year	12.00	12.00	12.00	12.00	12.00	0.14
Payout ratio (%)	35.40	25.30	55.92	21.21	19.85	
Equity	605.46	587.66	578.72	614.18	601.46	7.29
Key Ratios (%)						
ROE	5.7	7.8	3.6	9.3	10.0	
ROA	2.3	3.3	1.6	4.3	5.3	

Notes: The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been made at the rate of ¥83 to \$1, the approximate rate of exchange at March 31, 2011. On November 26, 2009, the Company issued and publicly offered 5,500,000 shares and disposed of 9,000,000 treasury stocks. On December 22, 2009, 2,175,000 shares were issued to a third party through over allotment. As a result, the number of shares issued increased by 7,675,000 shares and the treasury stocks decreased by 9,000,000 shares.

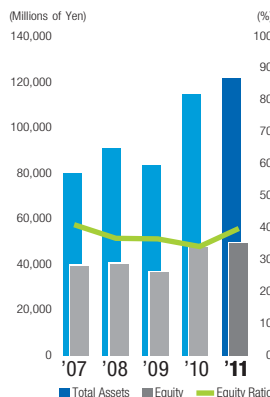
Net Sales



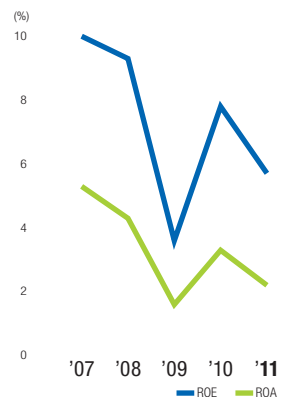
Net Income



Total Assets/Equity



ROE/ROA



Message from the President



We aim to achieve further growth according to our globalization strategy.

In addition to yen appreciation and the issue of restructuring Japan's public finances, a major earthquake struck Japan on March 11, 2011, causing power shortages. All these factors have fueled concern about the Japanese economic situation. Accordingly, among the growth sectors in our fields of business, the tendency for businesses to shift overseas grows more pronounced each year. Nikkiso is meeting these challenges by stepping up its potential in business where it boasts a high share of the domestic market. At the same time, we aim to achieve further growth according to our globalization strategy, which includes taking advantage of synergies engendered by our acquisition of Germany's LEWA, the formation of a joint venture in China involving dialysis machines and the full-scale operation of our aircraft parts plant in Vietnam.

Business Results

For more than half a century, the Nikkiso Group has met the demands of its customers, the needs of society and the changing times with products in core industries. Central to our business are pumps—used in energy and petrochemical sectors—and dialysis-related equipment, particularly for hemodialysis. We also provide water conditioning systems for power plants and carbon-composite aircraft components.

During the fiscal year ended March 31, 2011, the Group posted year-on-year increases in revenues but lower profits, securing orders of ¥84.5 billion, net sales of ¥83.1 billion, operating income of ¥5.3 billion, ordinary income of ¥4.6 billion and net income of ¥2.6 billion.

This performance reflected the inclusion of the first full year of performance of the LEWA Group, a leading global manufacturer of reciprocating pumps that we acquired in August 2009. On the profit front, however, the Group

posted year-on-year decreases in operating income, ordinary income and net income, affected by ongoing yen appreciation and the impact of the March 11 earthquake.

The Nikkiso Group's operations can be broadly divided into the industrial and medical businesses. The Industrial Business experienced a substantial drop in orders in the domestic pump segment amid the economic malaise following the global economic crisis. However, revenues increased, thanks to the sales contribution of a full 12 months of performance by the LEWA Group and a slight recovery in sales of water conditioning systems and electronic component manufacturing systems. Furthermore, sales in the aerospace business grew, as signs of stagnation in this field began to ease. As a result, Aerospace Division sales were up slightly year on year.

In the medical business, sales competition heated up for dialysis machines and related consumables, resulting in sluggish sales of dialysis machines. However, overall sector sales were approximately equal to the previous year's levels, owing to increased sales of blood tubing lines and expanded sales of Fresenius-made dialyzers, in line with the domestic distribution agreement we signed with the company in July 2010, although profitability was difficult.

The Nikkiso Group suffered only slight damage to its facilities as a result of the earthquake that struck Japan in March 2011. In addition to donating dialysis products, our efforts to assist recovery included setting up a 24-hour system to deliver medical dialysis instruments and supplies to the stricken region, as well as to repair systems already in place. We will continue putting forth every effort to aid reconstruction in the region.

Achieving Further Growth

In the fiscal year ending March 31, 2012, we foresee the possibility of a decline in orders related to nuclear power plants and rises in the prices of materials and parts. On the other hand, moves are under way to reinforce Japan's thermal power plants and augment LNG facilities, and we anticipate other reconstruction-related demand, as well as a surge in overseas oil and gas development projects. LEWA's operating performance is recovering dramatically.

By formulating a global Group strategy centered on LEWA, we expect to reinforce our position as a manufacturer with a global network in unique and high-performance specialty pumps, including reciprocating, cryogenic and leak-free non-seal pumps.

In the industrial business, on April 1, 2011, we made the Precision Equipment Business Division independent from the Industrial Division. In such areas as electronic parts production devices and particle analysis instruments, we plan to create a clear-cut and agile strategic structure that will enable us to expand our operations.

In the medical business, we conducted a full-scale launch in the Japanese market of an automated multiparameter dialysis machine—a new product for which development had been delayed—as we mounted a campaign designed to halt the decline in sales that commenced in the preceding fiscal year. Furthermore, we are expanding our production and development bases and reinforcing our sales networks in preparation for a rapid expansion in dialysis market demand in China, India and other emerging markets.

Nikkiso is setting its rudder firmly on a course of globalization. In addition to expanding the synergistic effects of the LEWA Group, we will increase production of aircraft parts at our plant in Hanoi, Vietnam. We are also reinforcing our manufacturing and sales of dialysis machines in Europe and moving steadily forward with a joint venture in China involving dialysis machines. Through such efforts, we have steadily laid the stepping-stones to globalization. While extending overseas the performance we have developed in Japan, we also aim to raise the efficiency of our domestic operations to achieve further growth.

We would like to ask our shareholders and other investors for their ongoing support as we work toward further growth going forward.

August 2011



Toshihiko Kai
President &
Chief Executive Officer

The Nikkiso Group's pumps play an important part of the lifelines that support people's everyday lives. Our pumps are used in oil refineries, city gas facilities, petrochemical plants and thermal and nuclear power generation plants, as well as in medical and food product applications and for water and sewage systems.



▲ LEWA triplex®
Large-sized diaphragm pumps to cover high pressure range

Pumps+Systems

In the business of pumps and systems, we are placing Germany's LEWA at the forefront of our global strategy for business development. To expand our sales network through LEWA, which has developed its business on a global scale, we have shifted the overseas business promotion function for Nikkiso products to LEWA's headquarters. We are also consolidating our operations in North America and have begun preparing for operations in Singapore. Through these measures, we are building a system that will allow us to provide both companies' products on a broader scale.

In the category of reciprocating pumps, where there was some overlap in our lineups, we are steadily merging our offerings with LEWA's, and we have commenced sales of this new portfolio in Japan and other parts of Asia.

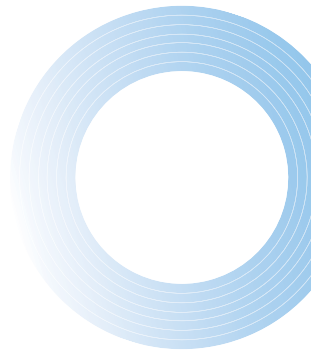
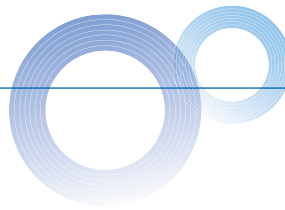
Going forward, the Nikkiso Group will leverage its product lineup, moving even more proactively into global markets.



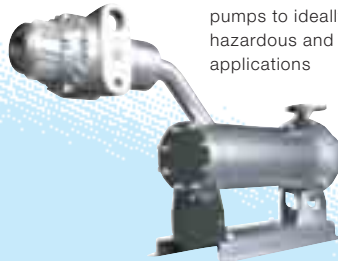
LEWA Plunger Pumps
High-performance feed pumps of compact design with high efficiency



▶ NIKKISO Hi-Power Pump
Triplex-type power pumps for a wide range of applications including liquids of higher than 200°C



LEWA ecodos®
High-quality diaphragm metering pumps for low pressure range



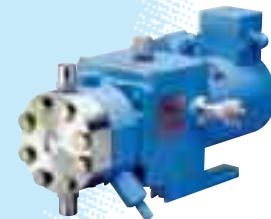
NIKKISO Non-Seal® Pump
Leak-free canned motor centrifugal pumps to ideally handle toxic, hazardous and dangerous liquid applications



▲ NIKKISO Cryogenic Submerged Motor Pump
Cryogenic pumps for liquefied gases like LNG and LPG



▲ LEWA Process Diaphragm Pump System
High pressure, high performance, hermetically tight diaphragm pump LEWA process diaphragm pump system in use on the Norwegian gas field for the reinjection of CO₂



LEWA Microflow Metering Pumps
Micro metering pumps with hydraulically actuated metal diaphragms



LEWA ecoflow®
High reliability and quality diaphragm metering pumps for a wide range of numerous applications for medium and high pressure



◀ NIKKISO Metering Pump Pulseless Series
Diaphragm metering pumps with special cylinder cams to obtain non-pulsations



Aerospace Division

Blocker Door in Vietnam

Nikkiso Vietnam, Inc. (NVI), has begun manufacturing blocker doors for the Boeing 777, and shipments commenced in March 2011. Located in the suburbs of Hanoi, NVI is a new facility for Nikkiso's Aerospace Division and the first plant owned by a Japanese company to manufacture composite aerospace products overseas. Nikkiso expects this operation to help alleviate the Company's foreign exchange risk.

Blocker doors for the Boeing 777, made of carbon-fiber reinforced plastic (CFRP), are installed in the thrust reverser system of the nacelle along with cascades, which also are manufactured and supplied by Nikkiso.



▲ Nikkiso Vietnam, Inc.

We believe that customers have entrusted blocker door production to Nikkiso because of our highly reliable product performance, quality and prompt delivery. Nikkiso expects to expand its blocker door program to achieve the same large scale as its cascade operations.

Manufacturing components for the aerospace industry requires many certifications and qualifications, as well as the successful completion of numerous audits, all of which NVI has undergone. Having the same level of certification and qualification as the Shizuoka Factory, NVI expands Nikkiso's capacity and ability to take advantage of additional business opportunities. Several major negotiations are underway involving future production for NVI. Nikkiso looks forward to applying NVI's capabilities to major new projects in the near future.



▲ Blocker Door

Global Development

Vietnam



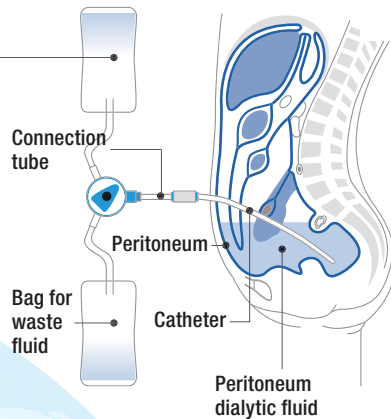
Europe

+ Medical Division

Starting Peritoneal Dialysis Business and Entering the European Apheresis Market



▲ Stay safe balance peritoneum dialytic fluid
Using Biofine, which is kind to the patient body



In the medical business, we have begun selling peritoneal dialysis equipment in Japan and entered the apheresis sector in Europe.

Peritoneal Dialysis (PD) is a type of dialysis treatment received by approximately 11% of the 1.77

million patients throughout the world who undergo artificial dialysis. Compared with Hemodialysis (HD), which accounts for the remaining 89%, it allows patients to maintain their lifestyles and is therefore gaining popularity in many countries overseas prior to kidney transplants or commencing HD treatment. Although the percentage of people undergoing PD is not high in Japan, in recent years as attention has begun to focus on patient health conditions and lifestyles, medical treatment that combines HD and PD has moved into the limelight. Nikkiso boasts a high share of the HD market in Japan, and in October 2010 accepted a transfer from Fresenius Medical Care Japan of the company's domestic dialysis sales business, turning us into an integrated company in the area of dialysis treatment. In such ways, we aim to continue contributing to the quality of life of patients.

Apheresis is a method of treatment used for patients with such complaints as ulcerative colitis, rheumatism and viral hepatitis. Aiming to alleviate a patient's symptoms, this method employs a special filter, called an adsorption column, to adsorb and filter out pathogens and viruses contained in the blood, and then return the cleaned blood to the patient. In April 2011, we commenced sales of apheresis products in the European market, which was an early adopter of the method. We will continue conducting studies and sales in Japan and other major markets, developing the business as we work to expand the scope of this medical treatment.

Japan



▲ Medical treatment equipment



▲ Adsorption column Immunopure

Business at a Glance

Industrial Business



Industrial Division

In April 2010, the Pump Division and the Industrial Solutions Division were combined to form the Industrial Division.

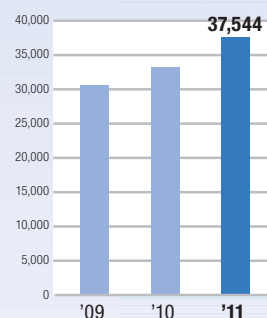
Overview

As the Industrial Division experienced a major decline in orders during the economic doldrums following the global economic crisis, we had expected a decline in orders during the year under review. However, sales and orders were both up year on year, owing to the inclusion of the LEWA Group, which we had acquired during the preceding fiscal year, in the consolidated accounts.

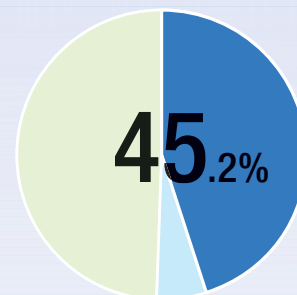
In the pump segment, we began seeing signs of a recovery, centered on energy-related industries in emerging markets. Nevertheless, in Japan capital investment remained sluggish and the pace of economic recovery slowed in Europe and the United States, affecting performance in this category.

In the water conditioning systems and measuring equipment segment, we received orders for water conditioning systems for upgrades at existing power plants in Japan, we saw a jump in inquiries from Asia involving integrated production processes for multilayer ceramic substrates, and capital investment related to electronic component manufacturing systems was brisk. The Japanese market for particle size measurement equipment also recovered. However, a small portion of these orders were cancelled or postponed as a result of the March 11 earthquake.

Net Sales (Millions of Yen)



Share of Net Sales



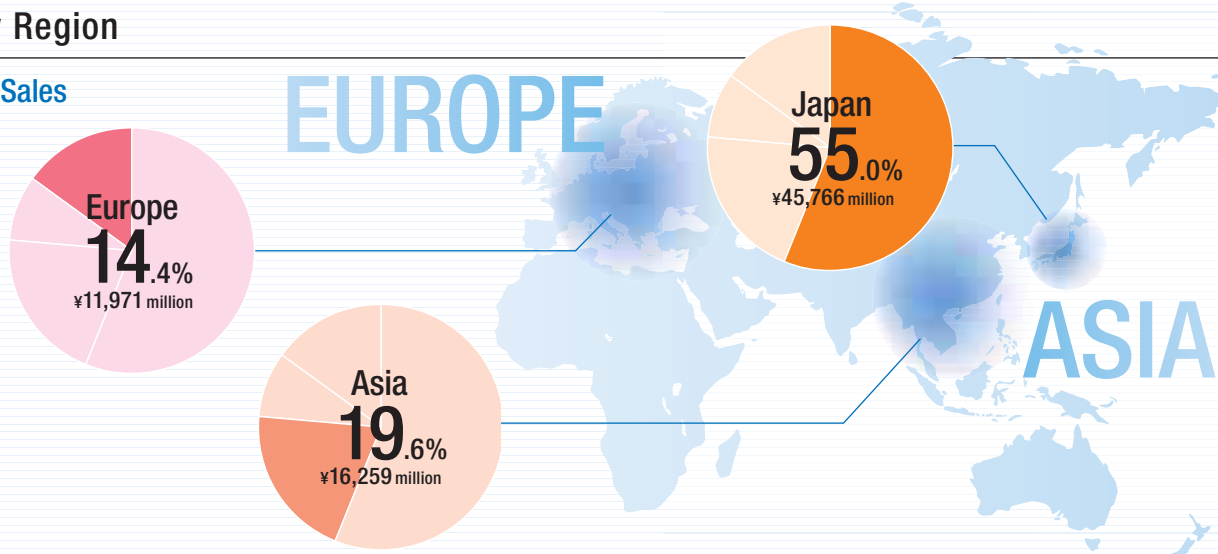
Businesses

This division handles the manufacture, sales and maintenance of specialty pumps used in a wide variety of fields, from petrochemicals, liquefied gas and other energy-related areas to water, sewerage and food-product applications.

Our mainstay products are leak-free canned motor centrifugal pumps, high-accuracy metering pumps, high-speed centrifugal pumps and cryogenic pumps. The division also handles the manufacture, sales and maintenance of water conditioning systems for thermal and nuclear power plants, high-pressure processing equipment for the production of precision electronic parts and particle size analyzers.

Results by Region

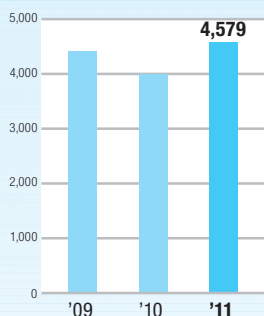
Share of Net Sales



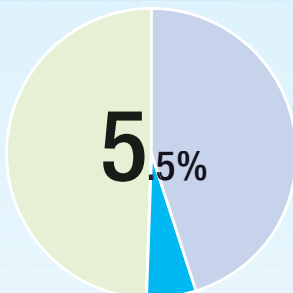


Aerospace Division

Net Sales (Millions of Yen)



Share of Net Sales



Overview

The outlook for Nikkiso's business targeting the aerospace industry is becoming clearer. Development on a new program for Airbus went according to schedule, and owing to proactive marketing and sales activities, the division's sales rose compared with the preceding fiscal year. In addition, we have improved sales conditions and manufacturing costs to cope with the rapid appreciation of the yen against other currencies. Moreover, NVI's shipments of Boeing 777 blocker doors commenced in March 2011. As a result of these activities, sales and orders increased.

Businesses

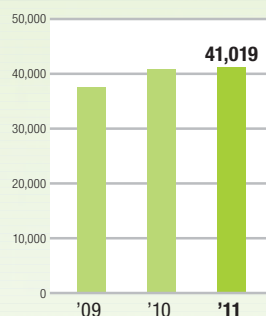
Nikkiso's Aerospace Division provides consulting, development and design services for CFRP components. The division also employs highly advanced manufacturing system featuring excellent quality control. The principal products of this division are components for thrust reverser systems in the engine nacelles of commercial aircraft, such as cascades and blocker doors.

Medical Business

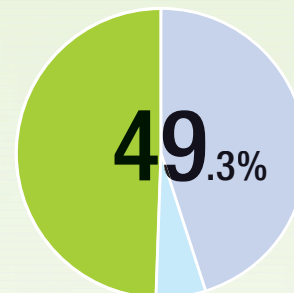


Medical Division

Net Sales (Millions of Yen)



Share of Net Sales



Overview

During the year, revisions to the Japanese medical compensation system affected sales of dialysis machines and their related consumables. During the first half, the division enjoyed brisk sales of new products, but in the second half delays in the development of dialysis machines resulted in sluggish sales in Japan.

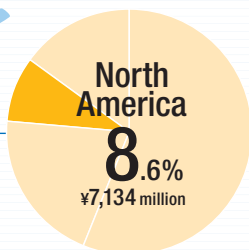
However, helped by sales of Fresenius-made dialyzers, as well as of blood tubing lines and other consumables, sales for the division remained essentially unchanged year on year.

Overseas, sales of dialysis machines in Asia were strong, and a joint venture in China progressed steadily. Sales in Europe also showed signs of recovery.

Owing to these factors, sales and orders both remained approximately the same as in the previous year.

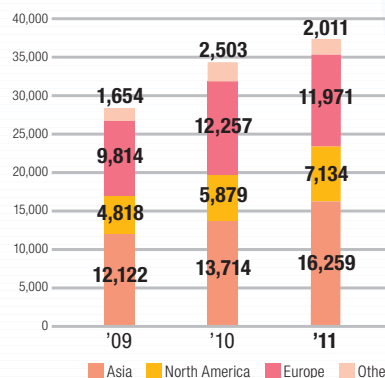
Businesses

This division conducts R&D and manufactures, sells and maintains a full range of medical products and pharmaceuticals, including dialysis machines, dialyzers, blood tubing lines, powdered dialysis concentrates and blood glucose controllers.



Overseas Net Sales by Region

(Millions of Yen)





Industrial Division

In April 2011, the Particle Analysis Instruments, Ceramic Components production and Water and Air Purifying System businesses were all transferred to the Precision Equipment Business Division.

▶ Pump Products

Applying half a century of expertise in its field area of fluid control technologies, Nikkiso is constantly on the lookout for new business opportunities.

Focal areas in our pump products include Non-Seal Pumps, canned motor centrifugal pumps, with pump and motor parts integrated into one to allow leak-free transportation of fluids up to 450 °C ; Ecoflow pumps, designed for metering fluids with superb precision ; and Cryogenic pumps capable of transporting cryogenic LNG (Liquefied Natural



Gas) at $-164\text{ }^{\circ}\text{C}$. Our pumps maintain reliability even under the severest conditions including high temperature, high pressure and super-low temperature.

We are also seeing synergies with the LEWA Group, a leading global manufacturer of reciprocating pumps that we acquired in August



2009. Where reciprocating pump lineups overlap, we are consolidating our products into LEWA's technically advanced pumps. Since July 2010, we have sold these products in Japan and various other Asian countries. We have located our global strategic headquarters for pump products at LEWA's head office in Germany, where it supervises regional structures of each overseas area. We are using the two companies' manufacturing and sales facilities located throughout the world to provide both companies' products in line with customers' needs. Meanwhile, we continue to handle important domestic sales and production at our Higashimurayama Plant.

Nikkiso's pump products,

which offer diverse functionality and high levels of performance, are well suited to the diverse and sophisticated requirements of the specialized Japanese market. Meanwhile, LEWA's individual products feature high quality and can be combined with

peripheral equipment and sold as packages, lending themselves to strong solution-based proposals that resolve specific problems. We will reinforce our sales efforts, leveraging



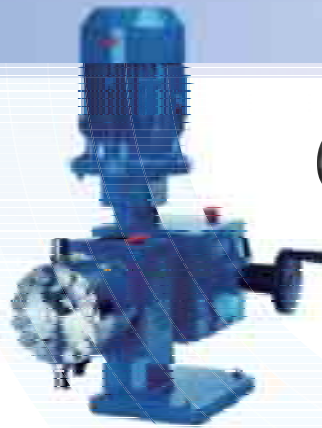
▲ Cryogenic Submerged Motor Pump

the characteristic strengths of each company.

In addition, our customer bases are different. Nikkiso's customers are concentrated among global leaders in petrochemicals, energy and engineering plant-related companies. LEWA's inclusion in the Group will allow the Company to enhance its offerings

in the medical and food product sectors, as well as to strengthen its products for the oil and gas industries. Drawing upon each of the two companies' unique characteristics, Nikkiso and LEWA will work together

to resolve the individual problems that each customer faces, and we will leverage these specialties to develop products to meet special conditions and sophisticated needs.



▲ LEWA ecoflow®



▲ Non-Seal® Pump

▶ Water Conditioning Systems and Related Products

Half a century has passed since we developed Japan's first water-conditioning system in the boiler of thermal power plants. Since that time, we have created automated water conditioning systems for power generation plants, automatic boiler

control systems and other systems that ensure the stable provision of electrical energy—an essential element of modern life.

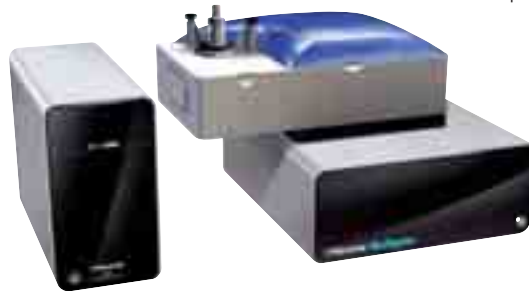
Applying the advanced water treatment expertise and system application technology we have

accumulated over the years, we now offer a variety systems to resolve water/environmental problems, including water conditioning systems for power generation plants and effluent treatment systems, as well as various testing systems.

Through creative technologies and product manufacturing, we aim to meet the full range of client needs, from engineering to system production, quality control and after-sales services.



▲ Electronic parts production device



▲ Microtrac



Aerospace Division

Meeting the Complex Demands of Aircraft Manufacturers through Strength, Light Weight and Durability. Unleashing new potential through advanced molding technologies that capitalize on the characteristics of carbon-fiber-reinforced plastics.

Cascades are components of the thrust reverser systems of commercial aircraft that help control air flow from the engine when reversing thrust just after landing. More than a quarter century ago, Nikkiso's Aerospace Division pioneered the development and manufacturer of CFRP cascades. These contribute to aircraft fuel efficiency, as they are stronger and more lightweight than the metal cascades used in the past. Attesting to Nikkiso's strong reputation in design, analysis, manufacturing and quality management, most commercial aircraft, including those produced by Boeing and Airbus, employ CFRP cascades made by Nikkiso.

The Aerospace Division also manufactures other composite components for commercial aircraft.

For example, NVI produces blocker doors, which are used in the thrust reverser systems of engine nacelles for the Boeing 777. Located in the suburbs of Hanoi, NVI is a new facility of Nikkiso's Aerospace Division. The Aerospace Division will take advantage of NVI's capacity to expand its product lineup.

The Aerospace Division also manufactures and supplies ailerons and shrouds for regional aircraft, structural panels for satellites and certain CFRP industrial parts from the

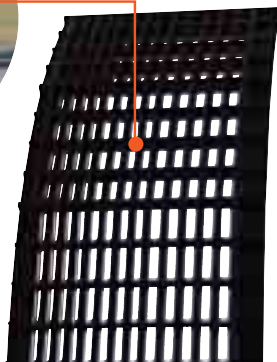


Shizuoka Factory.

The Aerospace Division will continue to meet the needs of customers in various industrial fields by leveraging technologies and capabilities cultivated in the aerospace industry.



◀ Cascades thrust reverser



▲ Blocker door



▲ Ailerons



Medical Division

Reliability and Peace of Mind through Sophisticated Technologies and First-Rate Maintenance Systems.

Our goal as a comprehensive manufacturer of dialysis instruments is to improve patients' quality of life.

As the pioneer of hemodialysis machines in Japan, Nikkiso continues to improve dialysis medical care and patient QOL.

A state-of-the-art computerized hemodialysis machine, data communication systems that interact with peripheral equipment—such as a hemodialysis notification system compatible with electronic medical records—powder dialysate, a powder dialysate dissolving device and a multi-patient dialysate supply system were all developed to allow medical professionals to reduce workload and spend more time on patient care.

In addition, Nikkiso works to develop disposable products and supplies, such as a dialyzer that uses Nikkiso original PEPA membranes, Fresenius-made dialysis products sold by Nikkiso in Japan under an agreement, a blood tubing line standardized for easier use and, in Europe, apheresis products.

We take pride in our independent service and maintenance network. In addition to training Nikkiso Group technicians, we provide its clients with preliminary services and the latest training.

We have become a comprehensive provider of products for dialysis treatment, offering a range of instruments



and pharmaceuticals for the hemodialysis and peritoneal dialysis businesses. Going forward, we will continue doing our utmost to ensure comfortable treatment environments and ensure the highest levels of safety and reliability.



▲ Hemodialysis Machine



▲ Blood tubing line



▲ Dialyzer



▲ Powder Dialysate and a Powder Dialysate Dissolving Device

1

Launch of the Precision Equipment Business Division

To expand its capabilities and boost its operating performance, on April 1, 2011, Nikkiso spun off part of its industrial business to form the new Precision Equipment Business Division.

In addition to the particle analysis instrument and fine ceramic components manufacturing system businesses, the Precision Equipment Business Division is cultivating business in fields including water and air purifications systems. Applying the myriad technologies its has built up over the years and a lineup of products that attest to its development capabilities, Nikkiso aims to offer its ample technical innovation to support the manufacturing process, quality control and R&D efforts of its customers in the electronics, pharmaceutical, environmental and other cutting-edge industries.

The particle analysis instrument business, leveraging products made by Microtrac, is key to a number of industries with promising growth potential. Particle analyzers, surface area measuring instruments, image analyzers and other instruments are essential for measuring and evaluating the particle characteristics



▲ Microtrac



▲ Electronic parts production device

of materials used in the development of new drugs, batteries and pigments. Using products and technologies such as these, the division will propose ways of approaching and resolving the problems that customers face.

In the fine ceramic components manufacturing system business, we provide a range of products, such as the isostatic pressing equipment for the fabrication of the multilayer ceramic electronic components used in mobile phones, personal computers and other items. Our products and manufacturing systems boost productivity in these areas.

In its new incarnation, the Precision Equipment Business Division will take an even more proactive approach to developing and expanding areas that promise to evolve into core future businesses.

▶ High-Precision Equipment

Particle Size Analyzer Business

Particle distribution analyzers, centered on Microtrac

Fine Ceramic Component Fabrication Equipment Business

Electronic component fabrication equipment, focusing on isostatic pressing equipment

Water and Air Purification Equipment Business

Development of purification systems, including sterilizers and water quality monitors

2

Steady Progress at Our Dialysis Machine Joint Venture in China



▲ Opening ceremony

The opening ceremony at Weigao Nikkiso (Weihai) Dialysis Equipment Co., Ltd., dialysis machine production company in China was held in February 2011, as the facility became ready for production. We plan to commence sales of hemodialysis machines for the Chinese market as soon as we receive SFDA approval.

Around the world, the number of dialysis patients is estimated at approximately 1.5 million. Estimates suggest that at least the same number of people in China have kidney diseases that require dialysis treatment. Under these circumstances, the Chinese government is drawing up healthcare system reform plans that will lead the country's market for dialysis treatment to expand



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

quickly.

Over the past 40 years, Nikkiso has cultivated sophisticated production technologies in Japan in the area of dialysis treatment, and provides detailed and high-quality maintenance services in this field. We aim to offer this expertise, with our characteristically uncompromising combination of quality, price and service, to China, thereby contributing to the development of the medical treatment and public health in the country.

Prior to the start of the sales of locally manufactured machines, in January 2011 Weigao began offering dialysis machines manufactured by Nikkiso in Japan for sale in China. To provide this equipment, the pan-China sales and customer networks of the Weigao Group—a prominent Chinese manufacturer of medical instruments—is fully utilized. Our future sales activities will leverage this advantageous positioning, and we will continue working steadily toward a full-fledged launch of operations this year.



▲ Hemodialysis Machine



Corporate Social Responsibility

CSR

Through the introduction of an environmental management system and its foundation activities, Nikkiso is involved in a variety of social contribution efforts. In March 1998, we announced the Nikkiso Environmental Declaration, and our efforts to contribute to a recycling-oriented society include development and production designed to lower greenhouse gas emissions and protect the global environment.

Nikkiso Cryogenic Pumps

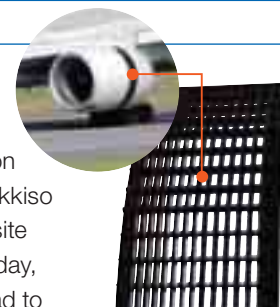
One example of Nikkiso's efforts to develop and sell environment-friendly products is the cryogenic pump, a submerged-motor pump used for low-temperature gases, such as LNG and LPG. LNG, in particular, is heralded as a clean energy resource that will play an important role in coping with environmental problems. In Nikkiso's cryogenic pumps, the pump and motor are combined into a single unit that is submerged directly by liquefied gas, avoiding the risk of gas escaping into the surrounding environment.



▲ Cryogenic submerged motor pump

Cascades

More than a quarter of century ago, cascades in the thrust reverser systems of jet engines on commercial aircraft were made of metal, typically magnesium alloy or aluminum. In 1983, Nikkiso became the first manufacturer in the world to succeed in the development of CFRP composite cascades. This breakthrough led to aircraft that were more lightweight and fuel-efficient. Today, most commercial aircraft are equipped with Nikkiso's CFRP composite cascades, which lead to safe landings and reduced environmental impact.



▲ Cascades thrust reverser

Environmental Endeavors

In March 1998, we announced the Nikkiso Environmental Declaration as part of our stance as a corporation that contributes to an environment-friendly society.

Philosophy

Nikkiso's corporate philosophy is to contribute to the world using its proprietary technologies, focusing on "human life" and "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.

Environmental Management Systems (ISO 14001)

To develop its environmental management systems, Nikkiso has adopted a process that involves studying the environmental aspects of its operations, identifying any operations with a significant impact on the environment, formulating and implementing environmental management plans, and carrying out reviews by management. All our domestic production bases (Higashimurayama Plant, Shizuoka Plant and Kanazawa Plant) have gained ISO 14001 accreditation through the U.K.'s Bureau Veritas Certification (formerly BVQI). In the future, we will strive to make ongoing improvements to environmental conservation and pollution prevention.

TABLE FOR TWO

Among the current global population of around 7 billion, 1 billion people are suffering from hunger while another 1 billion are overweight and therefore susceptible to various lifestyle-related diseases. This scenario led Nikkiso to introduce the TABLE FOR TWO program in the employee cafeteria of its Kanazawa Plant in February 2011.

The concept behind TFT is that by eating one meal in the developed world, a person can give the gift of a meal to someone in a developing country. TFT accomplishes



▲ TABLE FOR TWO Web site

this primarily by partnering with cafeterias, adding ¥20 per meal to the charge, which TFT uses to provide school meals to children in developing countries. This ¥20 is approximately the amount needed for one meal in a developing country, and the program helps provide school lunches to children in Uganda, Rwanda, Malawi, South Africa and Ethiopia. Through this program, simply through their everyday meals people can help feed children in developing countries and make themselves healthier in the process.

When introducing the TFT program at our employee cafeteria at the Kanazawa Plant, we began providing meals under TFT's healthy meal guidelines, which stipulate the number of calories, nutritional balance and amount of vegetables. Since entering the program, the Kanazawa Plant has provided meals to more than 100 children each week.

Support for Culture and the Art

The history of Kaga Zogan—the Japanese traditional craft of metal inlaying—dates back around 400 years to the city of Kanazawa, Ishikawa Prefecture, and now is steadily gaining popularity in the rest of the world. The art of Kaga Zogan focuses on quality, not showiness. This is a philosophy that Nikkiso shares, as the Company strives to create products with every higher levels of quality, making Kaga Zogan a natural fit with Nikkiso's corporate spirit.

The Sokeikai Foundation, Nikkiso support from foundation, preserves and encourages the spread of Kaga Zogan as an important Japanese cultural tradition, as well as to trains future artisans in the craft. Through the Sokeikai Foundation, Nikkiso also aims to contribute to the community from which Kaga Zogan originates, helping to invigorate Ishikawa Prefecture.

As one aspect of these activities, in December 2010 the foundation held an overview special exhibition

titled "The Kaga Zogan Microcosm." This show highlighted some of the underlying secrets of the art, including introductory comments by Kaga Zogan artisan Hirodo Murakami.

One of the reasons for the attractiveness of Kaga Zogan is the subtle refinement of the colors it employs, lending it a sense of dignity. Inlays of sumptuous gold or silver are set into red/brown or black base metals, which sometimes are accented copper alloys of subdued gray. The result is a blackish copper color that leaves a distinctive impression of unstated elegance.



▲ Kaga Zogan (Inlay Craft)

Corporate Governance

Nikkiso recognizes that reinforcing corporate governance is a major management priority if it is to maintain fair and trustworthy management and earn a reputation for reliability from its shareholders and all its other stakeholders. Accordingly, we have built a corporate governance system as described below.

1. Corporate Governance System

a) Board of Directors and Board of Auditors

The Board of Directors meets at least once a month to formulate basic management policy, while striving to bolster supervisory functions through resolutions on important management issues, regular reports on the status of business execution and other activities. The Board of Auditors also meets at least once a month, with duties that include deliberating on audit policy, assigning duties to each corporate auditor, determining a specific implementation agenda, and conducting hearings of audit reports from corporate auditors and business execution updates from directors. The Board of Auditors reports its results to the Board of Directors.

b) Other Major Administrative Bodies

To ensure swift management decision making and a high level of management transparency, Management Meetings are held twice a month, attended by directors and full-time corporate auditors, with the objective of conducting extensive discussions and preliminary deliberations regarding resolutions by the Board of Directors and other important management issues. Furthermore, the Board of Directors convenes Strategy Meetings at least once a month to confirm and deliberate on the policies and strategies of each operating division, in addition to General Managers Meetings each month and Executive Officers Meetings several times a year to deliberate on major management strategies, report on the status of business execution and carry out various other duties. Strategy Meetings, General Managers Meetings and Executive Officers Meetings are also attended by corporate auditors, who are free to express their opinions and to enter into active discussions.

c) 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 appropriate accounting as needs dictate.

d) Internal Control System

Nikkiso recognizes the construction and preservation of an internal control system to ensure appropriate business execution as an important management issue for the corporate group, including its subsidiaries. We are improving our internal control system based on our Internal Control Basic Policy, as determined by the Board of Directors. To facilitate optimal operation of the Internal Control System, we established an Internal Control Committee, presided over by a director, which deliberates on compliance, risk management, securement of appropriate financial reporting and other issues. Moreover, we established the Internal Control Department, under the direct control of the president, to promote the Internal Control System throughout the Company in a methodical and efficient manner and to conduct self-inspections and independent appraisals by the Internal Auditor. Internal control in relation to financial reporting is carried out via auditing by Deloitte Touche Tohmatsu LLC.

e) Risk Management System

Through the Risk Management System, Nikkiso develops and publicizes internal regulations in response to various specific risks, including product liability risk, credit risk, insider trading risk, illicit exporting risk and personal information leakage risk, and revises the system as necessary. Based on internal regulations that systematically stipulate risk management, we have established a department for controlling companywide risk management. Moreover, we have clarified the departments responsible for the management of each respective risk in a drive to promote improvements to the risk management system.

f) Limited Liability of Contracts

Based on the provisions of the Company's Articles of Incorporation, two outside auditors are contracted to the Company with mutual limited liability in damages as stipulated under Article 423, Item 1, of Japan's Companies Act. The maximum liability in damages based on this contract is whichever is higher of ¥3 million or the legally stipulated minimum total maximum liability.

The Nikkiso Group's corporate governance system, as described above, is both rational and effective and is deemed to be adequate to accomplish the Group's corporate governance objectives.

2. Internal Audits and Audits of Auditors

The Nikkiso Group has formed an Internal Audit Department, comprising three full-time members under the direct control of the President, as an internal auditing body to conduct internal audits.

Nikkiso deploys a system of corporate auditors. The Board of Auditors comprises four corporate auditors, including two outside auditors, responsible for the auditing of the Nikkiso Group. These corporate auditors include members with significant specialist knowledge of finance and accounting.

The Internal Audit Department and the corporate auditors regularly exchange information and opinions, in addition to exchanging opinions and deliberating with the accounting auditor on a regular basis or as needed.

3. Outside Directors and Outside Auditors

Nikkiso does not appoint outside directors, but does appoint two outside auditors. No personal or pecuniary relationships or other mutual interests exist between the Company and the outside auditors.

The outside auditors fulfill all requirements as independent corporate officers and hold high levels of knowledge of accounting, taxation, law or other specialties. Their function is to supervise management from an objective, specialist perspective independent of the Company.

Outside auditors are selected for their capacity to fulfill these functions. In addition, outside directors possess adequate information regarding the Company's management to fulfill their supervisory role, gained through the exchange of information with the Board of Auditors and with directors and other means.

Outside auditors endeavor to exchange information and opinions with full-time auditors and with directors at regularly convened meetings of the Board of Directors and the Board of Auditors, in addition to exchanging information and the opinions with the accounting auditor, the internal auditor and the Internal Control Department on a regular basis or as needed.

The Nikkiso Group implements an effective corporate governance system, which is deemed to be adequate to fulfill its management supervisory functions and accomplish the Group's corporate governance objectives. Accordingly, no outside directors are appointed by the Company.

Management's Discussion and Analysis

Business Results for Fiscal 2011

Operating Environment

During the year ended March 31, 2011, just as Japanese capital investment demand had begun showing signs of activity, benefiting from demand growth in emerging markets and economic recovery overseas, the Great East Japan Earthquake hit, striking a major blow to the Japanese economy and society as a whole. The Nikkiso Group's operations were affected, but the impact appears to have been limited.

During the year, the Nikkiso Group worked aggressively to roll out its business strategies. These efforts began bearing fruit in the second half of the year, as increasing investment in overseas energy development projects and expanding healthcare-related business in emerging markets created a favorable environment for orders in each of our business sectors. Going forward, we aim to strengthen our business and bolster our operating performance through the steady implementation of various measures to develop technologies and products and enhance business efficiency in order to meet market needs and respond to ongoing globalization.

Overview by Business Segment

Industrial Business

The Industrial Division comprises two segments: the pump segment and the water conditioning systems and measuring equipment segment. The first segment manufactures, sells and maintains products centering on leak-free canned motor centrifugal pumps (non-seal pumps), reciprocating pumps (LEWA Group products), cryogenic pumps that handle liquefied gas and high-speed centrifugal pumps (Sundyne pumps). The second segment manufactures, sells and maintains such products as water conditioning equipment—including water conditioning systems for thermal and nuclear power plants, as well as various other industrial applications—and the products that match with them to create automated systems, plus electronic component manufacturing systems such as warm laminating systems and particle size analyzers.

During the fiscal year under review, this division recovered to some extent from the substantial decline in

orders that resulted from the economic recession prompted by the Lehman Brothers collapse. Although this decrease in orders naturally affected sales, divisional performance reflects the first full year of inclusion in the consolidated financial accounts of the LEWA Group, which we acquired in the preceding fiscal year.

▶ Industrial Division

The pump segment began experiencing some of the effects of resurgent capital investment in energy-related businesses, centered on emerging markets. Overall conditions remained difficult, however, as our major Japanese customers continued to practice severe austerity with regard to capital investment, and the pace of recovery in Europe and the United States slowed. In the water conditioning systems and measuring equipment segment, meanwhile, orders for water conditioning systems increased, owing to replacement demand at power generation plants in Japan. During the year, the Group saw a jump in inquiries from Asia involving integrated production processes for multilayer ceramic substrates, and capital investment related to electronic component manufacturing systems was brisk. The Japanese market for particle size measurement equipment also recovered. However, some of these orders were cancelled or delayed as a result of the Great East Japan Earthquake.

As a result of these factors, in the Industrial Division orders grew 29.8% year on year, to ¥38,475 million and sales were up 13.0% to ¥37,544 million.

In line with the incorporation of our reciprocating pumps into LEWA's pump segment, we have established LEWA's headquarters in Germany as the overseas launching pad for Nikkiso pumps. This move should accelerate our collaboration with the LEWA Group through technology and management integration.

▶ Aerospace Division

The Aerospace Division focuses on the production and sales of carbon-fiber-reinforced composite products. Its mainstays include cascades and blocker doors for aircraft thrust reversers.

During the year under review, the aircraft industry emerged from the doldrums and the outlook brightened. Our development of cascades for new Airbus models

proceeded smoothly, and we worked to generate orders for new products. To offset the impact of unremitting yen appreciation, we initiated negotiations with customers to review sales conditions and strove to slash costs further. Nonetheless, conditions remained difficult on the profit front.

Owing to these conditions, during the year the division delivered a 15.2% increase in orders to ¥4,601 million and sales expanded 14.6% to ¥4,579 million.

To meet the growing trend toward the full-fledged use of composite materials in aircraft parts, we set up a new plant in Hanoi, Vietnam. Having completed audits and certifications by Boeing and the necessary quality certification bodies, we began mass production of blocker doors and commenced shipments in March 2011. We are now enhancing our manufacturing structure to accommodate production of even larger components and are stepping up efforts to secure orders.

Medical Business

► Medical Division

Nikkiso's Medical Division focuses on manufacturing, sales and maintenance of medical equipment, including products related to hemodialysis and peritoneal dialysis—dialysis machines, dialyzers, blood tubing lines and powdered dialysis concentrates—as well as pharmaceuticals and blood glucose controllers.

During the year, revisions to the Japanese medical compensation system affected sales of dialysis machines and their related consumables both directly and indirectly, and market competition grew more stringent. During the first half, the division enjoyed brisk sales of new products to increase dialysis efficiency and reduce labor requirements. In the second half, delays in the development of automated multiparameter dialysis machines resulted in sluggish instrument sales in Japan. However, by boosting sales of Fresenius-made dialyzers, as well as of blood tubing lines and other consumables, sales for the division remained essentially unchanged year on year.

Our facilities sustained only slight damage as a result of the Great East Japan Earthquake that struck Japan during the year, but damage to the affected region was massive. We mounted a full-scale campaign to rebuild and get our dialysis treatment system back on line in the stricken region, and we will persevere in these efforts. Overseas, sales

of dialysis machines in Asia were strong. In Europe, we launched new products and reconfigured our distributor system, which prompted a sales recovery in that region.

During the year, orders in the Medical Division came to ¥41,459 million, up 0.9% year on year. Sales grew 0.6%, to ¥41,019 million.

We aim to raise our share of the Japanese dialysis market by introducing automated multiparameter dialysis machines, as well as by reinforcing sales of dialyzers that use Nikkiso's proprietary PEPA membranes and of Fresenius-made dialyzers. In October 2010, we entered the new field of peritoneal dialysis, commencing sales and distribution. This is a relatively new business, but we believe that combining this with hemodialysis and positioning ourselves as a comprehensive player in the dialysis business should lead to further performance improvements.

In overseas dialysis markets, we progressed steadily in our efforts to enter a full-fledged joint venture involving the manufacture, sales and maintenance of dialysis machines in China.



Research and Development

The Nikkiso Group is involved directly with human life, through its medical business, and its industrial business puts it into the environmental category. Leveraging our proprietary technologies, we work aggressively to research and develop the products and new technologies of tomorrow. In the medical field, we take advantage of the technical expertise we have accumulated over the years in the area of dialysis, and we have commenced clinical testing in Germany of blood purification products designed to contribute to the treatment of ulcerative colitis and various other immune diseases. Following extensive R&D efforts, we have succeeded in obtaining manufacturing and sales approval for artificial pancreases for use in the fields of internal medicine and surgical treatment.

In the industrial business, we strive to enhance the functionality and efficiency of large pumps used on site for LNG development. We are also concentrating on ways to expand applications of leak-free canned motor centrifugal pumps, which are effective in environmental protection, through developments to make them larger and more efficient. We are also working proactively to develop new applications for products made of fiber composite materials, which conserve jet engine fuel by making commercial aircraft more lightweight.

Orders, Sales and Income

Our acquisition in the preceding fiscal year of the LEWA Group delivered its first full year of performance during the fiscal year under review. Offsetting this boost to the Industrial Division was the impact of the earthquake in Japan, which halted or suspended some deliveries. Under these conditions, orders rose 13.1% during the fiscal year under review to ¥84,536 million and net sales increased 6.6% to ¥83,143 million. On the profit front, although we revised our product strategies and continued working to slash costs, operating income fell 4.7% to ¥5,399 million. Ordinary income dropped 22.6% to ¥4,658 million, and net income was ¥2,685 million, down 17.1%.

Financial Position

Consolidated total assets as of March 31, 2011, stood at ¥122,009 million, an increase of ¥6,878 million from the preceding fiscal year. The main reason for this expansion was a year-end influx of cash through long-term borrowings, which boosted cash and deposits. Total liabilities were up ¥5,356 million, to ¥72,969 million, mainly because we took advantage of the low-interest-rate environment to boost borrowings, increasing long-term debt by ¥6.0 billion. Net assets at year-end came to ¥49,039 million, up ¥1,522 million from a year earlier. This was mainly due to net income, which pushed up retained earnings.

Net cash provided by operating activities was ¥6,006 million during the year, down ¥5,669 million from a year earlier. Income before income taxes and minority interests was the main source of cash. Net cash used in investing activities was ¥609 million, ¥24,598 million less than in the previous year. The main use of cash was investment in fixed assets, plant and equipment. Net cash provided by financing activities came to ¥6,624 million, ¥8,381 million less than these activities provided in the preceding fiscal year, and stemmed mostly from an increase in short-term bank loans and proceeds from long-term debt. As a result of these factors, cash and cash equivalents at the end of the fiscal year amounted to ¥22,972 million, up ¥11,674 million from the end of the preceding fiscal year.

ROE and ROA

The return on equity fell from 7.8% to 5.7% by year-end, and the return on assets dropped from 3.3% to 2.3%. Reasons for these changes were that, in addition to rises in assets and equity, yen appreciation and the impact of the earthquake caused net income to fall substantially.

Basic Policy on Profit Distribution and Dividends for Fiscal 2011

Nikkiso's basic policy is to return profits to shareholders after comprehensive consideration for business performance, management conditions and other pertinent factors, while paying due attention to a stable dividend payment. Moreover, the Company endeavors to maintain a sufficient level of internal reserves to fund future long-term business development and to fortify its financial standing.

Based on this policy, we paid a year-end dividend of ¥6.00 per share. Including the interim dividend, this brought the dividend per share for the full business year to ¥12.00.

The consolidated payout ratio at year-end was 35.4%, compared with 25.3% one year earlier, and the dividend on equity ratio stood at 2.0%, down from 2.1%.

Forecast for the Year Ending March 31, 2012

In the industrial business, just as the economy was starting to show signs of recovery, the Great East Japan Earthquake struck, promoting a decrease in orders related to nuclear power plants and causing concerns that prices on materials and components would rise. Meanwhile, moves are under way to reinforce Japan's thermal power plants and augment LNG facilities, and we anticipate other reconstruction-related demand, as well as a surge in overseas oil and gas development projects. Orders also continue to mount up steadily at LEWA. As a result, although uncertainties remain, we believe that overall performance will be firm. In the medical business, we anticipate an increase in sales in the second half of the fiscal year, owing to our full-scale launch into the Japanese market of an automated multiparameter dialysis machine—a new product for which development had been delayed. Furthermore, overseas we anticipate ongoing growth in sales of dialysis machines and related consumables.



Basic Policy on Shareholder Returns

Based on these assumptions, our current forecast for the upcoming fiscal year is as follows.

(Millions of Yen)

Orders	Net sales	Operating income	Ordinary income	Net income
¥88,000	¥88,000	¥6,000	¥5,500	¥3,300
Up 4.1% year on year	Up 5.8%	Up 11.1%	Up 18.1%	Up 22.9%

Nikkiso's basic policy is to return profits to shareholders after comprehensive consideration for business performance, management conditions and other pertinent factors, while paying due attention to a stable dividend payment. Based on this policy, we paid a year-end dividend of ¥6.00 per share. Including the interim dividend, this brought the dividend per share for the full business year to ¥12.00. We expect to pay a dividend of ¥12.00 per share for the fiscal year ending March 31, 2012.

Cautionary Statement Regarding Forward-Looking Statements and Business 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 consolidated fiscal year described in this report.

Impact of the March 11 Earthquake

The Nikkiso Group manufactures, sells and performs maintenance on various systems and equipment used at nuclear power plants. The disaster at the Fukushima Daiichi Nuclear Power Plant is prompting an overall review of nuclear power generation. Consequently, there is a risk that new projects could be halted or delayed, and that work for existing facilities could decrease. Furthermore, if procurement of parts or materials is hampered, production activities could be affected, which could negatively impact the performance and financial condition of the Nikkiso Group.

Changes in Markets for Nikkiso Products

In addition to the risks of decreased demand or intensified competition affecting our major customers in the petrochemical industry, IT-related industries and the electric power industry, there is the risk of a terrorist attack greatly affecting demand in the aircraft industry.

Medical Insurance

There are risks of direct or indirect effects on the hemodialysis systems and other related product markets and prices due to government regulations on medical insurance.

Fluctuations in Currency Exchange Rates

There are risks from fluctuations in the exchange rates of the U.S. dollar and the euro, the main non-yen currencies that are converted to yen in consolidated financial reports.

Overseas Production

There are risks that normal company operations and production activities of overseas subsidiaries, located in Vietnam, Thailand, Germany, North America, China and Taiwan, could be affected by changes in laws and regulations or changes in political and financial factors in those regions.

Performance of Overseas Subsidiary

In August 2009, the Nikkiso Group acquired the LEWA Group of Germany, judging that its product portfolio, technologies and sales routes would complement and strengthen the Nikkiso Group. The Nikkiso Group believes that this acquisition will strengthen its Industrial Division and lead to higher future growth. However, if the Nikkiso Group is unable to generate income sufficient to offset the amortization expense of goodwill posted on the acquisition, it is possible that the Nikkiso Group's performance and financial condition could be negatively affected.

Consolidated Balance Sheets

NIKKISO CO., LTD., and Consolidated Subsidiaries
As of March 31, 2011 and 2010

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2011	2010	2011
ASSETS			
Current assets:			
Cash and cash equivalents (Note 15)	¥ 22,972	¥ 11,298	\$ 276,772
Short-term investments (Note 4)	319	374	3,838
Notes and accounts receivable:			
Unconsolidated subsidiaries and affiliated companies	579	1,308	6,980
Trade (Note 15)	25,371	26,564	305,679
Other	507	1,041	6,109
Allowance for doubtful accounts	(485)	(555)	(5,845)
Inventories (Note 6)	14,638	13,861	176,363
Deferred tax assets (Note 11)	1,239	1,236	14,933
Other current assets	916	471	11,034
Total current assets	66,056	55,599	795,863
Property, plant and equipment (Note 8):			
Land	4,118	4,264	49,611
Buildings and structures	24,547	24,414	295,753
Machinery and equipment	16,005	16,086	192,832
Lease assets	254	313	3,056
Construction in progress	118	399	1,416
Others	7,615	8,956	91,753
Accumulated depreciation	(33,606)	(33,755)	(404,891)
Property, plant and equipment, net	19,051	20,677	229,530
Investments and other assets:			
Investment securities (Notes 5 and 15)	7,318	7,332	88,170
Investments in and advances to unconsolidated subsidiaries and affiliated companies	1,542	1,473	18,574
Long-term loans receivable	12	13	146
Goodwill (Note 3)	24,282	25,586	292,556
Prepaid pension expense (Note 9)	709	1,071	8,541
Lease assets	54	95	655
Deferred tax assets (Note 11)	199	318	2,400
Other assets	2,803	2,992	33,771
Allowance for doubtful accounts	(17)	(25)	(214)
Total investments and other assets	36,902	38,855	444,599
Total	¥122,009	¥115,131	\$1,469,992

See notes to consolidated financial statements.

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2011	2010	2011
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Short-term bank loans (Notes 8 and 15)	¥ 10,899	¥ 7,824	\$ 131,307
Current portion of long-term debt (Notes 8 and 15)	3,671	3,684	44,233
Notes and accounts payable :			
Unconsolidated subsidiaries and affiliated companies	16	13	192
Trade (Note 15)	11,947	11,268	143,937
Construction and other (Note 15)	1,596	1,608	19,228
Income taxes payable	922	1,262	11,113
Accrued expenses	2,706	3,096	32,598
Deposits received :			
Unconsolidated subsidiaries and affiliated companies	98	85	1,177
Other	261	283	3,149
Other current liabilities	1,667	1,715	20,090
Total current liabilities	33,783	30,838	407,024
Long-term liabilities:			
Long-term debt (Notes 8 and 15)	37,533	34,936	452,207
Liability for employees' retirement benefits (Note 9)	401	472	4,829
Allowance for retirement benefit for directors and corporate auditors	19	39	229
Deferred tax liabilities (Note 11)	1,064	1,162	12,821
Other long-term liabilities	170	167	2,045
Total long-term liabilities	39,187	36,776	472,131
Commitments and contingent liabilities (Notes 13 and 16)			
Equity (Notes 10 and 19):			
Common stock no-par value, authorized, 249,500,000 shares; issued, 80,286,464 shares in 2011 and 2010	6,544	6,544	78,847
Capital surplus	10,701	10,701	128,924
Retained earnings	32,241	30,508	388,449
Treasury stock-at cost, 1,020,777 shares in 2011 and 999,384 shares in 2010	(840)	(826)	(10,124)
Accumulated other comprehensive income (loss)			
Unrealized gain on available-for-sale securities	834	833	10,047
Foreign currency translation adjustments	(1,488)	(1,166)	(17,922)
Total	47,992	46,594	578,221
Minority interests	1,047	923	12,616
Total equity	49,039	47,517	590,837
Total	¥122,009	¥115,131	\$1,469,992

Consolidated Statements of Income

NIKKISO CO., LTD., and Consolidated Subsidiaries
For the years ended March 31, 2011 and 2010

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2011	2010	2011
Net sales (Note 17)	¥83,143	¥78,020	\$1,001,729
Cost of sales (Notes 9, 12, 13 and 17)	56,223	53,772	677,392
Gross profit	26,920	24,248	324,337
Selling, general and administrative expenses (Notes 9, 12, 13 and 14)	21,521	18,585	259,294
Operating income	5,399	5,663	65,043
Other income (expenses):			
Interest and dividend income	180	213	2,168
Interest expense	(937)	(820)	(11,291)
Gain on sale of investment securities	506	—	6,091
Gain on sale of property, plant and equipment	7	11	87
Loss on write-down of investment securities	(40)	—	(488)
Loss on sale of stock of a subsidiary	(288)	—	(3,467)
Loss on sale and disposal of property, plant and equipment	(33)	(110)	(396)
Equity in earnings of affiliated companies	231	261	2,782
Foreign exchange (loss) gain, net	(656)	135	(7,900)
Business purchasing expenses	—	(842)	—
Other, net (Note 17)	349	516	4,209
Other expenses - net	(681)	(636)	(8,205)
Income before income taxes and minority interests	4,718	5,027	56,838
Income taxes (Note 11):			
Current	1,861	1,501	22,426
Deferred	(19)	129	(237)
Total income taxes	1,842	1,630	22,189
Net Income before minority interests	2,876		34,649
Minority interests in Net Income	191	157	2,304
Net Income	¥2,685	¥3,240	\$32,345

Per Share of Common Stock (Note 19):

	Yen		U.S. Dollars (Note 1)
	2011	2010	2011
Basic net income	¥33.86	¥47.49	\$0.41
Cash dividend applicable to the year	12.00	12.00	0.14

Consolidated Statement of Comprehensive Income

NIKKISO CO., LTD., and Consolidated Subsidiaries
For the years ended March 31, 2011

	Millions of Yen	Thousands of U.S. Dollars (Note 1)
	2011	2011
Net Income before minority interests	¥2,876	\$34,649
Other comprehensive income (loss) (Note 18):		
Unrealized gain on available-for-sale securities	2	24
Foreign currency translation adjustments	(304)	(3,666)
Shares of other comprehensive loss in associates	(73)	(878)
Total other comprehensive loss	(375)	(4,520)
Comprehensive income	2,501	30,129
Total comprehensive income attributable to (Note 18) :		
Owners of the parent	¥2,365	\$28,489
Minority interests	136	1,640

See notes to consolidated financial statements.

Consolidated Statements of Changes in Equity

NIKKISO CO., LTD., and Consolidated Subsidiaries
For the years ended March 31, 2011 and 2010

Millions of Yen

	Outstanding number of shares of common stock	Common stock	Capital surplus	Retained earnings	Treasury stock	Accumulated other comprehensive income (loss)		Total	Minority interests	Total equity
						Unrealized gain on available-for-sale securities	Foreign currency translation adjustments			
Balances, April 1, 2009	62,625,446	¥6,095	¥10,266	¥29,471	¥(8,275)	¥98	¥(1,412)	¥36,243	¥479	¥36,722
Net income				3,240				3,240		3,240
Issuance of new stock	7,675,000	449	449					898		898
Cash dividends, ¥12.00 per share				(751)				(751)		(751)
Net increase in unrealized gain on available-for-sale securities						735		735		735
Net increase in foreign currency translation adjustments							246	246		246
Purchase of treasury stock	(17,784)				(11)			(11)		(11)
Disposal of treasury stock	9,004,418		(14)	(1,452)	7,460			5,994		5,994
Net change in the year									444	444
Balances, March 31, 2010	79,287,080	6,544	10,701	30,508	(826)	833	(1,166)	46,594	923	47,517
Net income				2,685				2,685		2,685
Cash dividends, ¥12.00 per share				(951)				(951)		(951)
Net increase in unrealized gain on available-for-sale securities						1		1		1
Net decrease in foreign currency translation adjustments							(322)	(322)		(322)
Purchase of treasury stock	(22,375)				(15)			(15)		(15)
Disposal of treasury stock	982			(1)	1			0		0
Net change in the year									124	124
Balances, March 31, 2011	79,265,687	¥6,544	¥10,701	¥32,241	¥(840)	¥834	¥(1,488)	¥47,992	¥1,047	¥49,039

Thousands of U.S. Dollars (Note 1)

	Common stock	Capital surplus	Retained earnings	Treasury stock	Accumulated other comprehensive income (loss)		Total	Minority interests	Total equity
					Unrealized gain on available-for-sale securities	Foreign currency translation adjustments			
Balances, March 31, 2010	\$78,847	\$128,924	\$367,569	\$(9,950)	\$10,030	\$(14,048)	\$561,372	\$11,125	\$572,497
Net income			32,345				32,345		32,345
Cash dividends, \$0.14 per share			(11,462)				(11,462)		(11,462)
Net increase in unrealized gain on available-for-sale securities						17	17		17
Net decrease in foreign currency translation adjustments						(3,874)	(3,874)		(3,874)
Purchase of treasury stock				(184)			(184)		(184)
Disposal of treasury stock				(3)	10		7		7
Net change in the year								1,491	1,491
Balances, March 31, 2011	\$78,847	\$128,924	\$388,449	\$(10,124)	\$10,047	\$(17,922)	\$578,221	\$12,616	\$590,837

Consolidated Statements of Cash Flows

NIKKISO CO., LTD., and Consolidated Subsidiaries
For the years ended March 31, 2011 and 2010

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2011	2010	2011
Cash flows from operating activities:			
Income before income taxes and minority interests	¥ 4,718	¥ 5,027	\$ 56,838
Adjustments for:			
Income taxes paid	(2,379)	(798)	(28,667)
Income taxes refunded	142	1,131	1,716
Depreciation and amortization	4,332	3,798	52,191
Gain on sale of investment securities	(506)	—	(6,091)
Loss on write-down of investment securities	40	—	488
Gain on sale of property, plant and equipment	(7)	(11)	(87)
Loss on sale and disposal of property, plant and equipment	33	110	396
Loss on sale of stock of a subsidiary	288	—	3,467
Equity in earnings of affiliated companies	(231)	(261)	(2,782)
Provision for doubtful accounts	66	87	796
Increase in liability for employees' retirement benefits	6	12	70
Foreign exchange (loss) gain, net	(145)	6	(1,752)
Changes in assets and liabilities:			
(Increase) decrease in notes and accounts receivable	(74)	423	(887)
(Increase) decrease in inventories	(1,663)	2,417	(20,041)
Decrease in interest and dividend receivable	9	302	107
Increase (decrease) in notes and accounts payable	1,933	(177)	23,288
Other	(557)	(392)	(6,701)
Net cash provided by operating activities	6,005	11,674	72,349
Cash flows from investing activities:			
Decrease in short-term investments, net	44	59	527
Payments for purchases of property, plant and equipment	(1,591)	(2,467)	(19,179)
Proceeds from sale of property, plant and equipment	15	47	185
Payments for purchase of other assets	(507)	(217)	(6,112)
Payments for sale and purchase of investment securities	—	(0)	—
Proceeds from sale and redemption of investment securities	937	0	11,293
Payment for acquisition of shares of newly-consolidated subsidiaries	—	(22,573)	—
Proceeds from sale of stock of a subsidiary	460	—	5,546
Collection of loans receivable	42	18	510
Payments for loans receivable	(9)	(75)	(113)
Net cash used in investing activities	(609)	(25,208)	(7,343)
Cash flows from financing activities:			
Increase in short-term bank loans	3,632	1,181	43,759
Proceeds from long-term debt	9,373	29,260	112,937
Repayment of long-term debt	(5,403)	(21,554)	(65,101)
Proceeds from issuance of shares	—	898	—
Repurchase of treasury stock	(15)	(8)	(177)
Disposal of treasury stock	—	5,991	—
Cash dividends paid	(951)	(751)	(11,462)
Cash dividends paid to minority shareholders	(12)	(12)	(149)
Net cash provided by financing activities	6,624	15,005	79,807
Foreign currency translation adjustments	(346)	(16)	(4,163)
Net increase in cash and cash equivalents	11,674	1,455	140,650
Cash and cash equivalents at beginning of year	11,298	9,830	136,122
Increase in cash and cash equivalents from newly-consolidated subsidiaries	—	13	—
Cash and cash equivalents at end of year	¥22,972	¥ 11,298	\$276,772

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

NIKKISO CO., LTD., and Consolidated Subsidiaries
For the years ended March 31, 2011 and 2010

1. BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements have been prepared in accordance with the provisions set forth in the Japanese Financial Instruments and Exchange Act and its related accounting regulations, and in conformity with accounting principles generally accepted in Japan ("Japanese GAAP"), which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards.

Under Japanese GAAP, a consolidated statement of comprehensive income is required from the fiscal year ended March 31, 2011 and has been presented herein. Accordingly, accumulated other comprehensive income is presented in the consolidated balance sheet and the consolidated statement of changes in equity. Information with respect to other comprehensive income for the year ended March 31, 2010 is disclosed in Note 18. In addition, "net income before minority interests" is disclosed in the consolidated statement of income from the year ended March 31, 2011.

In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan. In addition, certain reclassifications have been made in the 2010 consolidated financial statements to conform to the classifications used in 2011.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which Nikkiso Co., Ltd. (the "Company") is incorporated and operates. The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been made at the rate of ¥83 to \$1, the approximate rate of exchange at March 31, 2011. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(1) Consolidation

The consolidated financial statements as of March 31, 2011 include the accounts of the Company and its 39 (43 in 2010) significant subsidiaries (together, the "Group").

Under the control or influence concept, those companies in which the Company, directly or indirectly, is able to exercise control over operations are fully consolidated, and those companies over which the Group has the ability to exercise significant influence are accounted for by the equity method.

Investments in eight affiliated companies are accounted for by the equity method. Investments in the remaining unconsolidated subsidiaries and affiliated companies are stated at cost. If the equity method of accounting had been applied to the investments in these companies, the effect on the accompanying consolidated financial statements would not be material.

All significant intercompany balances and transactions have been eliminated in consolidation. All material unrealized profit included in assets resulting from transactions within the Group is eliminated.

(2) Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements

In May 2006, the Accounting Standards Board of Japan (the "ASBJ") issued ASBJ Practical Issues Task Force (PITF) No.18, "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements". PITF No.18 prescribes: (1) the accounting policies and procedures applied to a parent company and its subsidiaries for similar transactions and events under similar circumstances should in principle be unified for the preparation of the consolidated financial statements, (2) financial statements prepared by foreign subsidiaries in accordance with either International Financial

Reporting Standards or the generally accepted accounting principles in the United States of America tentatively may be used for the consolidation process, (3) however, the following items should be adjusted in the consolidation process so that net income is accounted for in accordance with Japanese GAAP unless they are not material: 1) amortization of goodwill; 2) scheduled amortization of actuarial gain or loss of pensions that has been directly recorded in the equity; 3) expensing capitalized development costs of R&D; 4) cancellation of the fair value model of accounting for property, plant, and equipment and investment properties and incorporation of the cost model of accounting; 5) recording the prior years' effects of changes in accounting policies in the income statement where retrospective adjustments to financial statements have been incorporated; and 6) exclusion of minority interests from net income, if included.

(3) Unification of Accounting Policies Applied to Foreign Affiliated Companies for the Equity Method

In March 2008, the ASBJ issued ASBJ Statement No.16, "Accounting Standard for Equity Method of Accounting for Investments." The new standard requires adjustments to be made to conform the affiliate's accounting policies for similar transactions and events under similar circumstances to those of the parent company when the affiliate's financial statements are used in applying the equity method unless it is impracticable to determine adjustments. In addition, financial statements prepared by foreign affiliated companies in accordance with either International Financial Reporting Standards or the generally accepted accounting principles in the United States tentatively may be used in applying the equity method if the following items are adjusted so that net income is accounted for in accordance with Japanese GAAP unless they are not material: 1) amortization of goodwill; 2)

scheduled amortization of actuarial gain or loss of pensions that has been directly recorded in the equity; 3) expensing capitalized development costs of R&D; 4) cancellation of the fair value model of accounting for property, plant, and equipment and investment properties and incorporation of the cost model of accounting; 5) recording the prior years' effects of changes in accounting policies in the income statement where retrospective adjustments to the financial statements have been incorporated; and 6) exclusion of minority interests from net income, if contained. This standard is applicable for fiscal years beginning on or after April 1, 2010.

The Company applied this accounting standard effective April 1, 2010. The effect of this change had no impact on the consolidated financial statements for the year ended March 31, 2011.

(4) Business Combinations

In October 2003, the Business Accounting Council (the "BAC") issued a Statement of Opinion, "Accounting for Business Combinations," and in December 2005, the ASBJ issued ASBJ Statement No.7, "Accounting Standard for Business Divestitures", and ASBJ Guidance No.10, "Guidance for Accounting Standard for Business Combinations and Business Divestitures".

The accounting standard for business combinations allows companies to apply the pooling of interests method of accounting only when certain specific criteria are met such that the business combination is essentially regarded as a uniting-of-interests.

For business combinations that do not meet the uniting-of-interests criteria, the business combination is considered to be an acquisition and the purchase method of accounting is required. This standard also prescribes the accounting for combinations of entities under common control and for joint ventures.

In December 2008, the ASBJ issued a revised accounting standard for business combinations, ASBJ Statement No.21, "Accounting Standard for Business Combinations." Major accounting changes under the revised accounting standard are as follows: (1) The revised standard requires accounting for business combinations only by the purchase method. As a result, the pooling of interests method of accounting is no longer allowed. (2) The current accounting standard accounts for the research and development costs to be charged to income as incurred. Under the revised standard, in-process research and development (IPR&D) acquired in the business combination is capitalized as an intangible asset. (3) The previous accounting standard provided for a bargain purchase gain (negative goodwill) to be systematically amortized over a period not exceeding 20 years. Under the revised standard, the acquirer recognizes the bargain purchase gain in profit or loss immediately on the acquisition date after reassessing and confirming that all of the assets acquired and all of the liabilities assumed have been identified after a review of the procedures used in the purchase allocation. This standard was applicable to business combinations undertaken on or after April 1, 2010.

(5) Cash equivalents

Cash equivalents are short-term investments that are readily convertible into cash and that are exposed to insignificant risk of changes in value.

Cash equivalents include time deposits, certificate of deposits, commercial paper and bond funds, all of which mature or become due within three months of the date of acquisition.

(6) Inventories

Inventories are stated at the lower of cost, determined by the moving-average method with the exception of certain finished products and work in process by the specification method, or net selling value.

(7) Marketable and Investment Securities

Marketable and investment securities are classified and accounted for, depending on management's intent, as follows:

i) held-to-maturity debt securities, which are expected to be held to maturity with the positive intent and ability to hold to maturity, are reported at amortized cost and ii) marketable available-for-sale securities, which are not classified as the aforementioned securities, are reported at fair value, with unrealized gains and losses, net of applicable taxes, reported in a separate component of equity.

Non-marketable available-for-sale securities are stated at cost determined by the moving-average method.

For other than temporary declines in fair value, investment securities are reduced to net realizable value by a charge to income.

(8) Property, Plant and Equipment

Property, plant and equipment are stated at cost. Depreciation of property, plant and equipment of the Company and its consolidated domestic subsidiaries is computed mainly by the declining-balance method based on the estimated useful lives of the assets. The straight-line method is applied to certain buildings of the Company and its consolidated domestic subsidiaries, and all property, plant and equipment of consolidated foreign subsidiaries. The range of useful lives is principally from 3 to 50 years for buildings and structures, and from 4 to 8 years for machinery.

Under certain conditions such as exchanges of fixed assets of similar kinds and cash subsidies granted from governmental or municipal authorities, Japanese tax laws permit an entity to defer the recognition of profit arising from such transactions by reducing the cost of the assets acquired or by providing a special reserve in the equity section. The reduction of the cost of the assets as of March 31, 2011 was ¥990 million (\$11,928 thousand), and the special reserve in the equity section as a part of retained earnings as of March 31, 2011 was ¥377 million (\$4,542 thousand).

(9) Long-lived assets

The Group reviews its long-lived assets for impairment whenever events or changes in circumstances indicate the carrying amount of an asset or asset group may not be recoverable. An impairment loss would be recognized if the carrying amount of an asset or asset group exceeds the sum of the undiscounted future cash flows expected to result from the continued use and eventual disposition of the asset or asset group. The impairment loss would be measured as the amount by which the carrying amount of the

asset exceeds its recoverable amount, being either the discounted cash flows from the continued use and eventual disposition of the asset or the net selling price at disposition, whichever is higher.

(10) Goodwill

Goodwill, which was recognized by the Group, is subject to amortization over a period not to exceed 20 years and a test for impairment.

(11) Retirement and Pension Plans

The Company and certain domestic consolidated subsidiaries have non-contributory defined benefit pension plans. The Group accounts for the liability for employees' retirement benefits based on the projected benefit obligations and plan assets at the balance sheet date. Certain consolidated subsidiaries have defined contribution pension plans.

(12) Retirement Allowances for Directors and Corporate Auditors

Retirement benefits to directors and corporate auditors under the unfunded retirement allowance plans were provided at the amount that would be required if all directors and corporate auditors of the Company and certain domestic subsidiaries retired at the balance sheet date. However, effective the date of the stockholders' meeting of the Company in 2006, and of certain domestic subsidiaries in 2007, the unfunded retirement allowance plans were terminated. The outstanding balances of retirement allowances for directors and corporate auditors as of March 31, 2011 and 2010 were ¥19 million (\$229 thousand) and ¥39 million, respectively.

(13) Asset Retirement Obligations

In March 2008, the ASBJ published the accounting standard for asset retirement obligations, ASBJ Statement No.18 "Accounting Standard for Asset Retirement Obligations" and ASBJ Guidance No.21 "Guidance on Accounting Standard for Asset Retirement Obligations". Under this accounting standard, an asset retirement obligation is defined as a legal obligation imposed either by law or contract that results from the acquisition, construction, development and the normal operation of a tangible fixed asset and is associated with the retirement of such tangible fixed asset. The asset retirement obligation is recognized as the sum of the discounted cash flows required for the future asset retirement and is recorded in the period in which the obligation is incurred if a reasonable estimate can be made. If a reasonable estimate of the asset retirement obligation cannot be made in the period the asset retirement obligation is incurred, the liability should be recognized when a reasonable estimate of asset retirement obligation can be made. Upon initial recognition of a liability for an asset retirement obligation, an asset retirement cost is capitalized by increasing the carrying amount of the related fixed asset by the amount of the liability. The asset retirement cost is subsequently allocated to expense through depreciation over the remaining useful life of the asset. Over time, the liability is accreted to its present value each period. Any subsequent revisions to the timing or the amount of the original estimate of undiscounted cash flows are reflected as

an increase or a decrease in the carrying amount of the liability and the capitalized amount of the related asset retirement cost. This standard was effective for fiscal years beginning on or after April 1, 2010.

The Company applied this accounting standard effective April 1, 2010. The effect of this change had no material impact on the consolidated financial statements for the year ended March 31, 2011.

(14) Research and Development Costs

Research and development costs are charged to income as incurred.

(15) Leases

In March 2007, the ASBJ issued ASBJ Statement No.13, "Accounting Standard for Lease Transactions," which revised the previous accounting standard for lease transactions issued in June 1993. The revised accounting standard for lease transactions was effective for fiscal years beginning on or after April 1, 2008.

Under the previous accounting standard, finance leases that were deemed to transfer ownership of the leased property to the lessee were to be capitalized. However, other finance leases were permitted to be accounted for as operating lease transactions if certain "as if capitalized" information was disclosed in the notes to the lessee's financial statements. The revised accounting standard requires that all finance lease transactions should be capitalized to recognize lease assets and lease obligations in the balance sheet.

In addition, the revised accounting standard permits leases which existed at the transition date and do not transfer ownership of the leased property to the lessee to be measured at the obligations under finance leases less interest expense at the transition date and recorded as acquisition cost of lease assets.

All other leases are accounted for as operating leases.

(16) Bonuses to directors and corporate auditors

Bonuses to directors and corporate auditors are accrued at the year end to which such bonuses are attributable.

(17) Income taxes

The provision for income taxes is computed based on the pretax income included in the consolidated statements of income. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. Deferred taxes are measured by applying currently enacted tax laws to temporary differences.

(18) Foreign Currency Transactions

All short-term and long-term monetary receivables and payables denominated in foreign currencies are translated into Japanese yen at the exchange rates at the balance sheet date. The foreign exchange gains and losses from translation are recognized in the consolidated income statement.

(19) Foreign Currency Financial Statements

The balance sheet accounts of the consolidated foreign subsidiaries are translated into Japanese yen at the current exchange rate as of the balance sheet date except for equity, which is translated at the historical rate.

Differences arising from such translation are shown as “Foreign currency translation adjustments” under accumulated other comprehensive income in a separate component of equity.

Revenue and expense accounts of consolidated foreign subsidiaries are translated into yen at the average exchange rate.

(20) Derivatives and Hedging Activities

The Group uses derivative financial instruments to manage its exposures to fluctuations in foreign exchange and interest rates. Foreign exchange forward contracts and interest rate swaps are utilized by the Group to reduce foreign currency exchange and interest rate risks. The Group does not enter into derivatives for trading or speculative purposes.

Derivative financial instruments are classified and accounted for as follows: a) all derivatives are recognized as either assets or liabilities and measured at fair value, and gains or losses on derivative transactions are recognized in the consolidated income statement and b) for derivatives used for hedging purposes, if derivatives qualify for hedge accounting because of high correlation and effectiveness between the hedging instruments and the hedged items, gains or losses on derivatives are deferred until maturity of the hedged transactions.

The foreign currency forward contracts employed to hedge foreign exchange exposures are measured at the fair value and the unrealized gains / losses are recognized in income.

The interest rate swaps which qualify for hedge accounting and meet specific matching criteria are not re-measured at market value, but the differential paid or received under the swap agreements are recognized and included in interest expense or income.

(21) Per Share Information

Basic net income per share is computed by dividing net income available to common shareholders by the weighted-average number of common stocks outstanding for the period, retroactively adjusted for stock splits.

Diluted net income per share reflects the potential dilution that could occur if securities were exercised or converted into common stock. Diluted net income per share of common stock assumes full conversion of the outstanding convertible notes and bonds at the beginning of the year (or at the time of issuance) with an applicable adjustment for related interest expense, net of tax, and full exercise of outstanding warrants.

Diluted net income per share of common stock for the years ended March 31, 2011 is not disclosed because no potentially dilutive shares have been issued.

Cash dividends per share presented in the accompanying consolidated statements of income are dividends applicable to the respective years including dividends to be paid after the end of the year.

(22) New Accounting Pronouncements

Accounting Changes and Error Corrections—In December 2009, ASBJ issued ASBJ Statement No. 24, “Accounting Standard for Accounting Changes and Error Corrections,” and ASBJ Guidance No. 24, “Guidance on Accounting Standard for Accounting Changes and Error Corrections.” Accounting treatments under this standard and guidance are as follows; (1) Changes in Accounting Policies—When a new accounting policy is applied with a revision of accounting standards, a new policy is applied retrospectively unless the revised accounting standards include specific transitional provisions. When the revised accounting standards include specific transitional provisions, an entity shall comply with the specific transitional provisions. (2) Changes in Presentations—When the presentation of financial statements is changed, prior period financial statements are reclassified in accordance with the new presentation. (3) Changes in Accounting Estimates—A change in an accounting estimate is accounted for in the period of the change if the change affects that period only, and is accounted for prospectively if the change affects both the period of the change and future periods. (4) Corrections of Prior Period Errors—When an error in prior period financial statements is discovered, those statements are restated. This accounting standard and the guidance are applicable to accounting changes and corrections of prior period errors which are made from the beginning of the fiscal year that begins on or after April 1, 2011.

3. BUSINESS COMBINATION

For the fiscal year ended March 31, 2011:

At the Board of Directors meeting held by the Company on November 1, 2010, the Company decided to merge with Nikkiso M.E.S. Co., Ltd., which was a consolidated subsidiary, effective January 1, 2011.

(1) Names and businesses of companies involved in merger, method of corporate merger, name of post-merger entity and overview of transaction, including the purpose of the transaction

- i. Names and businesses of companies involved in merger
Nikkiso Co., Ltd. (surviving company) –Production, sale and maintenance of industrial pumps, water conditioning equipment, medical equipment and carbon fiber reinforced plastics
Nikkiso M.E.S. Co., Ltd. (merged company) - maintenance and repair of medical equipment
- ii. Method of corporate merger
An absorption-type merger in which Nikkiso Co., Ltd. is the surviving company and Nikkiso M.E.S. Co., Ltd. is dissolved.

iii. Name of post-merger entity
Nikkiso Co., Ltd.

iv. Overview of transaction, including the purpose of the transaction
Nikkiso M.E.S. Co., Ltd. was founded for the purpose of improving technical skills of maintenance services for medical products as the wholly owned subsidiary of the Company in June 1990. While the purpose has been accomplished in the past years, recently, the needs of customers, mostly medical institutions, have been becoming increasingly advanced and diversified. Thus, it is necessary that the sale and maintenance function of medical products in the Group become connected closer in order to respond to the customers' needs more quickly and accurately. Consequently, the Company completed this transaction to enhance its organizational efficiency by integrating such functions in the Group.

(2) Overview of accounting method used

Based on ASBJ Statement No.21, "Accounting Standard for Business Combinations," and ASBJ Guidance No.10, "Guidance for Accounting Standard for Business Combinations and Business Divestitures," the accounting process is applied as a transaction under common control.

For the fiscal year ended March 31, 2010:

Effective August 13, 2009, the Company's consolidated subsidiary located in Germany, Nikkiso Pumps Europe GmbH, acquired 100% of the shares of LEWA Management GmbH and subsidiaries (the "LEWA Group"), manufacturing and trading companies of

industrial metering pumps and pump systems, for a purchase price of ¥24,141 million. The Company used the purchase method of accounting for the acquisition of the LEWA Group and, accordingly, the purchase price has been allocated to the current and fixed assets of the Company based on the estimated fair value of such assets. The amount of consideration paid in excess of the estimated fair value of the assets acquired of ¥25,679 million has been recorded as goodwill and amortized over 20 years.

The estimated fair values of the assets acquired and the liabilities assumed at the acquisition date were as follows:

	Millions of Yen
Current assets	¥ 7,262
Fixed assets	3,077
Total	¥10,339
Current liabilities	¥11,325
Fixed liabilities	243
Total	¥11,568

If the business acquisition had been completed as of April 1, 2009, the beginning of the current fiscal year, the unaudited condensed pro forma information of the operations of the LEWA Group for the year ended March 31, 2010 would be as follows:

	Millions of Yen
Sales	¥8,454
Net loss	(880)

4. SHORT-TERM INVESTMENTS

Short-term investments as of March 31, 2011 and 2010 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2011	2010	2011
Time deposits	¥319	¥374	\$3,838

5. MARKETABLE AND INVESTMENT SECURITIES

Marketable and investment securities as of March 31, 2011 and 2010 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2011	2010	2011
Non-current:			
Equity securities	¥7,268	¥7,305	\$87,566
Trust fund investments and other	50	27	604
Total	¥7,318	¥7,332	\$88,170

The carrying amounts and aggregate fair values of marketable and investment securities at March 31, 2011 and 2010 were as follows:

March 31, 2011	Millions of Yen			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as:				
Available-for-sale:				
Equity securities	¥5,825	¥2,625	¥1,215	¥7,235

March 31, 2010	Millions of Yen			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as:				
Available-for-sale:				
Equity securities	¥5,866	¥2,367	¥961	¥7,272

March 31, 2011	Thousands of U.S. Dollars			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as:				
Available-for-sale:				
Equity securities	\$70,185	\$31,622	\$14,639	\$87,168

6. INVENTORIES

Inventories as of March 31, 2011 and 2010 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2011	2010	2011
Merchandise	¥ 1,955	¥ 2,047	\$ 23,557
Finished products	2,069	2,013	24,930
Work in process	4,492	3,354	54,117
Raw materials and supplies	6,122	6,447	73,759
Total	¥14,638	¥13,861	\$176,363

7. LONG-LIVED ASSETS

The Group reviewed its long-lived assets for impairment. No impairment loss was recognized in 2011 and 2010.

8. SHORT-TERM BANK LOANS AND LONG-TERM DEBT

Short-term bank loans at March 31, 2011 and 2010 consisted of notes to banks, with weighted average interest rates of 0.84% and 1.19%, respectively.

Long-term debt at March 31, 2011 and 2010 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2011	2010	2011
Unsecured loans from banks and other financial institutions due serially to 2019 with interest rates of Tokyo Interbank Offered Rate plus a certain spread ranging from 1.34% to 2.67% (2011) and from 1.36% to 2.46% (2010).	¥35,025	¥32,348	\$421,997
1.73% yen unsecured straight bonds, due 2012	6,000	6,000	72,289
Lease obligations	179	272	2,154
Total	41,204	38,620	496,440
Less current portion	(3,671)	(3,684)	(44,233)
Long-term debt, less current portion	¥37,533	¥34,936	\$452,207

Annual maturities of long-term debt at March 31, 2011 were as follows:

Year ending March 31	Millions of Yen	Thousands of U.S. Dollars
2012	¥ 3,671	\$ 44,233
2013	10,075	121,382
2014	11,022	132,796
2015	4,258	51,300
2016	7,394	89,090
2017 and thereafter	4,784	57,639
Total	¥41,204	\$496,440

The carrying amounts of assets pledged as collateral for bank loans of ¥10,032 million (\$120,867 thousand) as of March 31, 2011 were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Land	¥1,825	\$ 21,991
Buildings and structures	5,990	72,170
Machinery and equipment	515	6,201
Total	¥8,330	\$100,362

In addition, the consolidated subsidiary shares of ¥24,141 million (\$290,853 thousand) before elimination under consolidation are pledged at March 31, 2011.

9. EMPLOYEES' RETIREMENT AND PENSION PLANS

The Company and certain of its consolidated subsidiaries have non-contributory defined benefit plans for employees.

Under most circumstances, employees terminating their employment are entitled to retirement benefits determined based on the rate of pay at the time of termination, years of service and certain other factors. These retirement benefits are comprised of a lump-sum severance payment from the Company

or consolidated subsidiaries, together with annuity payments from trustees. Employees are entitled to larger payments if the termination is involuntary, such as when it results from retirement at the mandatory retirement age or death, but not for employees who take voluntary retirement at certain specific ages prior to the mandatory retirement age.

The liability for employees' retirement benefits at March 31, 2011 and 2010 consisted of the followings:

	Millions of Yen		Thousands of U.S. Dollars
	2011	2010	2011
Projected benefit obligation	¥ 15,687	¥ 15,653	\$ 189,000
Fair value of plan assets	(13,438)	(13,797)	(161,906)
Unrecognized prior service cost	1,097	1,440	13,220
Unrecognized actuarial loss	(3,654)	(3,895)	(44,026)
Prepaid pension expense	709	1,071	8,541
Liability	¥401	¥472	\$4,829

The components of net periodic retirement benefit costs for the years ended March 2011 and 2010 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2011	2010	2011
Service cost	¥ 560	¥ 586	\$ 6,746
Interest cost	361	376	4,352
Expected return on plan assets	(273)	(233)	(3,293)
Recognized actuarial loss	858	957	10,340
Amortization of prior service cost	(343)	(302)	(4,129)
Net periodic retirement benefit costs	¥1,163	¥1,384	\$14,016

Assumptions used for the years ended March 31, 2011 and 2010 were set forth as follows:

	2011	2010
Discount rate	2.4%	2.4%
Expected rate of return on plan assets	2.0%	2.0%
Amortization period of prior service cost	10 years	10 years
Recognition period of actuarial gain/loss	10 years	10 years

Certain consolidated subsidiaries have defined contribution pension plans.

10. EQUITY

Japanese companies have been subject to the Companies Act of Japan (the "Companies Act"). The significant provisions in the Companies Act that affect financial and accounting matters are summarized below :

(a) Dividends

Under the Companies Act, companies can pay dividends at any time during the fiscal year in addition to the year-end dividend upon resolution at the shareholders meeting. For companies that meet certain criteria such as; (1) having the Board of Directors, (2) having independent auditors, (3) having the Board of Corporate Auditors, and (4) the term of service of the directors is prescribed as one year rather than two years of normal term by its articles of incorporation, the Board of Directors may declare dividends (except for dividends in kind) at any time during the fiscal year if the company has prescribed so in its articles of incorporation. The Company meets all the above criteria.

The Companies Act permits companies to distribute dividends-in-kind (non-cash assets) to shareholders subject to a certain limitation and additional requirements.

Semiannual interim dividends may also be paid once a year upon resolution by the Board of Directors if the articles of incorporation of the company so stipulate. The Companies Act provides certain limitations on the amounts available for dividends or the purchase of treasury stock. The limitation is defined as the amount available for distribution to the shareholders, but the amount of net assets after dividends must be maintained at no less than ¥ 3 million.

(b) Increases/decreases and transfer of common stock, reserve and surplus

The Companies Act requires that an amount equal to 10% of dividends must be appropriated as a legal reserve (a component of retained earnings) or as additional paid-in capital (a component of capital surplus) depending on the equity account charged upon the payment of such dividends until the total aggregate amount of the legal reserve and additional paid-in capital equals 25% of the common stock. Under the Companies Act, the total amount of additional paid-in capital and legal reserve may be reversed without limitation. The Companies Act also provides that common stock, legal reserve, additional paid-in capital, other capital surplus and retained earnings can be transferred among the accounts under certain conditions upon resolution of the shareholders.

(c) Treasury stock and treasury stock acquisition rights

The Companies Act also provides for companies to purchase treasury stock and dispose of such treasury stock by resolution of the Board of Directors. The amount of treasury stock purchased cannot exceed the amount available for distribution to the shareholders which is determined by a specific formula.

Under the Companies Act, stock subscription rights are presented as a separate component of equity. The Companies Act also provides that companies can purchase both treasury stock acquisition rights and treasury stock. Such treasury stock acquisition rights are presented as a separate component of equity or deducted directly from stock acquisition rights.

11. INCOME TAXES

The Company and its domestic subsidiaries are subject to Japanese national and local income taxes which, in the aggregate, resulted in a normal effective statutory tax rate of approximately 40.7% for the years ended March 31, 2011 and 2010, respectively.

The tax effects of significant temporary differences and tax loss carryforwards which resulted in deferred tax assets and liabilities at March 31, 2011 and 2010 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2011	2010	2011
Deferred tax assets:			
Inventories	¥304	¥337	\$3,667
Accrued bonuses to employees	607	554	7,314
Accrued business taxes	91	110	1,094
Tax loss carryforwards	167	283	2,015
Investment securities	13	31	153
Liability for employees' retirement benefits	76	67	917
Others	322	342	3,883
Less valuation allowance	(60)	(80)	(720)
Total	¥1,520	¥1,644	\$18,323
Deferred tax liabilities:			
Unrealized gain on available-for-sale securities	573	572	6,905
Reserve for deferred income on fixed assets	259	259	3,116
Prepaid pension expense	288	435	3,476
Others	26	(12)	314
Total	¥1,146	¥1,254	\$13,811
Net deferred tax assets	¥374	¥390	\$4,512

A reconciliation of the difference between the effective statutory tax rate and the actual effective tax rate is not disclosed for the year ended March 31, 2011 since the difference is less than 5% of the normal effective statutory income tax rate and, for the year ended March 31, 2010, was as follows:

	2010
Effective statutory tax rate	40.7%
Expenses not deductible for income tax purposes	1.7
Inhabitants' tax-per capita levy	1.1
Dividend income, non-taxable	1.9
Equity in earnings of affiliated companies	(2.1)
Variance of tax rate for consolidated subsidiaries	(9.3)
Increase in valuation allowance	1.7
Tax credit for research and development costs of domestic companies	(1.2)
Unrecognizable amount of tax effects unrealized profit	(4.1)
Amortization of goodwill	6.1
Others, net	(4.1)
Actual effective tax rate	32.4%

As of March 31, 2011, certain subsidiaries had tax loss carryforwards aggregating to approximately ¥688 million (\$8,291 thousand) which are available to be offset against taxable income of such subsidiaries in future years. These tax loss carryforwards of ¥74 million (\$888 thousand), if not utilized, will expire as follows:

Year ending March 31	Millions of Yen	Thousands of U.S. Dollars
2017	¥10	\$122
2018	64	766
Total	¥74	\$888

Remaining tax loss carryforwards of ¥614 million (\$7,403 thousand) do not have an expiration date.

12. RESEARCH AND DEVELOPMENT COSTS

Research and development costs charged to income were ¥1,150 million (\$13,860 thousand) and ¥1,230 million for the years ended March 31, 2011 and 2010, respectively.

13. LEASES

The Group leases certain machinery, computer equipment, office space and other assets.

Total lease and rental expenses for the years ended March 31, 2011 and 2010 were ¥1,280 million (\$15,426 thousand) and ¥1,277 million.

14. AMORTIZATION OF GOODWILL

Total amortization of goodwill for the years ended March 31, 2011 and 2010 was ¥1,530 million (\$18,429 thousand) and ¥816 million, respectively.

15. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

In March 2008, the ASBJ revised ASBJ Statement No. 10, "Accounting Standard for Financial Instruments," and issued ASBJ Guidance No.19, "Guidance on Accounting Standard for Financial Instruments and Related Disclosures." This accounting standard and the guidance are applicable to financial instruments and related disclosures at the end of the fiscal years ending on or after March 31, 2010. The Group applied the revised accounting standard and the new guidance effective March 31, 2010.

(1) Group Policy for Financial Instruments

The Group uses financial instruments, mainly bank loans and bonds, based on its capital investment plan. Cash surpluses, if any, are invested in low risk financial assets. Short-term bank loans are used to fund its ongoing operations. Derivatives are used, not for speculative purposes, but to manage exposure to financial risks as described in (2) below.

(2) Nature and Extent of Risks Arising from Financial Instruments

Receivables such as trade notes and trade accounts are exposed to customer credit risk. Although receivables in foreign currencies are exposed to the market risk of fluctuation in foreign currency exchange rates, the position, net of payables in foreign currencies, is hedged by using forward foreign currency contracts. Marketable and investment securities are exposed to the risk of market price fluctuations.

Payment terms of payables, such as trade notes and trade accounts, are less than one year. Although payables in foreign currencies are exposed to the market risk of fluctuation in foreign currency exchange rates, those risks are netted against the balance of receivables denominated in the same foreign currency as noted above.

Maturities of bank loans and bonds are less than eight-and-half years after the balance sheet date. Although a part of such bank

loans and bonds are exposed to market risks from changes in variable interest rates, those risks are mitigated by using derivatives of interest-rate swaps.

(3) Risk Management for Financial Instruments

Credit risk management

Credit risk is the risk of economic loss arising from a counterparty's failure to repay or service debt according to the contractual terms. The Group manages its credit risk from receivables on the basis of internal guidelines, which include monitoring of payment terms and balances of major customers by each business division to identify the default risk of customers at an early stage. Counterparties to the derivatives are limited to major international financial institutions to reduce counterparty risk.

The maximum credit risk exposure of financial assets is limited to their carrying amounts as of March 31, 2011.

Market risk management (foreign exchange risk and interest rate risk)

Foreign currency trade receivables and payables are exposed to market risk resulting from fluctuations in foreign currency exchange rates. The Company and certain consolidated subsidiaries manage to hedge such risk principally by forward foreign currency contracts.

(a) Fair value of financial instruments

Interest-rate swaps are used by the Company and certain consolidated subsidiaries to manage exposure to market risks from changes in interest rates of loan payables and bond payables.

Investment securities are managed by monitoring market values and financial position of issuers on a regular basis.

In accordance with internal policies which regulate the authorization and credit limit amount, transactions and reconciliation of the transactions and balances with customers are made by the finance department.

Liquidity risk management

Liquidity risk comprises the risk that the Company cannot meet its contractual obligations in full on maturity dates. The Company manages its liquidity risk by adequate financial planning based on reports from each department.

(4) Fair values of Financial Instruments

Fair values of financial instruments are based on a quoted price in active markets. If a quoted price is not available, other rational valuation techniques are used instead. Also, please see Note 16 for the detail of fair value for derivatives. The contract amount shown in Note 16 is not the amount of derivative transactions exposed to market risk.

March 31, 2011	Millions of Yen		
	Carrying amount	Fair value	Unrealized gain (loss)
Cash and cash equivalents	¥22,972	¥22,972	
Notes and accounts receivable			
Trade	25,371	25,371	
Investment securities			
Equity securities	7,235	7,235	
Total	¥55,578	¥55,578	
Short-term bank loans	¥10,899	¥10,899	
Notes and accounts payable			
Trade	11,947	11,947	
Construction and other	1,596	1,596	
Income taxes payable	922	922	
Long-term debt	41,204	41,428	(224)
Total	¥66,568	¥66,792	¥(224)

March 31, 2010	Millions of Yen		
	Carrying amount	Fair value	Unrealized gain (loss)
Cash and cash equivalents	¥11,298	¥11,298	
Notes and accounts receivable			
Trade	26,564	26,564	
Investment securities			
Equity securities	7,272	7,272	
Total	¥45,134	¥45,134	
Short-term bank loans	¥ 7,824	¥ 7,824	
Notes and accounts payable			
Trade	11,268	11,268	
Construction and other	1,608	1,608	
Income taxes payable	1,262	1,262	
Long-term debt	38,620	38,811	(191)
Total	¥60,582	¥60,773	¥(191)

March 31, 2011	Thousands of U.S.Dollars		
	Carrying amount	Fair value	Unrealized gain (loss)
Cash and cash equivalents	\$276,772	\$276,772	
Notes and accounts receivable			
Trade	305,679	305,679	
Investment securities			
Equity securities	87,168	87,168	
Total	\$669,619	\$669,619	
Short-term bank loans	\$131,307	\$131,307	
Notes and accounts payable			
Trade	143,937	143,937	
Construction and other	19,228	19,228	
Income taxes payable	11,113	11,113	
Long-term debt	496,440	499,139	(2,699)
Total	\$802,025	\$804,724	\$(2,699)

Cash and cash equivalents

The carrying values of cash and cash equivalents approximate fair value because of their short maturities.

Marketable and investment securities

The fair values of marketable and investment securities are measured at the quoted market price of the stock exchange for the equity instruments, and at the quoted price obtained from the financial institution for certain debt instruments. The information of the fair value for the marketable and investment securities by classification is included in Note 5.

Receivables and payables

The carrying values of receivables and payables approximate fair value because of their short maturities.

Short-term bank loans and long-term debt

The carrying values of short-term bank loans approximate fair value because of their short maturities.

Long-term debt

The fair values of long-term debt are determined by discounting the cash flows related to the debt at the Group's assumed corporate borrowing rate.

Derivatives

The information of the fair value for derivatives is included in Note 16.

(b) Financial instruments whose fair value cannot be reliably determined

	Millions of Yen		Thousands of U.S. Dollars
	2011	2010	2011
Investments in equity instruments that do not have a quoted market price in an active market	¥1,570	¥ 1,501	\$ 18,917
Trust fund investments and other	50	27	603
Total	¥ 1,620	¥ 1,528	\$19,520

(c) Maturity analysis for financial assets and securities with contractual maturities

March 31, 2011	Millions of Yen			
	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
Cash and cash equivalents	¥ 22,972			
Notes and accounts receivable				
Trade	25,371			
Total	¥ 48,343			

March 31, 2011	Thousands of U.S. Dollars			
	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
Cash and cash equivalents	\$ 276,772			
Notes and accounts receivable				
Trade	305,679			
Total	\$ 582,451			

(d) Maturity analysis for corporate bond, long-term loan and debt with interest with contractual maturities
See Note 8 for annual maturities of long-term debt.

16. DERIVATIVES

The Group enters into foreign currency forward contracts to hedge foreign exchange risk associated with certain assets and liabilities denominated in foreign currencies. The Group also enters into interest rate swap contracts to manage its interest rate exposures on certain assets and liabilities.

All derivative transactions are entered into to hedge interest and foreign currency exposures incorporated within its business. Accordingly, market risk in these derivatives is basically offset by

opposite movements in the value of hedged assets or liabilities.

Because the counterparties to these derivatives are limited to major international financial institutions, the Group does not anticipate any losses arising from credit risk.

Derivative transactions entered into by the Company have been made in accordance with internal policies which regulate the authorization and credit limit amount.

Derivative transactions to which hedge accounting is not applied

At March 31, 2011	Millions of Yen			
	Contract Amount	Contract Amount due after One Year	Fair Value	Unrealized Gain (Loss)
Foreign currency forward contracts:				
Selling EUR	¥212		¥ (0)	¥ (0)
Interest rate swaps: (fixed rate payment, floating rate receipt)	6,469	¥6,469	(204)	(204)

	Millions of Yen			
	Contract Amount	Contract Amount due after One Year	Fair Value	Unrealized Gain (Loss)
At March 31, 2010				
Foreign currency forward contracts:				
Buying U.S.\$	¥2,005		¥8	¥8
Buying EUR	864		11	11
Selling U.S.\$	186		0	0
Selling GBP	75		(0)	(0)
Interest rate swaps: (fixed rate payment, floating rate receipt)	7,937	¥6,933	(325)	(325)
Option trading: (interest rate cap)	42	42	(12)	(12)

	Thousands of U.S. Dollars			
	Contract Amount	Contract Amount due after One Year	Fair Value	Unrealized Gain (Loss)
At March 31, 2011				
Foreign currency forward contracts:				
Selling EUR	\$ 2,552		\$(1)	\$(1)
Interest rate swaps: (fixed rate payment, floating rate receipt)	77,941	\$77,941	(2,460)	(2,460)

Derivative transactions to which hedge accounting is applied

	Millions of Yen			
	Hedged item	Contract Amount	Contract Amount due after One Year	Fair Value
At March 31, 2011				
Interest rate swaps: (fixed rate payment, floating rate receipt)	Long-term debt	¥16,000	¥16,000	¥(363)

	Millions of Yen			
	Hedged item	Contract Amount	Contract Amount due after One Year	Fair Value
At March 31, 2010				
Interest rate swaps: (fixed rate payment, floating rate receipt)	Long-term debt	¥11,000	¥11,000	¥(342)

	Thousands of U.S. Dollars			
	Hedged item	Contract Amount	Contract Amount due after One Year	Fair Value
At March 31, 2011				
Interest rate swaps: (fixed rate payment, floating rate receipt)	Long-term debt	\$192,771	\$192,771	\$(4,371)

The fair value of derivative transactions is measured at the quoted price obtained from the financial institution.

The contract or notional amounts of derivatives which are shown in the above table do not represent the amounts exchanged by the parties and do not measure the Group's exposure to credit or market risk.

17. RELATED PARTY TRANSACTIONS

The Group had the following transactions with unconsolidated subsidiaries and affiliated companies for the years ended March 31, 2011 and 2010:

	Millions of Yen		Thousands of U.S. Dollars
	2011	2010	2011
Sales	¥1,395	¥2,769	\$16,804
Purchases	114	124	1,368
Other income, net	19	308	228

18. COMPREHENSIVE INCOME

For the year ended March 31, 2010

Total comprehensive income for the year ended March 31, 2010 was the following:

	2010
Total comprehensive income attributable to:	
Owners of the parent	¥4,221
Minority interests	146
Total comprehensive income	¥4,367

Other comprehensive income for the year ended March 31, 2010 consisted of the following:

	2010
Other comprehensive income:	
Unrealized gain on available-for-sale securities	¥741
Foreign currency translation adjustments	226
Share of other comprehensive income in associates	3
Total other comprehensive income	¥970

19. NET INCOME PER SHARE

Information to compute basic net income per share ("EPS") for the years ended March 31, 2011 and 2010 was as follows:

	Millions of Yen	Thousands of shares	Yen	U.S. Dollars
	Net income	Weighted average shares	EPS	
For the year ended March 31, 2011:				
Basic EPS				
Net income available to common shareholders	¥2,685	79,276	¥33.86	\$0.41
For the year ended March 31, 2010:				
Basic EPS				
Net income available to common shareholders	¥3,240	68,221	¥47.49	\$0.51

20. SUBSEQUENT EVENTS

Appropriations of Retained Earnings

The Company's Board of Directors approved the following at the Board of Directors meeting held on May 19, 2011:

	Millions of Yen	Thousands of U.S. Dollars
Year-end cash dividends, ¥6.00 (\$0.07) per share	¥476	\$5,730

21. SEGMENT INFORMATION

For the year ended March 31, 2011 and 2010

In March 2008, the ASBJ revised ASBJ Statement No. 17 "Accounting Standard for Segment Information Disclosures" and issued ASBJ Guidance No.20 "Guidance on Accounting Standard for Segment Information Disclosures". Under the standard and

guidance, an entity is required to report financial and descriptive information about its reportable segments. Reportable segments are operating segments or aggregations of operating segments that meet specified criteria. Operating segments are components of an entity about which separate financial information is available

and such information is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. Generally, segment information is required to be reported on the same basis as is used internally for evaluating operating segment performance and deciding how to allocate resources to operating segments. This accounting standard and the guidance are applicable to segment information disclosures for the fiscal years beginning on or after April 1, 2010. The information for the year ended March 31, 2010 under revised ASBJ Statement No. 17 "Accounting Standard for Segment Information Disclosures" is not disclosed since it is similar to the segment information disclosed under the former accounting standard.

1. Description of reportable segments

The Group's reportable segments are those for which separately financial information is available and regular evaluation by the

Company's management is being performed in order to decide how resources are allocated among the Group. Therefore, the Group consists of the Industrial Division and Medical Division. Industrial Division consists of production, sale and maintenance of industrial pumps, water conditioning equipment, carbon fiber reinforced plastics and other various industrial equipment. Medical Division consists of production, sale and maintenance of artificial kidney machines, dialyzers, blood tubings and powder dialysate.

2. Methods of measurement for the amounts of sales, profit (loss), assets and other items for each reportable segment

The accounting policies of each reportable segment are consistent to those disclosed in Note 2, "Summary of Significant Accounting Policies".

3. Information about sales, profit (loss), assets and other items is as follows.

	Millions of Yen				
	Reportable segment			Reconciliations	Consolidated
	Industrial Division	Medical Division	Total		
Sales					
Sales to external customers	¥42,124	¥41,019	¥83,143		¥83,143
Intersegment sales or transfers					
Total	42,124	41,019	83,143		83,143
Segment profit	2,761	5,599	8,359	(2,960)	5,399
Segment assets	63,384	25,452	88,836	33,173	122,009
Other:					
Depreciation	1,296	1,318	2,614	188	2,802
Amortization of goodwill	1,361	156	1,517	13	1,530
Investments in affiliated companies accounted for by the equity method	452	425	877	603	1,480
Increase in property, plant and equipment and intangible assets	883	1,061	1,944	352	2,296

	Thousands of U.S. Dollars				
	Reportable segment			Reconciliations	Consolidated
	Industrial Division	Medical Division	Total		
Sales					
Sales to external customers	\$507,518	\$494,211	\$1,001,729		\$1,001,729
Intersegment sales or transfers					
Total	507,518	494,211	1,001,729		1,001,729
Segment profit	33,260	67,457	100,717	(35,674)	65,043
Segment assets	763,665	306,651	1,070,316	399,676	1,469,992
Other:					
Depreciation	15,613	15,880	31,493	2,269	33,762
Amortization of goodwill	16,403	1,875	18,278	151	18,429
Investments in affiliated companies accounted for by the equity method	5,450	5,123	10,573	7,269	17,842
Increase in property, plant and equipment and intangible assets	10,639	12,784	23,423	4,241	27,664

Other related information

1. Information about geographical areas

(1) Sales

Millions of Yen					
2011					
Japan	Asia	North America	Europe	Other	Total
¥45,766	¥16,259	¥7,134	¥11,972	¥2,012	¥83,143

Thousands of U.S. Dollars					
2011					
Japan	Asia	North America	Europe	Other	Total
\$551,403	\$195,892	\$85,957	\$144,238	\$24,238	\$1,001,729

Note: Sales are classified in countries or regions based on location of customers.

(2) Property, plant and equipment

Millions of Yen					
2011					
Japan	Asia	North America	Europe	Other	Total
¥14,376	¥1,880	¥884	¥1,889	¥22	¥19,051

Thousands of U.S. Dollars					
2011					
Japan	Asia	North America	Europe	Other	Total
\$173,210	\$22,649	\$10,645	\$22,761	\$265	\$229,530

2. Information about major customers

The information is not disclosed since the sales amount to an external customer is less than 10% of total consolidated sales for the year ended March 31, 2011.

Information about the unamortized balance of goodwill at March 31, 2011 is as follows.

	Millions of Yen				
	Reportable segment			Eliminations/ Corporate	Consolidated
	Industrial Division	Medical Division	Total		
Goodwill at March 31, 2011	¥23,860	¥391	¥24,251	¥31	¥24,282

	Thousands of U.S. Dollars				
	Reportable segment			Eliminations/ Corporate	Consolidated
	Industrial Division	Medical Division	Total		
Goodwill at March 31, 2011	\$287,472	\$4,708	\$292,180	\$376	\$292,556

For the year ended March 31, 2010

The Group operates in the following industry segments:

Industrial Division consists of production, sale and maintenance of industrial pumps, water conditioning equipment, carbon fiber reinforced plastics and other various industrial equipment.

Medical Division consists of production, sale and maintenance of artificial kidney machines, dialyzers, blood tubings and powder dialysate.

Information about industry segments, geographical segments and sales to foreign customers of the Group for the years ended March 31, 2010 is as follows:

(1) Industry Segments

a. Sales and Operating Income

	Millions of Yen			
	2010			
	Industrial Division	Medical Division	Eliminations/Corporate	Consolidated
Sales to customers	¥37,234	¥40,786		¥78,020
Operating expenses	33,789	35,560	¥ 3,008	72,357
Operating income	¥3,445	¥5,226	¥(3,008)	¥5,663

b. Total Assets, Depreciation and Capital Expenditures

	Millions of Yen			
	2010			
	Industrial Division	Medical Division	Eliminations/Corporate	Consolidated
Total assets	¥67,307	¥27,317	¥20,507	¥115,131
Depreciation	1,310	1,493	179	2,982
Capital expenditures	1,451	1,090	318	2,859

(2) Geographical Segments

The geographical segments of the Group for the years ended March 31, 2010 were summarized as follow

	Millions of Yen					
	2010					
	Japan	Asia	North America	Europe	Eliminations/Corporate	Consolidated
Sales to customers	¥57,221	¥6,012	¥3,185	¥11,602		¥78,020
Interarea transfers	4,848	4,270	1,126	885	¥(11,129)	
Total sales	62,069	10,282	4,311	12,487	(11,129)	78,020
Operating expenses	56,023	8,873	3,829	12,014	(8,382)	72,357
Operating income	¥6,046	¥1,409	¥482	¥473	¥(2,747)	¥5,663
Total assets	¥78,508	¥9,509	¥4,047	¥13,932	¥9,135	¥115,131

(3) Sales to Foreign Customers

Sales to foreign customers for the years ended March 31, 2010 amounted to ¥34,355 million.



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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Nikkiso Co., Ltd.:

We have audited the accompanying consolidated balance sheets of Nikkiso Co., Ltd. and consolidated subsidiaries (the "Company") as of March 31, 2011 and 2010, and the related consolidated statements of income for the years then ended, the consolidated statement of comprehensive income for the year ended March 31, 2011, and the related consolidated statements of changes in equity, and cash flows for the years then ended, all expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Nikkiso Co., Ltd. and consolidated subsidiaries as of March 31, 2011 and 2010, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

Our audits also comprehended the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made in conformity with the basis stated in Note 1. Such U.S. dollar amounts are presented solely for the convenience of readers outside Japan.

Deloitte Touche Tohmatsu LLC

June 13, 2011

Member of
Deloitte Touche Tohmatsu Limited

Board of Directors and Auditors

As of June 23, 2011

President & Chief Executive OfficerToshihiko Kai

Directors & Senior Executive Officers.....Hiroshi Nakamura
Akira Nishiwaki
Shigeo Maruo
Hisashi Homma

Director & Executive Officer Hiroaki Miyata

Corporate Auditors.....Hatsuo Tashiro
Naoto Goto
Kenjiro Nakane
Yutaro Kikuchi

Executive Officers

As of June 23, 2011

Yasuo Murase
Naota Shikano
Hirohiko Narushima
Tetsuo Kurebayashi
Shoichi Nagato
Nobuhiko Ban
Tsunehisa Suita
Kazuo Murakami
Junichi Takeda

Corporate Data

As of March 31, 2011

Company Name NIKKISO CO., LTD.
Date of Establishment December 26, 1953
Paid-in Capital ¥6,544,339,191
Number of Employees 4,820 (Consolidated)
1,512 (Non-Consolidated)
Authorized Number of Shares 249,500,000
Issued Number of Shares 80,286,464
(Contained Treasury Stocks)1,020,777
Number of Shareholders 8,470

Major Shareholders

	Number of Shares Held (Thousands)	Percent of Total Shares Outstanding
Japan Trustee Services Bank, Ltd. (Trust Account)	7,248	9.02%
Mizuho Bank, Ltd.	3,852	4.79
The Master Trust Bank of Japan, Ltd. (Trust Account)	3,549	4.42
Nikkiso Shareholders Association	2,156	2.68
Nikkiso Employee Shareholders Association	2,001	2.49
Mitsui Sumitomo Insurance Co. Ltd.	1,966	2.44
Mizuho Corporate Bank, Ltd.	1,827	2.27
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	1,822	2.27
Nippon Life Insurance Company	1,500	1.86
Japan Trustee Service Bank, Ltd. (Trust account re-entrusted by Chuo Mitsui Asset Trust and Banking Company, Limited. CMTB Equity Investments Co., Ltd.)	1,404	1.74



NIKKISO GROUP

Offices and Plants

Domestic

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Fax: +81-3-3473-4963

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Fax: +81-3-3443-9863

Medical Division

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Fax: +81-3-3440-0681

Industrial Division

International Sales Department (Pumps)

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Tokyo 150-8677, Japan
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Industrial Division

Instrumentation & Power System Department

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Fax: +81-42-392-3522

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Fax: +81-42-392-3355

► Plants

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Fax: +81-42-393-2201

Shizuoka Plant

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Kanazawa Plant

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Overseas

► Offices

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Subsidiaries & Affiliates

Domestic

Nikkiso Eiko Co., Ltd.

Phone: +81-42-390-6540
Fax: +81-42-390-6541
Manufacture, sale and after-sales service of small
type pumps, sand filters, etc.

Nikkiso Ryuki Techno Co., Ltd.

Phone: +81-42-396-9110
Fax: +81-42-396-5767
Technical service and parts sales for our own
industrial products (pumps, compressors and other
equipment).

Nikkiso Technica Co., Ltd.

Phone: +81-42-394-7900
Fax: +81-42-394-1181
Technical service and installation of industrial
products (systems).

Nikkiso-Therm Co., Ltd.

Phone: +81-422-37-9811
Fax: +81-422-37-9820
Manufacture and sales of precision thermistors and
thermistor-applied products.

Nikkiso Tohoku Medical Co., Ltd.

Phone: +81-22-262-0421
Fax: +81-22-263-2640
Sales and after-sales service of medical products in
the Tohoku area in Japan.

Nikkiso Technical Research Institute

Phone: +81-42-392-3087
Fax: +81-42-392-3134
Research and development of Nikkiso products
and manufacturing technology.

Overseas

Nikkiso America, Inc.

Suite 110, 5910 Pacific Center Boulevard,
San Diego, CA 92121, U.S.A.
Phone: +1-858-222-6300
Fax: +1-858-222-6301
Administration and management of business
planning of the Company and its subsidiaries, as well
as promotion and management of Nikkiso product
businesses in North, Central and South America.

Nikkiso Pumps America, Inc.

3433. N Sam Houston Parkway W,
#400, Houston, TX 77086, U.S.A.
Phone: +1-281-310-6747
Fax: +1-281-310-6771
Manufacture, sale and after-sales service of pumps.

Nikkiso Cryo, Inc.

4661 Eaker Street,
North Las Vegas, NV 89081-2746, U.S.A.
Phone: +1-702-643-4900
Fax: +1-702-643-0391
Service of testing and analysis of submerged
cryogenic pumps and other cryogenic components
and systems for liquefied gases.

Microtrac, Inc.

148 Keystone Drive,
Montgomeryville, PA 18936, U.S.A.
Phone: +1-215-619-9920
Fax: +1-215-619-9932
Manufacture and sale of Microtrac Particle Size Analyzer for the powder the fluid industry.

Nikkiso-KSB GmbH

Philipp-Reis-Strasse 13, 63486 Bruchkoebel,
Germany
Phone: +49-6181-30010-0
Fax: +49-6181-30010-99
Manufacture, sale and after-sales service of pumps.

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Fax: +49-511-679999-11
(R&D department)
Beneckeallee 30, D-30419, Hannover, Germany
Phone: +49-511-679999-0
Fax: +49-511-679999-266
(Sales department)
Alte Landstraße 284, D-22391, Hamburg,
Germany
Phone: +49-40-414629-0
Fax: +49-40-414629-49
Manufacture, sale and after-sales service of medical products (dialysis equipment, disposable products, etc.) in the European market.

Shanghai Nikkiso Non-Seal Pump Co., Ltd.

19#-21# Zhenxian Industrial Park, Lane 18 East,
Huancheng Road, Fengxian District, Shanghai
201401, China
Phone: +86-21-6710-3258
Fax: +86-21-6710-3250
Manufacture, sale and after-sales service of Nikkiso Non-Seal pumps.

Shanghai Nikkiso Trading Co., Ltd.

27F, Huamin Empire Plaza, 728 Yan An West
Road, Shanghai 200050, China
Phone: +86-21-5239-3637
Fax: +86-21-5239-3639
Sale of dialysis equipment in the Chinese market.

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

No.20 Xingshan Road, Chucun Weigao Industry
Park, Weihai City, Shandong, China
Phone: +86-631-5716299
Fax: +86-631-5716297
Manufacture and after-sales service of dialysis equipment in the Chinese market.

Nikkiso Pumps Korea Ltd.

202, 6F, Ilshin Building, 541 Dowha-Dong,
Mapo-Gu, Seoul, Korea
Phone: +82-2-719-1446
Fax: +82-2-719-1440
Sale and after-sales service of Nikkiso Non-Seal pumps, Nikkiso metering pumps and sale of other Nikkiso products.

Taiwan Nikkiso Co., Ltd.

75 Section 4, Nanking East Road, Taipei, Taiwan
Phone: +886-2-2713-9906
Fax: +886-2-2713-9936
Engineering and design, manufacture, sale and after-sales service of boiler-water conditioning systems for Asian region.
(Medical the Devices Division)
6F-6, No.179, Fusing North Road,
Songshan District, Taipei, Taiwan
Phone: +886-2-2718-5759
Fax: +886-2-2718-5739
Consultant of sale and after-sales service of dialysis equipment in Taiwan.

M. E. Nikkiso Co., Ltd.

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Bangnumpeo Chacheongsao 24000, Thailand
Phone: +66-38-593-207
Fax: +66-38-593-208
Manufacture and sale of disposable products for medical equipment.

Nikkiso Medical (Thailand) Co., Ltd.

663 On-nuch Road (Sukhumvit 77) Suanluang,
Bangkok 10250, Thailand
Phone: +66-2-311-5736
Fax: +66-2-716-2895
Sale and after-sales service of medical products (dialysis equipment, disposable products, etc.) in Thailand and neighboring countries.

Nikkiso Vietnam MFG Co., Ltd.

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Tan Thuan Dong Ward, District 7,
Ho Chi Minh City, Vietnam
Phone: +84-8-37701320
Fax: +84-8-37701640
Manufacturing of medical equipment (blood tubes, etc.) for dialysis treatments.

Nikkiso Vietnam, Inc.

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Yen My District, Hung Yen Province, Vietnam
Phone: +84-321-397-4520
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Manufacturing of aircraft parts.

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