



## Summary of Consolidated Financial Statements for the Fiscal Year Ended December 31, 2016 (Japanese GAAP)

February 10, 2017

Name of Listed Company: Nabtesco Corporation	Stock listed on: First Section of the Tokyo Stock Exchange
Code Number: 6268	URL: <a href="http://www.nabtesco.com">http://www.nabtesco.com</a>
Representative: Title: President and CEO	Name: Kazuaki Kotani
Inquiries: Title: General Manager, General Administration Div.	Name: Toshihiro Matsumoto
Scheduled Date of Annual Shareholders Meeting: March 28, 2017	TEL: +81-3-5213-1133
Scheduled Date of Issue of Financial Report: March 29, 2017	Scheduled Date of Dividend Payment: March 29, 2017
Availability of supplementary information: Yes	
Organization of financial results briefing meeting: Yes (for institutional investors and financial analysts)	

(Amounts less than 1 million yen have been rounded down)

### 1. Consolidated Operating Results for FY 2016 (January 1, 2016 to December 31, 2016)

#### (1) Consolidated Operating Results

(Percentages indicate the year-on-year changes)

	Net sales		Operating income		Ordinary income		Net income attributable to owners of the parent	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
FY 2016	244,618	—	23,471	—	24,731	—	17,584	—
FY 2015	187,000	—	15,294	—	16,418	—	11,059	—

(Note) Comprehensive income: FY 2016: ¥13,430 million [—%] FY 2015: ¥6,004 million [—%]

	Net income per share	Fully diluted net income per share	Return on shareholders' equity	Ratio of ordinary income to total assets	Ratio of operating income to net sales
	Yen	Yen	%	%	%
FY 2016	142.37	142.12	12.0	10.0	9.6
FY 2015	88.85	88.75	7.6	6.9	8.2

(Reference) Investment profit/loss on equity method:

FY 2016: ¥1,111 million FY 2015: ¥1,710 million

(Note) The consolidated fiscal year ended December 2015 was a transitional period for a change in accounting period, in which the consolidated operating results cover nine months (April 1, 2015 to December 31, 2015) for companies that close their accounts in March, as opposed to 12 months (January 1, 2015 to December 31, 2015) for companies that close their accounts in December. Therefore, the percentage of year-on-year changes has been omitted in the tables above. In addition, net income per share, fully diluted net income per share, return on shareholders' equity, ratio of ordinary income to total assets and ratio of operating income to net sales for the fiscal year ended December 2015 indicate figures based on income during the aforementioned consolidation periods.

#### (2) Consolidated Financial Position

	Total assets	Net assets	Shareholders' equity ratio	Net assets per share
	Million yen	Million yen	%	Yen
FY 2016	258,946	158,521	58.0	1,215.31
FY 2015	233,381	148,924	60.9	1,150.41

(Reference) Shareholders' equity:

As of December 31, 2016: ¥150,121 million As of December 31, 2015: ¥142,068 million

#### (3) Consolidated Cash Flows

	Cash flow from operating activities	Cash flow from investing activities	Cash flow from financing activities	Cash and cash equivalents at fiscal year-end
	Million yen	Million yen	Million yen	Million yen
FY 2016	27,729	(14,989)	(4,808)	41,779
FY 2015	8,746	(4,886)	(19,090)	34,709

### 2. Dividends

(Base date: as of end of the period)	Dividends per share					Total dividends paid (Annual)	Payout ratio (Consolidated)	Dividend on equity ratio (Consolidated)
	First quarter	Second quarter	Third quarter	Year end	Full year			
	Yen	Yen	Yen	Yen	Yen	Million yen	%	%
FY 2015	—	22.00	—	22.00	44.00	5,462	49.5	3.8
FY 2016	—	24.00	—	26.00	50.00	6,209	35.1	4.2
FY ending December 31, 2017 (Forecast)	—	28.00	—	28.00	56.00		35.1	

### 3. Forecast of Consolidated Operating Results for FY 2017 (January 1, 2017 to December 31, 2017)

(Percentages indicate the year-on-year changes)

	Net sales		Operating income		Income before income taxes		Net income attributable to owners of the parent		Net income per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
Six-month period ending June 2017	124,000	–	10,600	–	11,200	–	8,100	–	65.58
FY 2017	260,000	–	26,000	–	27,200	–	19,700	–	159.49

The above forecast is calculated under International Financial Reporting Standards (IFRS), as the Company has decided to adopt IFRS from Fiscal 2017. The percentage of year-on-year changes for the forecast of consolidated operating results has been omitted in the table above.

#### \* Matters of note:

(1) Changes in significant subsidiaries during the fiscal year (Changes in specified subsidiaries resulting in a change in the scope of consolidation): None

Newly added: 0 (Company name: ) Excluded: 0 (Company name: )

(2) Changes in accounting policies, accounting estimates and restatement of corrections

1) Changes in accounting policies resulting from the revision of the accounting standards and other regulations: None

2) Other changes in accounting policies: None

3) Changes in accounting estimates: None

4) Restatement of corrections: None

(3) Shares outstanding (Common shares)

1) Number of shares outstanding (including treasury stock) as of the end of the term:	As of December 31, 2016: 125,133,799 As of December 31, 2015: 125,133,799
2) Number of shares of treasury stock:	As of December 31, 2016: 1,608,476 As of December 31, 2015: 1,639,476
3) Average number of shares during the term:	FY 2016: 123,518,357 FY 2015: 124,471,488

#### [Reference] Overview of Non-Consolidated Operating Results

1. Non-Consolidated Operating Results for FY 2016 (January 1, 2016 to December 31, 2016)

(1) Non-Consolidated Operating Results

(Percentages indicate the year-on-year changes)

	Net sales		Operating income		Ordinary income		Net income	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
FY 2016	146,240	–	16,479	–	19,642	–	13,465	–
FY 2015	106,497	–	11,780	–	15,382	–	11,627	–

	Net income per share	Fully diluted net income per share
	Yen	Yen
FY 2016	108.44	108.25
FY 2015	92.92	92.81

Since the consolidated fiscal year ended December 2015 was a transitional period for the change in accounting period, the percentage of year-on-year changes has been omitted in the tables above. Net income per share and fully diluted net income per share for the fiscal year ended December 2015 indicate figures based on income for nine months.

(2) Non-Consolidated Financial Position

	Total assets	Net assets	Shareholders' equity ratio	Net assets per share
	Million yen	Million yen	%	Yen
FY 2016	183,105	106,841	58.1	856.59
FY 2015	164,275	99,082	60.1	795.00

(Reference) Shareholders' equity:

As of December 31, 2016: ¥106,375 million

As of December 31, 2015: ¥98,702 million

## 2. Forecast of Non-Consolidated Operating Results for FY 2017 (January 1, 2017 to December 31, 2017)

(Percentages indicate the year-on-year changes)

	Net sales		Ordinary income		Net income		Net income per share
	Million yen	%	Million yen	%	Million yen	%	Yen
Six-month period ending June 2017	68,000	(2.5)	9,200	(5.2)	7,000	(6.0)	56.37
Fiscal year ending December 2017	142,000	(2.9)	17,600	(10.4)	13,500	0.3	108.71

### \* Current status of audit procedures

- This “Summary of Consolidated Financial Statements” is not subject to audit procedures as stipulated under the Financial Instruments and Exchange Act, and the audit procedures based on the said Act have not been completed as of the date of publication of this summary.

### \* Description concerning proper use of the forecast of operating results and other remarks:

- Descriptions in this document concerning future figures including forecasts for operating results, etc. are based on currently available information and certain assumptions that the Company considers reasonable. Actual results may vary significantly from such forecasts due to a variety of factors. Please refer to “1. Analysis of Consolidated Operating Results and Financial Position (1) Analysis of Consolidated Operating Results (Projection for the consolidated fiscal year ending December 31, 2017)”.
- The Company will hold a financial results presentation meeting on February 17, 2017 for institutional investors and financial analysts. Images and details of the meeting (audio) together with the financial materials distributed at the meeting will be posted on the website immediately after the meeting.

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# 1. Analysis of Consolidated Operating Results and Financial Position

## (1) Analysis of Consolidated Operating Results

(Consolidated Operating Results for FY 2016)

During consolidated FY 2016, the global economy remained rather sluggish as a whole in the absence of significant engines of economic growth, as observed in Europe and the United States where a sense of uncertainty about the future persisted on the back of the decision by the United Kingdom to leave the European Union and the U.S. presidential election. Furthermore, there was economic deceleration in emerging countries as observed in the slower growth of the Chinese economy as well as the stagnant economies of the Southeast Asian countries.

The Japanese economy witnessed renewed sluggishness as indicated in the slowdown of personal consumption as well as the fluctuations of foreign exchange rates, and the deceleration of economies in emerging markets, despite signs of improvement in the employment situation.

Under these circumstances, the consolidated operating results of the Group for the period under review recorded net sales of ¥244,618 million, operating income of ¥23,471 million, ordinary income of ¥24,731 million and net income attributable to owners of the parent of ¥17,584 million, mostly reflecting the robust demand for industrial robots and the conversion of a domestic sales company of automatic doors into a consolidated subsidiary, despite sluggish shipping and shipbuilding markets.

Note: The previous consolidated fiscal year ended December 2015 was a transitional period for a change in accounting period, in which the consolidated operating results covered nine months (April 1, 2015 to December 31, 2015) for companies that closed their accounts in March, as opposed to 12 months (January 1, 2015 to December 31, 2015) for companies that closed their accounts in December. Therefore, the percentage of year-on-year changes has been omitted in this report.

### 1) Amount of orders received, net sales and operating income

The amount of orders received for the consolidated fiscal year under review was ¥256,183 million. Net sales and operating income were ¥244,618 million and ¥23,471 million, respectively. Operating margin was 9.6%.

Operating results by business segment were as follows:

Operating results by business segment

[Amount of orders received]

(Million yen)

	Previous fiscal year (ended December 2015) (Consolidated basis)	Current fiscal year (ended December 2016) (Consolidated basis)	Change (%)
Precision equipment	45,187	62,178	—
Transport equipment	46,718	60,932	—
Aircraft and hydraulic equipment	40,840	45,379	—
Industrial equipment	54,409	87,692	—
Total	187,155	256,183	—

Note: Percentages for the year-on-year change are omitted since the previous consolidated fiscal year is a transitional period for the change in accounting period.

[Net sales]

(Million yen)

	Previous fiscal year (ended December 2015) (Consolidated basis)	Current fiscal year (ended December 2016) (Consolidated basis)	Change (%)
Precision equipment	45,327	56,931	—
Transport equipment	46,848	61,074	—
Aircraft and hydraulic equipment	39,524	47,806	—
Industrial equipment	55,299	78,806	—
Total	187,000	244,618	—

Note: Percentages for the year-on-year change are omitted since the previous consolidated fiscal year is a transitional period for the change in accounting period.

[Operating income]

(Million yen)

	Previous fiscal year (ended December 2015) (Consolidated basis)	Current fiscal year (ended December 2016) (Consolidated basis)	Change (%)
Precision equipment	6,824	8,616	—
Transport equipment	7,890	10,335	—
Aircraft and hydraulic equipment	(2,029)	(26)	—
Industrial equipment	2,610	4,546	—
Total	15,294	23,471	—

Note: Percentages for the year-on-year change are omitted since the previous consolidated fiscal year is a transitional period for the change in accounting period.

**[Precision Equipment]**

The amount of orders received for precision equipment was ¥62,178 million. Net sales and operating income were ¥56,931 million and ¥8,616 million, respectively.

Sales of precision reduction gears remained approximately in line with the forecast, mainly reflecting strong demand for industrial robots.

**[Transport Equipment]**

The amount of orders received for transport equipment was ¥60,932 million. Net sales and operating income were ¥61,074 million and ¥10,335 million, respectively.

The railroad vehicle equipment business saw net sales exceeding the forecast with strong demand at home and abroad. In the commercial vehicle equipment business, sales were almost in line with the forecast partly due to the effect of an acquisition. In the marine vessel equipment business, sales remained at the same level as the forecast due to continued sluggish shipping and shipbuilding markets.

**[Aircraft and Hydraulic Equipment]**

The amount of orders received for aircraft and hydraulic equipment was ¥45,379 million. Net sales and operating loss were ¥47,806 million and ¥26 million, respectively.

Sales of aircraft equipment business fell slightly below the forecast due to a drop in orders received from the Ministry of Defense. In the hydraulic equipment business, sales exceeded the forecast reflecting the increased demand for construction machinery in China towards the end of the fiscal year.

**[Industrial Equipment]**

The amount of orders received for industrial equipment was ¥87,692 million. Net sales and operating income were ¥78,806 million and ¥4,546 million, respectively.

In the automatic door business, sales failed to reach the forecast with less-than-expected orders received. In the packaging machinery business, however, sales grew in line with the forecast with robust domestic sales.

**Reference: Information by region****[Net sales]**

(Million yen)

	Previous fiscal year (ended December 2015) (Consolidated basis)	Current fiscal year (ended December 2016) (Consolidated basis)	Change (%)
Japan	93,550	141,411	–
China	19,110	27,837	–
Other Asia	16,875	16,778	–
North America	21,470	20,706	–
Europe	35,106	37,229	–
Other areas	886	655	–
Total	187,000	244,618	–

Notes: 1. Net sales are classified by country or region based on the location of the buyer.

2. The consolidated fiscal year ended December 2015 was a transitional period for the change in accounting period, in which the consolidated operating results covered nine months (April 1, 2015 to December 31, 2015) for companies that closed their accounts in March, as opposed to 12 months (January 1, 2015 to December 31, 2015) for companies that closed their accounts in December. Therefore, the percentage of year-on-year changes has been omitted.

**2) Ordinary income**

Consolidated ordinary income was ¥24,731 million reflecting non-operating income of ¥1,926 million mainly consisting of investment gains of ¥1,111 million from equity-method affiliates, and non-operating expenses of ¥667 million largely due to a foreign exchange loss equivalent to ¥259 million.

**3) Net income attributable to owners of the parent**

Income before income taxes and adjustments for the consolidated fiscal year under review was ¥26,122 million as a result of extraordinary income of ¥1,889 million consisting of ¥786 million in a gain on valuation of stock (gain on step acquisitions) arising mainly from the conversion of an equity-method affiliate into a consolidated subsidiary, and ¥743 million in gain on sales of noncurrent assets due to the sale of unused land, etc. Meanwhile, extraordinary losses amounted to ¥498 million mainly due to ¥390 million in loss on revision to the retirement benefit plan.

In sum, net income attributable to owners of the parent was ¥17,584 million, net of corporate, resident and business taxes and net profit attributable to non-controlling interests.

(Projection for the consolidated fiscal year ending December 31, 2017)

Regarding the world economy for the foreseeable future, growing political and economic uncertainty can be observed, on the one hand, in the United States where a new President took office, and on the other, in the major countries of the Eurozone where parliamentary and presidential elections will take place. In China, the durability of economic growth is uncertain since it cannot be denied that the trend of economic recovery relies on stimulus packages from the government despite a rebalancing of the industrial structure being under way. While emerging markets are more or less likely to improve, the prospects for the world economy as a whole are expected to remain uncertain.

The Group expects robust demand for precision reduction gears for industrial robots, and favorable effects in the automatic doors business of the conversion of a domestic sales company into a consolidated subsidiary, which was implemented in April 2016.

Since the Company decided to apply IFRS (International Financial Reporting Standards) on a voluntary basis from the consolidated fiscal year ending December 2017, the forecasts for the consolidated operating results have been computed based on IFRS.

In summary, the Company forecasts net sales and operating income will reach ¥260,000 million and ¥26,000 million, respectively, for the next consolidated fiscal year.

Forecasts for operating results by business segment are as follows:

In line with the new Medium-term Management Plan starting from FY 2017, the Company will change the present classification of four reportable segments "classified based on the similarity of the application technologies" to three reportable segments "classified based on the similarity of business models" as follows: "Precision equipment business," "Transport equipment business," "Aircraft and hydraulic equipment business" and "Industrial equipment business" will be changed to "Component solutions business," "Transport solutions business" and "Accessibility solutions business."

Forecasts for the fiscal year ending December 2017 by business segment

[Net sales]

(Million yen)

Reportable segment	[Reference] Result for the current fiscal year (ended December 2016)	Forecast for the next fiscal year (ending December 2017)	Change (%)
Component Solutions	82,473	89,000	7.9
Transport Solutions	81,425	82,200	1.0
Accessibility Solutions	64,634	71,100	10.0
Others	16,086	17,700	10.0
Total	244,618	260,000	6.3

Note: Reference figures for Fiscal year ended December 2016 are just estimates based on the IFRS. They may change after completion of auditing procedures.

Reportable segment	Forecast for the first six-month period of the next fiscal year (January 1, 2017 to June 30, 2017)		Forecast for the next fiscal year (January 1, 2017 to December 31, 2017)	
	Amount (Million yen)	Composition ratio (%)	Amount (Million yen)	Composition ratio (%)
Component Solutions	43,800	35.3	89,000	34.2
Transport Solutions	37,100	29.9	82,200	31.6
Accessibility Solutions	34,600	27.9	71,100	27.4
Others	8,500	6.9	17,700	6.8
Total	124,000	100.0	260,000	100.0

[Operating income]

(Million yen)

Reportable segment	[Reference] Result for the current fiscal year (ended December 2016)	Forecast for the next fiscal year (ending December 2017)	Change (%)
Component Solutions	11,200	13,700	22.3
Transport Solutions	13,409	11,500	(14.2)
Accessibility Solutions	4,726	5,800	22.7
Others	1,591	1,600	0.6
Corporate or Elimination	(5,751)	(6,600)	—
Core Operating Income*	25,175	26,000	3.3
Other Profit or Loss	1,763	—	—
Total	26,938	26,000	(3.5)

Note: Reference figures for Fiscal year ended December 2016 are just estimates based on the IFRS. It may change after completion of auditing procedures.

\*Core operating income: Calculated the sum of operating income year ended December 2016 (JGAAP) and goodwill amortization and others.

Reportable segment	Forecast for the first six-month period of the next fiscal year (January 1, 2017 to June 30, 2017)		Forecast for the next fiscal year (January 1, 2017 to December 31, 2017)	
	Amount (Million yen)	Composition ratio (%)	Amount (Million yen)	Composition ratio (%)
Component Solutions	6,700	15.3	13,700	15.4
Transport Solutions	4,200	11.3	11,500	14.0
Accessibility Solutions	2,400	6.9	5,800	8.2
Others	700	8.2	1,600	9.0
Corporate or Elimination	(3,400)	—	(6,600)	—
Total	10,600	8.5	26,000	10.0

Component solutions business:

Net sales and operating income in the component solutions business are expected to amount to ¥89,000 million and ¥13,700 million, respectively.

Sales of precision reduction gears will increase reflecting the expansion of demand for industrial robots. Hydraulic equipment is also expected to record an increase in sales driven by robust demand for construction machinery in emerging countries.

Transport solutions business:

Net sales and operating income in the transport solutions business will be ¥82,200 million and ¥11,500 million, respectively.

Sales of railroad vehicle equipment will decrease due to the effects of the proprietary models of high-speed railroad vehicles developed in China. Aircraft equipment is expected to face a decrease in sales in the off-season in preparation for mass production for private-sector aircraft. Sales of commercial vehicle equipment will increase due to the favorable effects of an acquisition and the recovery of demand in the Southeast Asian market. Marine vessel equipment will suffer a decrease in sales due to the sluggish marine transport and shipbuilding markets.

Accessibility solutions business:

Net sales and operating income in the accessibility solutions business will reach ¥71,100 million and ¥5,800 million, respectively.

Sales of automatic doors are expected to increase reflecting the conversion of a domestic sales company into a consolidated subsidiary, which was conducted in April 2016.

Other businesses:

Net sales and operating income in other businesses are expected to amount to ¥17,700 million and ¥1,600 million, respectively.

Packaging machines are expected to see an increase in sales due to sales expansion in overseas businesses.



**(2) Analysis of Financial Position**

(Million yen)

	FY 2012 (From April 1, 2012 to March 31, 2013)	FY 2013 (From April 1, 2013 to March 31, 2014)	FY 2014 (From April 1, 2014 to March 31, 2015)	FY 2015 (From April 1, 2015 to December 31, 2015)	FY 2016 (From January 1, 2016 to December 31, 2016)
Total assets	203,056	233,984	245,992	233,381	258,946
Liabilities	82,198	94,513	87,327	84,456	100,425
Net assets	120,857	139,471	158,664	148,924	158,521
Cash flow from operating activities	12,952	27,597	19,949	8,746	27,729
Cash flow from investing activities	(13,693)	(8,064)	(7,880)	(4,886)	(14,989)
Free cash flow	(741)	19,533	12,068	3,859	12,740
Cash flow from financing activities	(10,090)	(8,175)	(15,888)	(19,090)	(4,808)
ROA (%)	6.5	6.9	7.4	4.6	7.1
ROE (%)	12.5	12.2	12.6	7.6	12.0

Notes: ROA (Return on Assets): Net income attributable to owners of the parent / Average total assets from the beginning of the period to the end of the period

ROE (Return on Equity): Net income attributable to owners of the parent / Average shareholder equity from the beginning of the period to the end of the period

\* Each of the above indicators has been calculated based on the financial values on a consolidated basis.

\* Since the consolidated fiscal year ended December 2015 was a transitional period for the change in accounting period, various cash flows, ROA and ROE for that fiscal year covered different periods than the other consolidated fiscal years reported above.

**1) Status of assets, liabilities and net assets****[Assets]**

Total assets as of December 31, 2016 were ¥258,946 million, an increase of ¥25,565 million from December 31, 2015, consisting of ¥145,991 million in current assets and ¥112,955 million in fixed assets. Key contributing positive factors included increases of ¥7,877 million in cash and time deposits, ¥5,961 million in notes and accounts receivable and ¥11,906 million in tangible fixed assets, while the primary contributing negative factors were decreases of ¥2,392 million in goodwill, and ¥2,316 million in investment securities.

**[Liabilities]**

Total liabilities as of December 31, 2016 were ¥100,425 million, an increase of ¥15,968 million from December 31, 2015, reflecting ¥74,802 million in current liabilities and ¥25,623 million in long-term liabilities. The main contributing positive factor was rises of ¥4,351 million in income taxes payable and ¥2,003 million in liabilities associated with retirement benefits.

**[Net assets]**

Total net assets as of December 31, 2016 stood at ¥158,521 million. Shareholders' equity amounted to ¥150,121 million, an increase of ¥8,053 million from December 31, 2015. The key contributing positive factor was growth in earned surplus arising from net income attributable to owners of the parent of ¥17,584 million. Meanwhile, primary negative contributing factors included a ¥5,711 million decrease in earned surplus due to dividend payments, and a decrease of ¥3,093 million in translation adjustments due to changes in foreign exchange at overseas subsidiaries.

As a result, the shareholders' equity ratio stood at 58.0% and net assets per share amounted to ¥1,215.31.

**2) Status of cash flows**

Cash and cash equivalents (hereinafter, "capital") as of December 31, 2016 stood at ¥41,779 million, an increase of ¥7,069 million from December 31, 2015, reflecting ¥27,729 million in capital generated from operating activities, which were mainly used for capital expenditure and dividend payments.

**[Cash flow from operating activities]**

Net cash generated from operating activities for the current consolidated fiscal year totaled ¥27,729 million. Principal positive factors included increases in income before income taxes. Meanwhile, the main negative factors included the decrease in income taxes paid.

**[Cash flow from investing activities]**

Net cash used in investing activities for the current consolidated year amounted to ¥14,989 million, mainly due to the acquisition of tangible fixed assets.

**[Cash flow from financing activities]**

Net cash used in financing activities for the consolidated fiscal year under review totaled ¥4,808 million, primarily reflecting dividend payments.

Cash flow indicators on a consolidated basis were as follows.

Reference: Cash flow indicators

	FY 2012 (From April 1, 2012 to March 31, 2013)	FY 2013 (From April 1, 2013 to March 31, 2014)	FY 2014 (From April 1, 2014 to March 31, 2015)	FY 2015 (From April 1, 2015 to December 31, 2015)	FY 2016 (From January 1, 2016 to December 31, 2016)
Shareholders' equity ratio (%)	56.2	56.0	60.9	60.9	58.0
Shareholders' equity ratio on a market value basis (%)	121.4	128.4	179.0	131.1	129.7
Ratio of interest-bearing debt to cash flow (%)	2.0	0.9	0.8	1.8	0.6
Interest coverage ratio (%)	53.3	116.0	96.4	58.3	260.4

Notes: Shareholders' equity ratio: capital/total assets

Shareholders' equity ratio on market value basis: total market value of shares/total assets

Ratio of interest-bearing debt to cash flow: interest-bearing debt/cash flow

Interest coverage ratio: cash flow/interest payments

\* All indicators are calculated using consolidated financial figures.

\* Total market value of shares is calculated by multiplying the number of outstanding shares (excluding treasury stock) by the closing market price at term-end.

\* Cash flow utilizes the cash flow from operating activities posted in the consolidated cash flow statement.

Interest-bearing debt covers all debts on the consolidated balance sheet on which interest is being paid.

The amount of interest paid listed in the consolidated cash flow statement is used for interest payments.

**(3) Basic Policy Concerning Profit Sharing and Dividends for the Current and Next Fiscal Years**

The Company intends to appropriately distribute its corporate earnings based on the operating performance of the Group as a whole, and taking into consideration strategic growth investments, financial soundness, appropriate balance of return to shareholders and stable dividend payment.

As for cash dividends for the current fiscal year, the total annual amount will be ¥50 per share. As an interim dividend of ¥24 per share has already been paid, the term-end cash dividend will be ¥26 per share.

The pay-out ratio for the current fiscal year was 35.1% on a consolidated basis.

The annual cash dividend for the next fiscal year is expected to be ¥56 per share (interim dividend of ¥28 plus term-end dividend of ¥28 per share). The Company will continue to pay cash dividends twice yearly, of which the base dates will be June 30 and December 31 of each year.

**(4) Operational Risk**

Principal risks relevant to the business activities of the Group and deemed significant are as follows. Note that the risks regarding future contents included in the matters described below were based on the judgment of the Company as of the end of the current consolidated fiscal year.

**1) Risks relevant to the economy and markets**

The Group's businesses are directly or indirectly related to a number of industries, including automobile, construction machinery, railroad, construction, and industrial machinery, in Japan and overseas. Market fluctuations and trends in capital expenditure in these industries may affect the operating results and financial position of the Group.

**2) Risks relevant to overseas operations**

In pursuit of further growth and profitability, the Group actively conducts business mainly in Asia, North America, and Europe. Therefore, the Group is subject not only to economic and market risks but also to political turmoil and unforeseeable amendments to laws and regulations in various countries, which may affect the markets for particular products. Such events are likely to impact the operating results of the Group.

**3) Risks relevant to large-scale disasters**

With the aim of minimizing damage and losses arising from disasters such as typhoons, earthquakes, floods, and pandemics, the Group has implemented the formulation of a business continuity plan along with the establishment of an emergency contact system, and has also been conducting training drills. However, the business activities of the Group that center on production may be affected by the occurrence of disasters causing human casualties and physical damage, stagnation in procurement of materials, and disruption of distribution networks. Furthermore, there is no guarantee that any loss from disasters will be fully covered through property and/or other insurance.

**4) Risks relevant to exchange rate fluctuations**

The Group's overseas sales have been increasing every year. The Group also relies on imports of raw materials from overseas and, though it hedges its risks in foreign currency-denominated transactions through forward-exchange contracts, the Group's performance is nonetheless affected by exchange rate fluctuations. The performance of overseas subsidiaries is also impacted by exchange rate fluctuations when converting to Japanese yen.

5) Risks relevant to procurement

The Group purchases raw materials and components, etc. from a wide range of trading partners. However, if the supply of certain parts were to become insufficient and alternative suppliers could not be found, the Group's performance and financial standing could be adversely impacted by lower sales margins on products and loss of business opportunities.

6) Risks relevant to product quality

The Group manufactures a full lineup of products in line with carefully designed quality control standards to prevent defects. However, in case of significant product defects leading to a recall or product liability issues occurring, the potentially massive costs arising from such a situation could adversely impact the Group's performance and financial standing.

7) Risks relevant to competition

The Group has a wide lineup of products with high market shares in domestic and overseas markets. If the market shares of its products were to fall, the Group's performance and financial standing could be adversely impacted.

8) Risks relevant to information security

The Group obtains personal information and confidential information of its customers and trading partners through business activities, and holds confidential information of its business and technologies. The Group implements the enhancement of control systems and employee education for the management of such information, and takes appropriate security measures, including both the hardware and software of information systems. However, in the event of a leakage of information, or destruction or falsification of important data, or system halt due to the unexpected levels of cyber attacks, unauthorized access, or intrusion of computer viruses, etc., the Group's credibility could suffer or its business performance and financial position could be adversely impacted.

9) Risks relevant to intellectual property

The Group protects internally developed technologies under intellectual property rights, including patents, and holds such intellectual property rights under strict management, while paying close attention not to infringe the intellectual property rights of third parties. If, however, a third party infringes the intellectual property rights of the Group, or the Group faces any infringement alleged by a third party, the Group's business performance and financial position could be adversely affected.

10) Risks relevant to laws, ordinances and regulations

The Group operates its businesses globally, and is subject to the laws and regulations of the relevant countries and regions. In addition to thorough compliance with laws and regulations relating to its businesses, the Company has established a Code of Corporate Ethics of an even higher standard to reinforce its compliance system. Despite these intense efforts, however, it is impossible to completely eliminate risks concerning compliance, including individual illegal acts. In case of a material violation against laws and regulations, the Group's business performance and financial position could be adversely affected.

11) Risks relevant to the environment

Recognizing the impacts of business activities on the global environment, the Group exerts efforts to improve energy efficiency, save resources, reduce hazardous substances and raise recycling efficiency in planning, developing, and designing its products. Furthermore, in manufacturing, selling, and distributing products, and providing services, the Group strives to reduce environmental burdens by positively introducing and applying advanced environmental technologies in pursuit of the reduction of CO<sub>2</sub> emissions, effective use of resources, and challenges to zero emission. However, in the case of environmental pollution caused by the Group's business activities, the Group's business performance and financial position could be adversely affected due to decontamination costs and compensation for damage, etc. and the loss of credibility.

## 2. Status of the Nabtesco Group

The Nabtesco Group consists of the Company, 56 subsidiaries and eight affiliates. Each company under the respective segment by business category is listed below.

### [Relationship of the Company, Subsidiaries and Affiliates with the Respective Segments by Business Category]

As of December 31, 2016

Segment by business category	Japan	Overseas
Precision Equipment Business	Nabtesco Corporation	Nabtesco Precision Europe GmbH *1
	Diavac Limited *1	Nabtesco Motion Control Inc. *1
	CMET, Inc. *1	Nabtesco (China) Precision Equipment Co., Ltd. *1
	Harmonic Drive Systems Inc. *2, 3	Changzhou Nabtesco Precision Machinery Co., Ltd. *1
		Nabtesco India Private Ltd. *1
		Shanghai Nabtesco Motion Equipment Co., Ltd. *2
		Harmonic Drive L.L.C. *2
Transport Equipment Business	Nabtesco Corporation	Jiangsu Nabtesco KTK Railroad Products Co., Ltd. *1
	Shikoku Marine Customer Service Co., Ltd. *1	Nabtesco Oclap S.r.l. *1
	Nabtesco Automotive Corporation *1	Chengdu Nabtesco KTK Railroad Products Co., Ltd. *1
	Nabtesco Service Co., Ltd. *1	NABMIC B.V. *1
	NABTEC Co., Ltd. *1	Nabtesco Marine Service Singapore Pte Ltd. *1
	Dairiki Tekko Co., Ltd. *2	Nabtesco Marineteq Co., Ltd. *1
		Nabtesco Marine Control Systems (Shanghai) Co., Ltd. *1
		Nabtesco Marine Machinery (Shanghai) Co., Ltd. *1
		Nabtesco Automotive Products (Thailand) Co., Ltd. *1
		Nabtesco Railroad Products (Beijing) Co., Ltd. *1
		Taiwan Nabtesco Service Co., Ltd. *1
		Nabtesco ITG GmbH *1
		ITG Kompressoren GmbH *1
		Minda Nabtesco Automotive Private Limited *2
	NS Autotech Co., Ltd. *2	
Aircraft and Hydraulic Equipment Business	Nabtesco Corporation	Nabtesco Aerospace Inc. *1
	Nabtesco Link Corporation *1	Nabtesco Aerospace Europe GmbH *1
		Nabtesco Aerospace Singapore Pte. Ltd. *1
		Shanghai Nabtesco Hydraulic Co., Ltd. *1
		Nabtesco Power Control (Thailand) Co., Ltd. *1
		Shanghai Nabtesco Hydraulic Equipment Trading Co., Ltd. *1
		Nabtesco USA Inc. *1
	Shanghai Nabtesco Business Management Co., Ltd. *1	
Industrial Equipment Business	Nabtesco Corporation	NABCO Entrances, Inc. *1
	NABCO DOOR Ltd. *1	NABCO Canada Inc. *1
	Nabco System Co., Ltd. *1	Royal Doors Ltd. *1
	Niigata Nabco Pty. Ltd. *1	NABCO Auto Door (Beijing) Co., Ltd. *1
	NS Metal Co., Ltd. *1	Gilgen Door Systems AG *1
	NS Toto Co., Ltd. *1	Gilgen Nabtesco (Hong Kong) Limited *1
	Toyo Jidoki Co., Ltd. *1	Gilgen Door Systems UK Limited *1
	TS Precision Co., Ltd. *1	Gilgen Door Systems Germany GmbH *1
	T.S. Mechatech Co., Ltd. *1	Gilgen Door Systems Austria GmbH *1
	Kyokko Denki Co., Ltd. *2	Gilgen Door Systems France S.a.r.l. *1
	TMT Machinery Co., Ltd. *2	Gilgen Door Systems Italy srl *1
		Gilgen Door Systems Scandinavia AB *1
		Gilgen Door Systems (Suzhou) Co., Ltd. *1
	Dalian Toyo Jidoki Co., Ltd. *1	
	TOYO JIDOKI AMERICA CORP. *1	
Total of subsidiaries and affiliates: 64	Japan: 19 companies	Overseas: 45 companies

\*1 Consolidated subsidiary

\*2 Equity method-applied affiliate

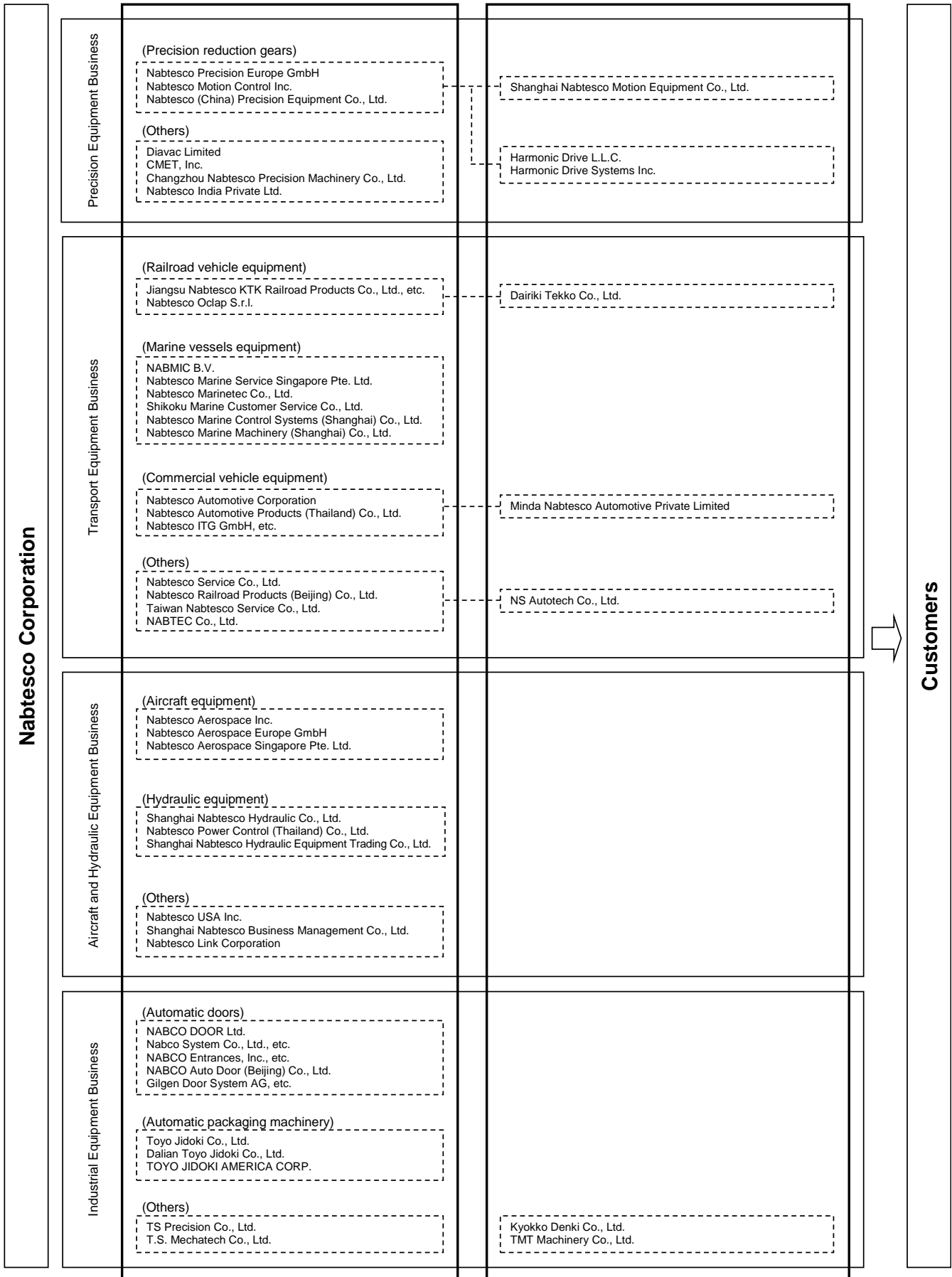
\*3 Shares of Harmonic Drive Systems Inc. are listed on the JASDAQ Section of the Tokyo Stock Exchange.

- Notes:
1. Since KOTO Electronics Co., Ltd. resolved at its extraordinary general meeting of shareholders the resolution effective March 10, 2016, it has been excluded from the scope of equity method-applied affiliates.
  2. Hiest Corporation was merged and absorbed into the Company, the surviving company, on April 1, 2016.
  3. Effective April 1, 2016, the Company acquired additional shares in Nabco Systems Co., Ltd., converting the same company and its subsidiaries, Niigata Nabco Pty. Ltd., NS Metal Co., Ltd. and NS Toto Co., Ltd. into the Company's subsidiaries. Meanwhile, effective January 1, 2017, NS Metal Co., Ltd. and NS Toto Co., Ltd. were renamed as Nabco Metal Co., Ltd. and Nabco Toto Co., Ltd., respectively.
  4. Nabtesco India Private Ltd. was established on May 6, 2016.
  5. Nabtesco ITG GmbH and ITG Kompressoren GmbH were converted into the Company's subsidiaries effective May 10, 2016.
  6. Chengdu Nabtesco KTK Railroad Products Co., Ltd. was established effective December 23, 2016.
  7. Gilgen Door Systems Scandinavia AB was established on December 30, 2016.
  8. Nabtesco Service Southeast Asia Co., Ltd. was established on January 4, 2017.
  9. On December 21, 2016, a share transfer agreement was entered into with INTERGLOBAL Industrieholding GmbH associated with the shares in its subsidiary, OVALO GmbH. The Company will convert OVALO GmbH and its subsidiary, adcos GmbH, into its subsidiaries effective February 28, 2017.

**[Diagram of Businesses of Nabtesco Group]**

Total of consolidated subsidiaries: 56

Total of equity method affiliates: 8



### 3. Management Policy

#### (1) Basic Policy of the Management of the Company

The Company and its group companies have exerted efforts under the corporate philosophy mentioned below to achieve the long-term vision ending FY 2020. Considering, however, changes in business environment surrounding the Company, the Company has formulated a four-year New Medium-term Management Plan titled "Move forward! Challenge the future! Create 'New Value 2020'" starting in FY 2017.

[Corporate Philosophy]

The Nabtesco Group, with our unique motion control technology, will provide safety, comfort and a sense of security in daily lives as well as any form of transportation.

[Long-term Vision] Status on FY 2020

"Global Partner with Best Solutions"

[Basic Policy of the New Medium-term Management Plan]

To realize the ideal image towards FY 2020, the Company will implement its strategies under the following policy.

"Move forward! Challenge the future!"  
– Create "New Value 2020" –

#### (2) Target Management Indices

The Group has set medium-term management targets spanning FY 2017 through FY 2020 as follows:

##### Commitment:

Achieve and maintain 15% in ROE by FY 2020.

Consolidated pay-out ratio is set at 35% or higher during the period of this Medium-term Management Plan.

##### Reference values for FY 2020:

Other management indices assumed when 15% in ROE is achieved.

Net sales: ¥330.0 billion

Operating margin: 12.5%

Net income: ¥30.0 billion (Net income attributable to owners of the parent)

ROA: 9.0%

##### Dividend policy:

Consolidated pay-out ratio during the period of this Medium-term Management Plan is set at 35% or higher, and a continuous rise in dividend per share will be sought without upper limit.

### (3) Medium- to Long-Term Management Strategies

During the new Medium-term Management Plan period, we will implement strategies towards the realization of our long-term vision “Global Partner with Best Solutions” by combining three basic policies consisting of “Market Creation,” “Technology Innovation” and “Operational Excellence.”

#### 1) Creating new businesses through “Market Creation”

- Overseas businesses will be further developed including through effective use of M&A.
- The after-sales-services business (MRO) will be further enhanced and expanded by utilizing ICT, IoT and other cutting-edge technologies.

#### 2) Creating new solutions through “Technology Innovation”

- Business domains will be expanded from the provision of components to system solutions.
- New competitive advantages in products will be established through “Innovations in manufacturing” including the development of new engineering processes.
- Highly efficient production, highly environmental capabilities and a comfortable working environment will be realized by introducing modernization and smart solutions to domestic plants.

#### 3) Raising corporate value by improving profitability and efficiency through “Operational Excellence”

- Reinforce the operation bases through production reforms and operational reforms to improve profitability.
- Improvement of efficiency in business operations and the generation of inter-business synergies will be pursued.
- As an additional internal management indicator, ROIC (Return on Invested Capital) will be introduced to raise capital efficiency and generate cash steadily.
- The payout ratio will be maintained stably at 35% or higher on a consolidated basis to flexibly implement shareholder return.
- Investments for future growth will focus on 1) the modernization of domestic plants to increase production; 2) the promotion of R&D; and 3) the preparation of funds for strategic M&A.

### (4) Challenges Facing the Company

#### “Business Development”

We position the achievement of the Medium-Term Management Plan as our top priority issue, and will focus on addressing the following challenges facing the Company.

- Establish business models to match the needs of each market; expand overseas businesses; and enhance their profitability.
- Develop products that respond to wide-ranging market needs; Develop products that differentiate themselves by taking advantage of superior general technologies.
- Establish a swift decision-making system that responds to globalization; Strengthen risk management capabilities.
- Secure, cultivate, and strengthen global human resources to serve as the base of our global business.
- Establish management systems capable of responding flexibly to drastic changes in the market environment; and reinforce governance.

## 4. Basic Concept on the Selection of Accounting Standards

The Group has decided to apply IFRS on a voluntary basis from the first quarter of the consolidated fiscal year ending December 31, 2017 to enhance the comparability of financial information in the capital markets on a global basis, as well as improving the accuracy of management administration within the Group by unifying the accounting standards and accounting periods.



## 5. Consolidated Financial Statements

### (1) Consolidated Balance Sheets

	(Million yen)	
	End of consolidated FY 2015 (as of December 31, 2015)	End of consolidated FY 2016 (as of December 31, 2016)
<b>Assets</b>		
Current assets		
Cash and time deposits	22,068	29,945
Notes and accounts receivable	59,750	65,712
Marketable securities	13,000	12,000
Goods and products	5,579	6,368
Products in progress	11,622	14,325
Raw materials and stored goods	11,219	11,925
Deferred tax assets	1,975	2,274
Other current assets	3,597	3,758
Allowance for doubtful accounts	(238)	(319)
Total current assets	128,575	145,991
Fixed assets		
Tangible fixed assets		
Buildings and structures	50,637	54,644
Accumulated depreciation	(30,927)	(34,115)
Buildings and structures (net)	19,709	20,528
Machinery and transport equipment	69,647	70,484
Accumulated depreciation	(52,554)	(52,059)
Machinery and transport equipment (net)	17,092	18,424
Tools, apparatus and furniture	26,188	26,940
Accumulated depreciation	(22,362)	(22,345)
Tools, apparatus and furniture (net)	3,825	4,595
Land	13,737	17,559
Construction in progress	1,551	6,715
Total tangible fixed assets	55,916	67,822
Intangible fixed assets		
Goodwill	19,424	17,031
Other	4,233	3,895
Total intangible fixed assets	23,657	20,926
Investments and other assets		
Investments in securities	23,057	20,741
Assets concerning retirement benefits	204	177
Deferred tax assets	465	658
Other investments and other assets	1,585	2,716
Allowance for doubtful accounts	(82)	(88)
Total investments in securities and other assets	25,231	24,205
Total fixed assets	104,805	112,955
<b>Total assets</b>	<b>233,381</b>	<b>258,946</b>

(Million yen)

	End of consolidated FY 2015 (as of December 31, 2015)	End of consolidated FY 2016 (as of December 31, 2016)
<b>Liabilities</b>		
Current liabilities		
Notes and accounts payable	38,643	16,925
Electronically recorded obligations-operating	—	25,635
Short-term loans payable	5,256	5,647
Current portion of bonds	10,000	—
Current portion of long-term loans payable	76	146
Income taxes payable	1,056	5,408
Allowance for product warranty	611	695
Provision for loss on order received	5	27
Other current liabilities	17,349	20,315
Total current liabilities	73,000	74,802
Long-term liabilities		
Bonds payable	—	10,000
Long-term loans payable	—	1,201
Allowance for retirement bonus for directors	180	288
Liabilities concerning retirement benefit	7,339	9,343
Deferred tax liabilities	2,093	2,901
Other long-term liabilities	1,842	1,888
Total long-term liabilities	11,456	25,623
Total liabilities	84,456	100,425
Net assets		
Shareholders' equity		
Capital stock	10,000	10,000
Capital surplus	14,237	14,237
Earned surplus	107,487	119,345
Treasury stock	(2,718)	(2,648)
Total shareholders' equity	129,005	140,933
Accumulated other comprehensive income		
Net unrealized gains on securities	2,159	2,015
Deferred gains or losses on hedges	3	(35)
Translation adjustments	11,597	8,504
Accumulated adjustments concerning retirement benefits	(697)	(1,295)
Total accumulated other comprehensive income	13,062	9,188
Subscription rights to shares	379	466
Non-controlling interests	6,476	7,933
Total net assets	148,924	158,521
Total liabilities and net assets	233,381	258,946

**(2) Consolidated Statements of Income and Consolidated Statements of Comprehensive Income**  
**Consolidated Statements of Income**

	(Million yen)	
	FY 2015 (Japan: April 1, 2015 to Dec. 31, 2015 Overseas: Jan 1, 2015 to Dec. 31, 2015)	FY 2016 (January 1, 2016 to December 31, 2016)
Net sales	187,000	244,618
Cost of sales	136,576	175,379
Gross profit	50,423	69,239
Selling, general and administrative expenses	35,129	45,767
Operating income	15,294	23,471
Non-operating income		
Interest income	171	119
Dividend income	88	68
Rent income	106	250
Equity in earnings of affiliates	1,710	1,111
Other non-operating income	400	377
Total	2,476	1,926
Non-operating expenses		
Interest expenses	148	153
Foreign exchange losses	986	259
Other non-operating expenses	218	254
Total	1,352	667
Ordinary income	16,418	24,731
Extraordinary gains		
Gain on step acquisitions	—	786
Gain on sales of fixed assets	32	743
Gain on sales of investment securities	2,064	6
Gain on bargain purchase	—	352
Total	2,096	1,889
Extraordinary losses		
Loss on disposal of fixed assets	336	106
Loss on valuation of investment securities	—	2
Impairment loss	2,111	—
Business structure improvement expenses	287	—
Loss on valuation of golf club membership	3	—
Loss on revision of retirement benefit plan	385	390
Expenses on environmental measures	31	—
Total	3,156	498
Income before income taxes and adjustments	15,358	26,122
Corporate, resident and business taxes	5,348	8,264
Adjustment for corporate and other taxes	383	(44)
Total corporate and other taxes	5,731	8,219
Net income	9,626	17,902
Profit/loss attributable to non-controlling interests	(1,432)	317
Net income attributable to owners of the parent	11,059	17,584

**Consolidated Statements of Comprehensive Income**

	(Million yen)	
	FY 2015	FY 2016
	(Japan: April 1, 2015 to Dec. 31, 2015 Overseas: Jan 1, 2015 to Dec. 31, 2015)	(January 1, 2016 to December 31, 2016)
Net income	9,626	17,902
Other comprehensive income		
Valuation difference on available-for-sale securities	(1,268)	(137)
Deferred gains or losses on hedges	6	(3)
Foreign currency translation adjustment	(1,771)	(3,579)
Adjustments concerning retirement benefits	(521)	(640)
Share of other comprehensive income of associates accounted for using equity method	(67)	(110)
Total other comprehensive income	(3,622)	(4,471)
Comprehensive income	6,004	13,430
[Comprehensive income attributable to:]		
Owners of the parent	7,875	13,710
Non-controlling interests	(1,871)	(279)

**(3) Consolidated Statements of Change in Net Assets**

FY 2015 (From April 1, 2015 to December 31, 2015)

(Million yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Earned surplus	Treasury stock	Total shareholders' equity
Balance at beginning of the term	10,000	18,989	107,554	(2,928)	133,615
Change during the term					
Cash dividends			(5,784)		(5,784)
Net income attributable to owners of the parent			11,059		11,059
Acquisition of treasury stock				(10,002)	(10,002)
Disposal of treasury stock		(93)		212	118
Cancellation of treasury stock		(4,658)	(5,341)	9,999	–
Employees' welfare fund for overseas subsidiaries			(0)		(0)
Changes in items other than shareholders' equity during the term (net)					
Total change during the term	–	(4,752)	(67)	209	(4,610)
Balance at end of the term	10,000	14,237	107,487	(2,718)	129,005

	Accumulated other comprehensive income					Subscription rights to shares	Non-controlling interests	Total net assets
	Net unrealized gains on securities	Unrealized deferred gain or loss on hedges	Translation adjustments	Accumulated adjustments concerning retirement benefits	Total accumulated other comprehensive income			
Balance at beginning of the term	3,447	(2)	12,977	(175)	16,246	391	8,410	158,664
Change during the term								
Cash dividends								(5,784)
Net income attributable to owners of the parent								11,059
Acquisition of treasury stock								(10,002)
Disposal of treasury stock								118
Cancellation of treasury stock								–
Employees' welfare fund for overseas subsidiaries								(0)
Changes in items other than shareholders' equity during the term (net)	(1,288)	6	(1,379)	(521)	(3,183)	(11)	(1,934)	(5,129)
Total change during the term	(1,288)	6	(1,379)	(521)	(3,183)	(11)	(1,934)	(9,739)
Balance at end of the term	2,159	3	11,597	(697)	13,062	379	6,476	148,924

FY 2016 (From January 1, 2016 to December 31, 2016)

(Million yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Earned surplus	Treasury stock	Total shareholders' equity
Balance at beginning of the term	10,000	14,237	107,487	(2,718)	129,005
Change during the term					
Cash dividends			(5,711)		(5,711)
Net income attributable to owners of the parent			17,584		17,584
Acquisition of treasury stock				(2)	(2)
Disposal of treasury stock			(15)	72	57
Changes in items other than shareholders' equity during the term (net)					
Total change during the term	-	-	11,857	69	11,927
Balance at end of the term	10,000	14,237	119,345	(2,648)	140,933

	Accumulated other comprehensive income					Subscription rights to shares	Non-controlling interests	Total net assets
	Net unrealized gains on securities	Unrealized deferred gain or loss on hedges	Translation adjustments	Accumulated adjustments concerning retirement benefits	Total accumulated other comprehensive income			
Balance at beginning of the term	2,159	3	11,597	(697)	13,062	379	6,476	148,924
Change during the term								
Cash dividends								(5,711)
Net income attributable to owners of the parent								17,584
Acquisition of treasury stock								(2)
Disposal of treasury stock								57
Changes in items other than shareholders' equity during the term (net)	(144)	(39)	(3,093)	(597)	(3,874)	86	1,456	(2,331)
Total change during the term	(144)	(39)	(3,093)	(597)	(3,874)	86	1,456	9,596
Balance at end of the term	2,015	(35)	8,504	(1,295)	9,188	466	7,933	158,521

**(4) Consolidated Statements of Cash Flows**

	(Million yen)	
	FY 2015	FY 2016
	(Japan: April 1, 2015 to Dec. 31, 2015 Overseas: Jan 1, 2015 to Dec. 31, 2015)	(January 1, 2016 to December 31, 2016)
<b>Cash flows from operating activities</b>		
Income before income taxes	15,358	26,122
Depreciation and amortization	6,363	7,406
Impairment loss	2,111	—
Amortization of goodwill	1,608	1,424
Gain on bargain purchase	—	(352)
Share-based compensation expenses	106	143
Increase (decrease) in allowance for doubtful accounts	41	61
Increase (decrease) in assets/liabilities concerning retirement benefits	38	74
Increase (decrease) in reserve for directors' retirement accounts	(52)	(2)
Interest and dividend income	(259)	(187)
Interest expenses	148	153
Foreign exchange loss (gain)	(17)	202
Equity loss (gain) in earnings of affiliates	(1,710)	(1,111)
Loss (gain) on sales of fixed assets	(32)	(743)
Loss (gain) on disposal of fixed assets	336	106
Loss (gain) on valuation of investment securities	—	2
Loss (gain) on step acquisitions	—	(786)
Loss (gain) on sales of marketable securities and investments in securities	(2,064)	(6)
Loss on valuation of golf club membership	3	—
Decrease (increase) in notes and accounts receivable	(618)	(467)
Decrease (increase) in inventories	(2,736)	(1,098)
Decrease (increase) in other assets	(487)	(31)
Increase (decrease) in notes and accounts payable	(392)	(260)
Increase (decrease) in consumption taxes payable	188	(65)
Increase (decrease) in other liabilities	(1,029)	443
<b>Subtotal</b>	<b>16,904</b>	<b>31,025</b>
Interest and dividend received	890	979
Interest paid	(149)	(106)
Income taxes refunded (paid)	(8,899)	(4,168)
<b>Net cash and cash equivalents provided by operating activities</b>	<b>8,746</b>	<b>27,729</b>

	(Million yen)	
	FY 2015	FY 2016
	(Japan: April 1, 2015 to Dec. 31, 2015 Overseas: Jan 1, 2015 to Dec. 31, 2015)	(January 1, 2016 to December 31, 2016)
<b>Cash flows from investing activities</b>		
Increase in time deposits	(7)	(5)
Proceeds from withdrawal from time deposits	309	177
Purchases of tangible fixed assets	(6,193)	(14,474)
Proceeds from sales of tangible fixed assets	929	1,313
Purchases of intangible fixed assets	(875)	(920)
Proceeds from sales of intangible assets	—	95
Purchases of investment securities	(13)	(13)
Proceeds from sales of investment securities	3,314	120
Purchase of investments in capital of subsidiaries	—	(31)
Purchase of stocks of affiliates	(28)	(80)
Purchase of shares of subsidiaries resulting in change in scope of consolidation	(2,220)	(778)
Payments of loans receivable	—	(2)
Collection of loans receivable	—	25
Expenses related to business transfer	(37)	—
Other payments	(96)	(474)
Other proceeds	31	58
Net cash and cash equivalents used in investing activities	(4,886)	(14,989)
<b>Cash flows from financing activities</b>		
Increase (decrease) in short-term bank loans	(3,298)	(288)
Proceeds from long-term loans payable	—	1,254
Repayment of long-term loans payable	(80)	(206)
Proceeds from issuance of bonds	—	10,000
Redemption of bonds	—	(10,000)
Proceeds from stock issuance to minority shareholders	33	275
Payments for purchases of treasury stock	(10,001)	(2)
Proceeds from sales of treasury stock	0	1
Cash dividends paid	(5,659)	(5,826)
Cash dividends paid to minority shareholders	(83)	(14)
Net cash and cash equivalents used in financing activities	(19,090)	(4,808)
Effect of exchange rate changes on cash and cash equivalents	(513)	(862)
Increase (decrease) in cash and cash equivalents	(15,745)	7,069
Cash and cash equivalents at beginning of term	50,455	34,709
Cash and cash equivalents at end of term	34,709	41,779



**(5) Notes to Consolidated Financial Statements**

(Notes Relating to the Going Concern Assumption)

None

(Important Matters Concerning Presentation of Consolidated Financial Statements)

With respect to important matters concerning the presentation of consolidated financial statements, the disclosures are omitted as there has been no significant change from the most recent Securities Report (filed on March 25, 2016).

(Omission of Disclosure)

Disclosures concerning the notes to the following matters are omitted due to the lack of necessity of disclosure in the Financial Summary: Changes to the presentation method; consolidated balance sheets; consolidated statements of income; consolidated statements of comprehensive income; consolidated statements of change in net assets; consolidated statements of cash flow; lease transactions; financial instruments; securities; derivatives transactions; retirement benefits; stock options, etc.; tax effects; asset retirement obligations; and real properties including rents and other related information.

(Additional Information)

1. Application of Implementation Guidance on Recoverability of Deferred Tax Assets

Since the Implementation Guidance on Recoverability of Deferred Tax Assets (ASBJ Guidance No. 26 issued on March 28, 2016) came into effect and its adoption is permitted for the consolidated financial statements for the consolidated fiscal year ended December 31, 2016, the Company applies the relevant implementation guidance from the consolidated fiscal year under review.

2. Business combination through acquisition

At the Board of Directors' meeting held on November 30, 2016, the Company resolved to acquire a 100% equity interest in OVALO GmbH (hereinafter, "OVALO") held by INTERGLOBAL Industrieholding GmbH (hereinafter, "INTERGLOBAL") of Germany, and entered into an equity interest transfer agreement effective December 21, 2016.

(1) Outline of the business combination

1) Name and business line of the acquired company:

Name of the acquired company: OVALO GmbH

Business line: Development, manufacture and sale of system products with strain wave gears for automobile manufacturers

2) Principal reasons for business combination

The Company decided this acquisition with the aim of "Profitable growth" by reinforcing its competitive base in the European market and enhancing its position in the mechatronics field as the foundation of systematization.

The Company is confident that through the acquisition of OVALO, the systematization and mechatronization of the Company's products will be accelerated by utilizing OVALO's capability to develop combined products of motor and control units.

Furthermore, given that there is room for expansion within OVALO's existing plant, the Company will consider the possibility of using such surplus space for establishing new development and production facilities to further reinforce its competitive base in the European market.

3) Date of business combination

February 28, 2017 (schedule)

4) Legal form of the business combination

Acquisition of equity interest in exchange for cash

5) Name of the company after business combination

OVALO GmbH

6) Percentage of equity interest to be acquired

100%

7) Principal reasons for deciding the company to be acquired

In order for the Company to acquire equity interest in exchange for cash.

(2) Acquisition cost and its breakdown

Consideration of acquisition: Cash €82 million (Note)

Acquisition cost: €82 million

Note: The cost includes the acquisition price of claimable assets arising from loans by INTERGLOBAL to OVALO.

(3) Breakdown and amounts of principal acquisition-related expenses

To be fixed later.

(4) Amount, the cause of occurrence, method of amortization, and amortization period of goodwill

To be fixed later.

- (5) Amounts and the principal content of assets to be received and liabilities to be assumed on the date of business combination

To be fixed later.

### (Business Combinations)

#### 1. Corporate acquisition through stock purchase

##### (1) Outline of business combination

###### 1) Name and business line of the acquired company

Name of the acquired company: NABCO Systems Co., Ltd.

Business line: Sale, design, construction and maintenance of construction-related products centered on automatic doors.

###### 2) Principal reasons for business combination

Nabco Systems Co., Ltd. (hereinafter, "Nabco Systems") was one of the equity-method affiliates of the Company. The Company decided to convert Nabco Systems into a consolidated subsidiary by acquiring additional shares in Nabco Systems with a view to further strengthening the business relationship between the two companies and accelerating the movement of unification of value chains across the country. Based on the view that such measures will contribute to further development of the automatic doors business, the agreement was reached between the Company and Mr. Taizo Yamamura, as a major shareholder of NABCO Systems., and Taiei Limited Liability Company, of which Mr. Taizo Yamamura is a major shareholder, and six other companies to the effect that shares in NABCO Systems will be transferred to the Company.

###### 3) Date of business combination

April 1, 2016

###### 4) Legal form of business combination

Acquisition of shares

###### 5) Name of the company after business combination

NABCO Systems Co., Ltd.

###### 6) Percentage of voting rights acquired

Percentage of voting rights immediately before the acquisition: 37.9%

Percentage of voting rights additionally acquired on the date of business combination: 48.0%

Percentage of voting rights held after the acquisition: 85.9%

###### 7) Principal reasons for deciding the company to be acquired

Because the Company acquired shares in Nabco Systems in exchange for cash.

##### (2) Period of operation results of the acquired company included in the consolidated financial statements of the Company

From April 1, 2016 to December 31, 2016

##### (3) Acquisition cost and the breakdown of the consideration

Fair value as of the date of business combination of Nabco Systems held immediately prior to the additional acquisition: ¥3,184 million

Fair value as of the date of business combination of the additionally acquired shares in Nabco Systems: ¥3,680 million

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Acquisition cost: ¥6,864 million

##### (4) Breakdown and amount of principal acquisition-related expenses

Advisory fees, etc. ¥51 million

##### (5) Difference between the acquisition cost of the acquired company and the total amount of acquisition costs of each transaction up to the acquisition:

Net gain relating to step acquisition: ¥786 million

##### (6) Gain and effect on negative goodwill

1) Gain on negative goodwill: ¥352 million

2) Effect on negative goodwill

Difference between net amount of received assets and assumed liabilities, and the acquisition cost is accounted for as gain on negative goodwill.

## (7) Amounts and principal breakdown of assets received and liabilities assumed on the date of business combination

Current assets:	¥12,482 million	Current liabilities:	¥8,525 million
Fixed assets:	¥ 7,460 million	Long-term liabilities:	¥2,847 million
Total assets:	¥19,942 million	Total liabilities:	¥11,373 million

## (8) Approximate amount and the method of calculation of the impact of the business combination on the consolidated financial statements for the current fiscal year presuming that such business combination was completed at the beginning of the consolidated fiscal year.

Net sales: ¥4,956 million (Note)

(Note) Method of calculation of the approximate amount:

The approximate amount of the impact means the difference between net sales as calculated presuming that the business combination was completed at the beginning of the consolidated fiscal year, and net sales as stated in the consolidated financial statements of the acquired company. This note has not received audit certification.

## 2. Transaction under common control

## (1) Outline of transaction

## 1) Name and business line of parties to the business combination

(Surviving company in the absorption-type merger)

Name of company: Nabtesco Corporation

Business line: Components for industrial robots; break systems, automatic door systems and coupling systems for railroad vehicles; safety facilities; control systems and fire extinguishing systems for marine vessels; aircraft components; construction machinery equipment; automatic doors for buildings and general industries; smoke exhaustion equipment; platform safety facilities; and design, manufacture, sale, installation, maintenance and repair of these components.

(Dissolving company in the absorption-type merger)

Name of company: Hyst Corporation

Business line: Manufacture and sale of hydraulic equipment, etc.

## 2) Date of business combination

April 1, 2016

## 3) Legal form of business combination

Absorption-type merger by the Company as the surviving corporation

## 4) Name of the company after business combination

Nabtesco Corporation

## 5) Other matters concerning the outline of the transaction

This business combination was conducted for the purposes of improving the product develop capabilities through expanding the product line-up in the hydraulic equipment business and enhancing the capability of hydraulic systems.

## (2) Outline of the accounting treatments implemented

This business combination is accounted for as transaction under common control in accordance with the "Accounting Standard for Business Combinations" and the "Implementation Guidance on the Accounting Standard for Business Combinations and the Accounting Standard for Business Divestiture."

## (Segment Information)

## (1) Summary of Reportable Segments

The Company's reportable segments are components of the Company about which separate financial statement is available that is evaluated regularly at the Board of Directors' meetings in deciding how to allocate the management resources and in assessing performance.

The Group is engaged in manufacturing and sale of products based mainly on motion-control technology, consisting of four reportable segments: Precision equipment, transport equipment, aircraft and hydraulic equipment and industrial equipment.

The principal products sold in the precision equipment business include precision reduction gears, precision actuators, drive units for wind turbine generators, three-dimensional rapid prototyping equipment, and vacuum equipment, etc. Products sold in the transport equipment segment include brake systems and door operating systems for railway vehicles, air-braking systems for commercial vehicles and main propulsion control systems for marine vessels, etc. The aircraft and hydraulic equipment segment covers aircraft equipment, traveling motors for construction machinery, etc. Principal products sold in the industrial equipment segment include automatic doors for buildings, automatic food sealers, and special-purpose machine tools, etc.

## (2) Calculation method of sales, income or loss, assets, liabilities and other accounting items by reportable segment

Accounting method of business segments reported is almost the same as that described in the "Significant matters providing the basis for preparing consolidated financial statements."

Intersegment sales or transfer are indicated based on market price.

## (3) Information on the amounts of sales, income or loss, assets, liabilities and other accounting items by reportable segment

FY 2015 (April 1, 2015 to December 31, 2015)

	Reportable segment					Adjustments (Note 1)	Amount stated in consolidated financial statements
	Precision Equipment	Transport Equipment	Aircraft and Hydraulic Equipment	Industrial Equipment	Total		
Net sales							
Sales to external customers	45,327	46,848	39,524	55,299	187,000	–	187,000
Inter-segment sales or transfer	66	222	1,243	271	1,804	(1,804)	–
Total	45,394	47,071	40,767	55,571	188,805	(1,804)	187,000
Segment income (loss)	6,824	7,890	(2,029)	2,610	15,294	–	15,294
Segment assets	52,197	41,922	48,375	64,409	206,904	26,476	233,381
Segment liabilities	17,926	14,060	13,466	19,631	65,085	19,371	84,456
Other items							
Depreciation and amortization	1,068	1,179	2,457	1,199	5,904	459	6,363
Amortization of goodwill	–	–	267	1,340	1,608	–	1,608
Increases in tangible fixed assets and intangible fixed assets	3,555	1,228	1,649	1,661	8,095	886	8,982

Note: 1. Details of adjustments are as follows:

- (1) Adjustment to inter-segment sales or transfer is a negative ¥1,804 million as a result of eliminations.
- (2) Total assets of the Company included in adjustment to segment assets, and not allocated to the respective reportable segments are ¥26,476 million, consisting mainly of surplus operating funds in the Company (cash and deposits, etc.) and long-term investments (investment securities, etc.).
- (3) Part of the total liabilities of the Company included in adjustment to segment liabilities does not belong to the respective reportable segments, out of which the principal items are loans payable and bonds payable of the Company.
- (4) Adjustments of ¥886 million in increases in tangible fixed assets and intangible fixed assets represent capital expenditures of the total assets of the Company not allocated to the respective reportable segments.

FY 2016 (January 1, 2016 to December 31, 2016)

	Reportable segment					Adjustments (Note 1)	Amount stated in consolidated financial statements
	Precision Equipment	Transport Equipment	Aircraft and Hydraulic Equipment	Industrial Equipment	Total		
Net sales							
Sales to external customers	56,931	61,074	47,806	78,806	244,618	–	244,618
Inter-segment sales or transfer	148	293	3,108	141	3,691	(3,691)	–
Total	57,079	61,367	50,914	78,947	248,310	(3,691)	244,618
Segment income (loss)	8,616	10,335	(26)	4,546	23,471	–	23,471
Segment assets	43,779	47,597	52,916	84,442	228,735	30,211	258,946
Segment liabilities	18,020	15,799	14,516	29,694	78,031	22,414	100,446
Other items							
Depreciation and amortization	1,788	1,471	2,035	1,401	6,697	709	7,406
Amortization of goodwill	31	29	356	1,006	1,424	–	1,424
Increases in tangible fixed assets and intangible fixed assets	4,328	1,935	4,697	3,113	14,074	456	14,530

Note: 1. Details of adjustments are as follows:

- (1) Adjustment to inter-segment sales or transfer is a negative ¥3,691 million as a result of eliminations.
- (2) Total assets of the Company included in adjustment to segment assets, and not allocated to the respective reportable segments are ¥30,211 million, consisting mainly of surplus operating funds in the Company (cash and deposits, etc.) and long-term investments (investment securities, etc.).
- (3) Part of the total liabilities of the Company included in adjustment to segment liabilities does not belong to the respective reportable segments, out of which the principal items are loans payable and bonds payable of the Company.
- (4) Adjustments of ¥456 million in increases in tangible fixed assets and intangible fixed assets represent capital expenditures of the total assets of the Company not allocated to the respective reportable segments.

(4) Information concerning impairment loss from fixed assets by reportable segment  
FY 2015 (April 1, 2015 to December 31, 2015) (Consolidated basis)

(Million yen)

	Reportable segment					Corporate/ Elimination	Total
	Precision Equipment	Transport Equipment	Aircraft and Hydraulic Equipment	Industrial Equipment	Total		
Impairment loss	-	-	2,111	-	2,111	-	2,111

FY 2016 (January 1, 2016 to December 31, 2016) (Consolidated basis)

Not applicable.

(5) Amortized amount of goodwill and the balance of unamortized amounts by reportable segment  
FY 2015 (April 1, 2015 to December 31, 2015) (Consolidated basis)

(Million yen)

	Reportable segment					Corporate/ Elimination	Total
	Precision Equipment	Transport Equipment	Aircraft and Hydraulic Equipment	Industrial Equipment	Total		
(Goodwill)							
Amortized amount for FY 2015	-	-	267	1,340	1,608	-	1,608
Balance at end of the term	-	-	2,581	16,842	19,424	-	19,424

FY 2016 (January 1, 2016 to December 31, 2016) (Consolidated basis)

(Million yen)

	Reportable segment					Corporate/ Elimination	Total
	Precision Equipment	Transport Equipment	Aircraft and Hydraulic Equipment	Industrial Equipment	Total		
(Goodwill)							
Amortized amount for FY 2016	31	29	356	1,006	1,424	-	1,424
Balance at end of the term	-	-	2,225	14,805	17,031	-	17,031
(Negative goodwill)							
Amortized amount for FY 2016	-	-	-	(352)	(352)	-	(352)
Balance at end of the term	-	-	-	-	-	-	-

(6) Gains on negative goodwill by reportable segment

FY 2015 (April 1, 2015 to December 31, 2015) (Consolidated basis)

Not applicable.

FY 2016 (January 1, 2016 to December 31, 2016) (Consolidated basis)

In the "Industrial equipment" segment, Nabco Systems Co., Ltd. was converted into a subsidiary effective April 1, 2016.

The recorded amount of gain on negative goodwill arising from the said event was ¥352 million in the consolidated fiscal year under review.

## (Per Share Information)

	FY 2015 (Consolidated basis) (April 1, 2015 to December 31, 2015)	FY 2016 (Consolidated basis) (January 1, 2016 to December 31, 2016)
Net assets per share	1,150.41 yen	1,215.31 yen
Net income per share	88.85 yen	142.37 yen
Fully diluted net income per share	88.75 yen	142.12 yen

- Notes: 1. Net income per share and fully diluted net income per share were calculated on the basis of the following data.  
2. Since the previous consolidated fiscal year is a transitional period for the change in accounting period, net income per share and fully diluted net income per share for the fiscal year ended December 2015 cover different periods from the consolidated fiscal year under review.

	FY 2015 (Consolidated basis) (April 1, 2015 to December 31, 2015)	FY 2016 (Consolidated basis) (January 1, 2016 to December 31, 2016)
Net income per share		
Net income attributable to owners of the parent (million yen)	11,059	17,584
Amount not attributable to shareholders of common stock (million yen)	–	–
Net income related to common stock attributable to owners of the parent (million yen)	11,059	17,584
Average number of shares of common stock outstanding during the term	124,471,488	123,518,357
Fully diluted net income per share		
Adjustment to net income attributable to owners of the parent (million yen)	–	–
Number of additional common stock shares	143,838	212,936
(Of which, share acquisition rights) (shares)	(143,838)	(212,936)
Outline of the dilutive shares not included in the calculation of fully diluted net income per share due to a lack of dilutive effect	–	–

3. Net assets per share were calculated on the basis of the following data.

	As of December 31, 2015	As of December 31, 2016
Total net assets (million yen)	148,924	158,521
Amounts deducted from total net assets (million yen)	6,855	8,399
(Of which, share acquisition rights)	(379)	(466)
(Of which, non-controlling interests)	(6,476)	(7,933)
Net assets as of end of the term related to common stock (million yen)	142,068	150,121
Number of shares of common stock used to calculate net assets per share	123,494,323	123,525,323

## 6. Other Information

### (1) Output and Order Backlog by Business Segment

#### 1) Output

Reportable Segments	FY 2015 (From April 1, 2015 to December 31, 2015)		FY 2016 (From January 1, 2016 to December 31, 2016)	
	Amount (million yen)	% to total	Amount (million yen)	% to total
Precision Equipment	46,483	24.2	58,237	23.7
Transport Equipment	48,614	25.4	60,033	24.5
Aircraft and Hydraulic Equipment	38,577	20.1	48,450	19.7
Industrial Equipment	58,105	30.3	78,654	32.1
Total	191,781	100.0	245,375	100.0

#### 2) Order Backlog

Reportable Segments	FY 2015 (December 31, 2015)		FY 2016 (December 31, 2016)	
	Amount (million yen)	% to total	Amount (million yen)	% to total
Precision Equipment	13,736	14.9	18,983	18.2
Transport Equipment	23,991	25.9	23,849	22.9
Aircraft and Hydraulic Equipment	32,985	35.6	30,558	29.4
Industrial Equipment	21,873	23.6	30,759	29.5
Total	92,586	100.0	104,151	100.0

### (2) Status of Capital Expenditure, Financial Account Balance and Employees

(Million yen)

	FY 2015 (From April 1, 2015 to December 31, 2015)		FY 2016 (From January 1, 2016 to December 31, 2016)	
	Consolidated	Non-consolidated	Consolidated	Non-consolidated
1. Capital expenditure	8,982	4,849	14,530	9,878
[Tangible fixed assets included in the above amount]	[8,107]	[4,158]	[13,610]	[9,236]
2. Depreciation and amortization	6,363	2,948	7,406	4,671
[Tangible fixed assets included in the above amount]	[5,630]	[2,547]	[6,137]	[3,748]
3. R&D expense	5,800	3,691	7,362	5,296
4. Corporate bonds and loans payable	15,333	13,400	16,995	13,400
5. Financial account balance	111	3,503	34	3,131
[Dividend income included in the above amount]	[88]	[3,537]	[68]	[3,201]
6. Number of employees at end of the term	5,839 persons	2,167 persons	7,162 persons	2,222 persons