

# Annual Business Report

April 1, 2007 through March 31, 2008

**日本車両**

**NIPPON SHARYO, LTD.**

## Financial Highlights

### Comparison of Sales by Segment

(Unit: million yen)

Business Segment	2008		2007		Increase/(decrease)	
	Value	%	Value	%	Value	%
Railway rolling stock and other transportation	53,774	58.5 %	50,603	57.8 %	3,171	6.3 %
Construction equipment	19,808	21.5	17,155	19.6	2,653	15.5
Steel structure	6,486	7.1	9,056	10.3	(2,570)	(28.4)
Others	11,869	12.9	10,740	12.3	1,129	10.5
Total	91,937	100.0	87,554	100.0	4,383	5.0

As the business segment of Machinery for Paper Mills was moved from the “Construction Equipment” to the “Other” from the current year, sales of the previous year is recorded according to the above new segment classification.

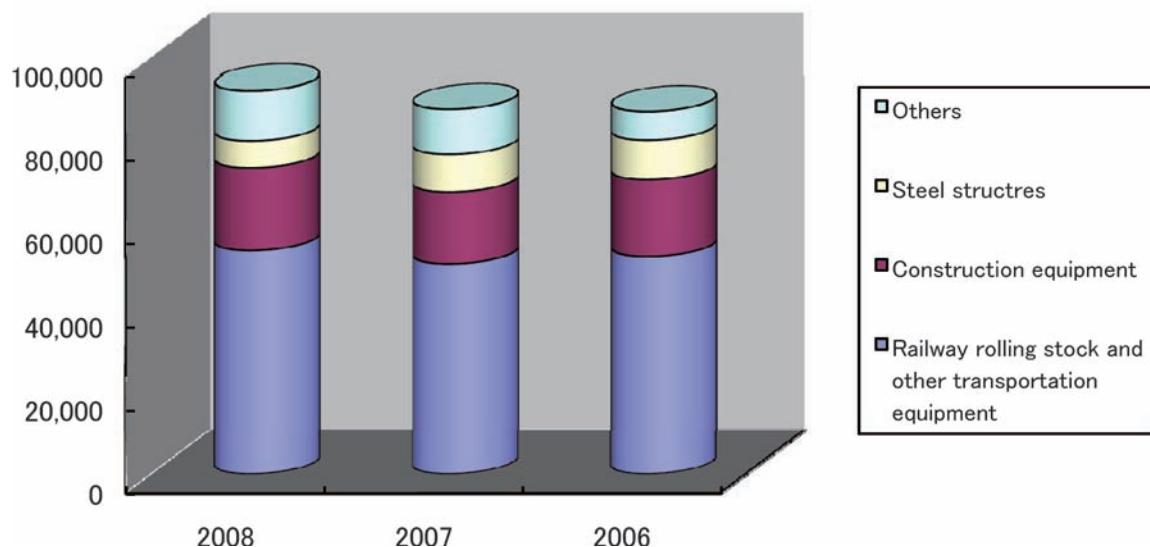
### Change in Operating Performance and Asset Status

(Unit: million yen except Net income per share)

Titles of account	179th period (2007-2008)	178th period (2006-2007)	177th period (2005-2006)
Net sales	91,937	87,554	87,019
Ordinary income (loss)	(1,858)	1,099	1,939
Net income (loss)	(5,474)	959	(1,715)
Net income per share (loss)	(¥37.86)	¥6.63	(¥11.86)
Total assets	130,538	143,778	140,649
Total shareholders' equity	46,278	56,744	57,005

(Millions of Yen)

### Comparison of Sales by Segment



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# Message from the President

## Review of Business Operations

During the fiscal year under review, the Japanese economy gradually followed its moderate but upward trend, stemming from the improvement of corporate earnings as well as the increase in exports and equipment investment. However, in the latter half of the year, a sense of economic slowdown and uncertainty over the future prospects of the economy became stronger, affected by the concern about the recession of the US economy due to the subprime mortgage fund crisis as well as the surge in energy and raw material prices.

Under these circumstances, the Group developed energetic marketing activities at home and abroad to secure orders on hand which reached a record amount of ¥174,426 million. At the same time, going back to the Company's origin as a manufacturer we have set, as our theme, the reinforcement of our technological capability which is essential in manufacturing and the improvement in our productivity throughout all corporate activities. The Company is in the process of reviewing its production systems throughout the Group in order to strengthen our railway rolling stock business and to restructure the steel structure business.

Overall sales recorded ¥91,937 million, or 5.0% up from the previous year. The chief factor was the increase of sales in construction machinery, diesel generator units and railway rolling stock, mainly the Series N700 Shinkansen trains that have been highly appreciated since their introduction in July 2007. A strong replacement demand in the market supported the sales.

In terms of profits, however, we recorded an ordinary loss of ¥1,858 million due to the surge in raw material prices, an increase in production expenses during the early period of the manufacturing of new-model trains as well as aggravation of the construction profit for the steel structure business. Moreover, a net loss of ¥5,473 million was recorded, including a special impairment loss of ¥3,753 million on the facilities as fixed assets by the Company's withdrawal from the PCB waste disposal treatment business.

The business operations of each division are summarized in the following.

## The Outlook

It is anticipated that the Japanese economy will slow down due to the decrease in exports reflecting the recession of the US economy, as well as the influence of the weak dollar, raw material and energy prices hovering in the higher zone, and through the sluggishness in individual consumption due to aggravation of the corporate earnings environment. As for our Group, it is expected that the severe situation will continue for management although our abundant orders on hand is a favorable factor.

In the Group's railway rolling stock and other transportation equipment businesses, it is expected that the busy state will remain because of the continuous delivery of the Series N700 Shinkansen trains to the Central Japan Railway Company (JR Tokai). The Group is now promoting earnings recovery through accumulating improvement efforts along with mass production processes, while strengthening cost reduction activities through project teams. At the same time, the enlargement of the railway rolling stock production capacity will be pushed forward while efforts will be made to obtain overseas orders mainly from the US and Taiwan. In the transportation equipment business, as we can expect a strong demand for heavy-duty industrial vehicles, we will make efforts to carry out project activities for each product in order to correspond to intensified needs, as well as to cut production costs.

In the construction equipment business, as we can expect a strong demand for products related to foundation work, especially pile driving rigs, we continue to make efforts to secure domestic sales while expanding export-related sales.

In the steel structure business, the environment is expected to remain unfavorable because the severe competition among manufacturers will continue due to the restraints in public investment. To cope with such a situation, we will focus our target on the fields of our expertise, enhance our capability for technical proposals, and reduce costs by reorganization of the staff and the slimming-down of production lines.

In other businesses, the Company is enhancing choice and concentration in the area of business for the engineering departments, and plans the effective use of operating resources.

Further, as group-wide policies, we intend to train and educate engineers in order to strengthen our technological capability as well as to review the overall production systems aiming to improve productivity. At the Toyokawa Plant, our main production base, we will partly double-track the production line and strengthen the timely part supply system by constructing a new parts center. At the same time, it is planned to move a part of the transportation equipment production line from the Toyokawa Plant to the Kinuura Plant so as the latter can be operated more effectively. We will also integrate the transportation equipment business and the steel structure business into the Transportation Equipment and Infrastructure Division in order to streamline these businesses.



*K. Ikushima*

*Katsuyuki Ikushima*

President and Chief Executive Officer

## Review by Segment

### Railway Rolling Stock and Other Transportation Equipment Businesses

In railway rolling stock, our sales to the JR railway companies, with commencement of the mass production of the Series N700 Shinkansen trains for the Central Japan Railway Company (JR Tokai) and the West Japan Railway Company (JR Nishi-Nippon), amounted to ¥27,041 million. Our sales of EMUs for public and private railways, except for the JR railway companies, reached ¥9,228 million, including sales of: the Series N1000 EMUs



Series N700 Shinkansen Train



Bi-level Passenger Car

for the Transportation Bureau, City of Nagoya; the Series 2200/5000 EMUs for the Nagoya Railroad Co., Ltd.; the Series 60000 Romance Car trains for the Odakyu Electric Railway Co., Ltd.; the Series 9000 EMUs for the Keio Corporation; the Series 3000 EMUs for the Keisei Electric Railway Co., Ltd.; the Series 2000 EMUs for the Aichi Loop Line Co., Ltd.; and the Series MR600 diesel cars for Matsuura Railway Co., Ltd. In exported railway cars, we had sales of ¥8,411 million, including bi-level passenger cars for Virginia Rail Express, USA and commuter trains for Taiwan. Other sales included diesel

locomotives, container flat cars, and gasoline tank cars. Consequently, our total sales of railway rolling stock were ¥45,862 million, up 16.6% from the previous year.

In other transportation equipment business areas, although sales of super-low temperature LNG tank lorries and trailers were satisfactory, sales of LPG-related products such as the consumer-purpose LPG bulk tank lorry, the Company's main product, remained low as the surge in LPG import prices through high crude oil prices suppressed plant and equipment investment. Sales for heavy-duty industrial vehicles were stable, including sales for carriers and automated guided vehicles. No sales were recorded for the fluid cargo handling equipment business, since the Company withdrew from this area of business in the previous year. As a result, the sales of other transportation equipment were ¥7,911 million, or 29.9% down from the previous year.



Heavy-duty Industrial Vehicles

All in all, the sales of railway rolling stock and other transportation equipment totaled ¥53,774 million,

or 6.3% up from the previous year.

## Construction Equipment Business

In the construction equipment business, while the trend of a decrease in public construction continues, there is an increase in redevelopment projects such as the construction of factories and office buildings in the private sector, thereby leading to an increase in replacement demand, mainly by major contractors. Sales increased for foundation work-related products, such as large-size pile driving rigs and casing rotators. In exports, increasing demand for construction machinery, mainly in China and South Korea, led to an increase of sales for foundation work-related products. As a result, the sales of construction equipment totaled ¥13,971 million, or 5.6% up from the previous year.



Pile Driving Rigs



Emergency Generator

In the generator business, while domestic sales remained low, influenced by the decrease in public construction and by the Revised Building Standard Act, the Company made efforts to expand business in the Middle East and Australia, in addition to South East Asia. In the emergency generator business, on the other hand, the demand for large-sized type units for disaster countermeasures and also replacement demand for stand-

by type units for banks remained strong. As a result, the sales of generators were ¥5,836 million, or a 49.0% jump from the previous year.

All in all, the sales in our construction equipment business were ¥19,808 million, a 15.5% increase from the previous year.

## Steel Structure Business

In our steel structure business, the Company reinforced its price competitiveness through cost cutting efforts while improving technological capacity through the development of construction technology. However, the business environment remained severe with the decline of orders for steel bridges due to the cutbacks in public works projects, and with intensified competition accelerated by the adoption of the comprehensive evaluation method in bidding.

Further, in March 2007, the Company was given a retraction order by the Japan Fair Trade

Commission and an administrative sanction (suspension of designated contractor status) for seven months by the Ministry of Land, Infrastructure and Transport for violation of the Antitrust Law in connection with the construction of floodgates on specific rivers. The Company, therefore, was suspended from bidding at government offices during the first half of the fiscal year. In the second half of the fiscal year, however, the restriction was lifted and we reopened again to receive orders.

In relation to road bridges, our sales included the Ooshirogawa Bridge on the Second Tomei Expressway as well as the Katae Elevated Bridge and the Umebayashi Elevated Bridge for the Fukuoka-Kitakyushu Expressway Public Corporation. As for bridges over railways, our sales included construction of the Morioka Bo Bridge and the Kozakai Bo Bridge. As for railway bridges, our sales included the construction of the Kinogawa Bridge and the Nara Elevated Bridge.



the Kinogawa Bridge



the Kozakai Bo Bridge

As for the construction of the Kozakai Bo Bridge, the Company and JR Tokai jointly developed a technique for bridge erection using a combination of the launching method for rear erection girders and a lowering device for erection girders, which realized the considerable shortening of the construction term and the improvement in work safety.

All in all, sales for the steel structure business were ¥6,486 million, or 28.4% down from the previous year.

## Other Businesses

Aiming at business reinforcement through the combination of technology and sales power, in April 2007, the Company united such engineering departments as the agricultural plants, environmental facilities, train inspection and maintenance facilities, transportation facilities, paper-manufacturing machinery and others into the Engineering Division.

In the agricultural plant business, sales mainly included the repair work for existing facilities such as country elevators for the Japan Agricultural Cooperatives (JA). In the area of the train inspection and maintenance business, sales included various facilities for JR and other companies. In the area of the paper-manufacturing machinery business, sales included processing equipment for household paper

manufacturers. Sales also included microfabrication laser equipment such as stencil processing machines, income from golf course operations, and income from railway memorabilia.

All in all, sales in other business areas totaled ¥11,869 million, or 10.5% up from the previous year.



Turn-table

The export sales for the year under review amounted to ¥10,968 million, including ¥8,411 million for railway rolling stock and other transportation equipment businesses and ¥2,543 million for the construction equipment business, and represented 11.9% of total sales.

Meanwhile, the orders on hand at the end of the year under review reached a record amount of ¥174,426 million, thanks to large orders for the Series N700 Shinkansen trains. These comprised ¥142,459 million for the railway rolling stock and other transportation equipment business (¥101,004 million for rolling stock for JR railway companies, ¥14,657 million for EMUs for other domestic private and public railways, ¥18,278 million for exported rolling stock, and ¥7,548 million for other transportation equipment), ¥12,931 million for the construction equipment business, ¥15,859 million for the steel structure business, and ¥3,175 million for other businesses.

## Investment in Plant and Equipment

Plant and equipment investment during the year under review totaled ¥3,070 million. Intended to improve productivity and replace production facilities, it included the introduction of laser welding devices, five-face processing machines and NC routers, and the installation of a part unit assembling yard at the Toyokawa Plant; the replacement of a compound NC lathe at the Narumi Plant; and the addition of machinery and equipment for bridge construction at the Kinuura Plant.

## Financing Activities

As for funding during the year under review, the balance of the bonds payable and the borrowing at the end of the year under review was ¥35,036 million, or ¥514 million down from the previous year. In the year under review, the Company concluded a loan contract of 10 billion yen as a Commitment Line with three of our business banks.

**NIPPON SHARYO, LTD.**  
**Audited Consolidated Financial Statements**  
March 31, 2008 and 2007



## Independent Auditors' Report

To the Board of Directors and Shareholders of  
NIPPON SHARYO , LTD.:

We have audited the accompanying consolidated balance sheet of NIPPON SHARYO, LTD. and its consolidated subsidiaries (the "NIPPON SHARYO Group") as of March 31, 2008, and the related consolidated statements of operations, changes in net assets, and cash flows for the year then ended, all expressed in Japanese yen. These consolidated financial statements are the responsibility of the NIPPON SHARYO Group's management. Our responsibility is to independently express an opinion on these consolidated financial statements based on our audits. The consolidated financial statements of the NIPPON SHARYO Group as of March 31, 2007, were audited by other auditors who have ceased operations and whose report dated June 28, 2007, expressed an unqualified opinion on those statements.

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 the NIPPON SHARYO Group as of March 31, 2008, and the consolidated results of its operations and its cash flows for the year then ended, in conformity with accounting principles generally accepted in Japan.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2008 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, the translation was made on the basis described in Note 1(b) to the consolidated financial statements.

*KPMG AZSA & Co.*

KPMG AZSA & Co.  
Nagoya, Japan  
June 27, 2008

**NIPPON SHARYO, LTD. and Consolidated Subsidiaries**  
**Consolidated Balance Sheets**  
**As at March 31, 2008 and 2007**

	Millions of yen		Thousands of
	2008	2007	U.S. dollars
<b>Current assets:</b>			<b>2008</b>
Cash and cash equivalents	¥ 11,767	¥ 13,428	\$ 117,670
Short-term investments (Note 5)	-	120	-
Notes and accounts receivable (Notes 3 and 10)	31,497	36,595	314,970
Inventories (Note 4)	32,474	25,854	324,740
Deferred tax assets (Note 13)	1,661	1,241	16,610
Other current assets	400	799	4,000
<b>Total current assets</b>	<b>77,799</b>	<b>78,037</b>	<b>777,990</b>
<b>Property, plant and equipment:</b>			
Land	16,743	16,753	167,430
Buildings and structures	22,981	21,945	229,810
Machinery and equipment	32,585	31,754	325,850
Construction in progress	98	4,874	980
Less, accumulated depreciation	(42,817)	(41,840)	(428,170)
<b>Net property, plant and equipment</b>	<b>29,590</b>	<b>33,486</b>	<b>295,900</b>
<b>Investments and other assets:</b>			
Investment securities (Notes 5 and 9)	21,008	30,929	210,080
Investments in unconsolidated subsidiaries and affiliates	1,215	273	12,150
Deferred tax assets (Note 13)	151	138	1,510
Other assets	775	915	7,750
<b>Total investments and other assets</b>	<b>23,149</b>	<b>32,255</b>	<b>231,490</b>
<b>Total assets</b>	<b>¥ 130,538</b>	<b>¥ 143,778</b>	<b>\$ 1,305,380</b>

The accompanying notes are an integral part of these financial statements.

	Millions of yen		Thousands of
	2008	2007	U.S. dollars
<b>Liabilities:</b>			<b>2008</b>
Short-term borrowings (Note 7)	¥ 9,935	¥ 6,935	\$ 99,350
Current portion of long-term debt (Note 7)	1,764	1,264	17,640
Notes and accounts payable (Note 6)	25,417	26,940	254,170
Accrued expenses	3,962	3,510	39,620
Advances received	7,457	4,296	74,570
Income taxes payable	97	730	970
Allowance for loss on construction in progress	1,110	511	11,100
Other current liabilities	334	314	3,340
<b>Total current liabilities</b>	<b>50,076</b>	<b>44,500</b>	<b>500,760</b>
Long-term debt (Note 7)	23,337	27,351	233,370
Employee retirement benefit liabilities (Note 8)	488	465	4,880
Allowance for PCB disposal expenses	153	-	1,530
Deferred tax liabilities (Note 13)	5,293	9,625	52,930
Other long-term liabilities	4,913	5,093	49,130
<b>Total long-term liabilities</b>	<b>34,184</b>	<b>42,534</b>	<b>341,840</b>
<b>Total liabilities</b>	<b>84,260</b>	<b>87,034</b>	<b>842,600</b>
<b>Equity (Note 12):</b>			
Common stock	11,811	11,811	118,110
Capital surplus	12,042	12,041	120,420
Retained earnings	17,057	22,746	170,570
Less, treasury stock, at cost	(428)	(417)	(4,280)
<b>Total shareholders' equity</b>	<b>40,482</b>	<b>46,181</b>	<b>404,820</b>
Net unrealized gains on available-for-sale securities	5,670	10,456	56,700
Loss on deferred hedges	(0)	(0)	(0)
<b>Total revaluation and translation</b>	<b>5,670</b>	<b>10,456</b>	<b>56,700</b>
Minority interests	126	107	1,260
<b>Total equity</b>	<b>46,278</b>	<b>56,744</b>	<b>462,780</b>
<b>Total liabilities and equity</b>	<b>¥ 130,538</b>	<b>¥ 143,778</b>	<b>\$ 1,305,380</b>

The accompanying notes are an integral part of these financial statements.

**NIPPON SHARYO, LTD. and Consolidated Subsidiaries**  
**Consolidated Statements of Operations**  
**For the Years Ended March 31, 2008 and 2007**

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Net sales (Note 17)	¥ 91,937	¥ 87,554	\$ 919,370
Cost of sales	87,279	80,176	872,790
<b>Gross profit</b>	<b>4,658</b>	7,378	<b>46,580</b>
Selling, general and administrative expenses	5,775	5,892	57,750
<b>Operating income (loss) (Note 17)</b>	<b>(1,117)</b>	1,486	<b>(11,170)</b>
Other income (expenses):			
Interest and dividend income	405	328	4,050
Interest expense	(532)	(519)	(5,320)
Equity in earnings of affiliated companies	20	-	200
Other, net	(634)	(196)	(6,340)
	(741)	(387)	(7,410)
<b>Ordinary income (loss)</b>	<b>(1,858)</b>	1,099	<b>(18,580)</b>
Special gain (loss):			
Gain on sales of property	2	304	20
Gain on sales of investment securities	112	1,000	1,120
Loss on write-down of marketable securities and other	(407)	(5)	(4,070)
Loss on impairment of fixed assets (Note 15)	(3,882)	(142)	(38,820)
Loss on discontinued operations	(433)	-	(4,330)
Loss on sales of property	(176)	-	(1,760)
Penalty or charges on violation of the antimonopoly law	-	(291)	-
Other, net	(153)	(121)	(1,530)
	(4,937)	745	(49,370)
<b>Income (loss) before income taxes and minority interests</b>	<b>(6,795)</b>	1,844	<b>(67,950)</b>
Income taxes (Note 13):			
Current	105	840	1,050
Prior year	113	-	1,130
Deferred	(1,559)	30	(15,590)
	(1,341)	870	(13,410)
Less minority interests in net income of consolidated subsidiaries	20	15	200
<b>Net income (loss)</b>	<b>¥ (5,474)</b>	¥ 959	<b>\$ (54,740)</b>
		yen	U.S. dollars
<b>Per share:</b>			
Net income (loss)	¥ (37.86)	¥ 6.63	\$ (0.38)
Cash dividends	3.00	5.00	0.03

The accompanying notes are an integral part of these financial statements.

**NIPPON SHARYO, LTD. and Consolidated Subsidiaries**  
**Consolidated Statements of Changes in Net Assets**  
**For the Years Ended March 31, 2008 and 2007**

	Shareholders' Equity					
	Number of shares of common stock issued	Common stock	Capital surplus	Retained earnings	Treasury stock	Total Shareholders' equity
<b>Balance at March 31, 2006</b>	146,750,129	¥ 11,811	¥ 12,041	¥ 22,510	¥ (399)	¥ 45,963
Cash dividends	-	-	-	(723)	-	(723)
Bonuses to directors	-	-	-	(0)	-	(0)
Net income for the year	-	-	-	959	-	959
Purchase of treasury stock, net	-	-	0	-	(18)	(18)
Net changes other than shareholders' equity	-	-	-	-	-	-
<b>Balance at March 31, 2007</b>	146,750,129	¥ 11,811	¥ 12,041	¥ 22,746	¥ (417)	¥ 46,181

	Shareholders' Equity					
	Number of shares of common stock issued	Common stock	Capital surplus	Retained earnings	Treasury stock	Total Shareholders' equity
<b>Balance at March 31, 2007</b>	146,750,129	¥ 11,811	¥ 12,041	¥ 22,746	¥ (417)	¥ 46,181
Cash dividends	-	-	-	(362)	-	(362)
Change due to increase in number of affiliates	-	-	-	147	(2)	145
Net loss for the year	-	-	-	(5,474)	-	(5,474)
Purchase of treasury stock, net	-	-	1	-	(9)	(8)
Net changes other than shareholders' equity	-	-	-	-	-	-
<b>Balance at March 31, 2008</b>	146,750,129	¥ 11,811	¥ 12,042	¥ 17,057	¥ (428)	¥ 40,482

	Thousands of U.S. dollars					
	Number of shares of common stock issued	Common stock	Capital surplus	Retained earnings	Treasury stock	Total Shareholders' equity
<b>Balance at March 31, 2007</b>		\$ 118,110	\$ 120,410	\$ 227,460	\$ (4,170)	\$ 461,810
Cash dividends		-	-	(3,620)	-	(3,620)
Change due to increase in number of affiliates		-	-	1,470	(20)	1,450
Net loss for the year		-	-	(54,740)	-	(54,740)
Purchase of treasury stock, net		-	10	-	(90)	(80)
Net changes other than shareholders' equity		-	-	-	-	-
<b>Balance at March 31, 2008</b>		\$ 118,110	\$ 120,420	\$ 170,570	\$ (4,280)	\$ 404,820

The accompanying notes are an integral part of these financial statements.

	Revaluation and Translation Adjustments				
	Net unrealized gains on available-for-sale securities	Loss on deferred hedges	Total revaluation and translation adjustments	Minority interests	Total equity
	Millions of yen				
<b>Balance at March 31, 2006</b>	¥ 10,949	¥ -	¥ 10,949	¥ 93	¥ 57,005
Cash dividends	-	-	-	-	(723)
Bonuses to directors	-	-	-	-	(0)
Net income for the year	-	-	-	-	959
Purchase of treasury stock, net	-	-	-	-	(18)
Net changes other than shareholders' equity	(493)	(0)	(493)	14	(479)
<b>Balance at March 31, 2007</b>	¥ 10,456	¥ (0)	¥ 10,456	¥ 107	¥ 56,744

	Revaluation and Translation Adjustments				
	Net unrealized gains on available-for-sale securities	Loss on deferred hedges	Total revaluation and translation adjustments	Minority interests	Total equity
	Millions of yen				
<b>Balance at March 31, 2007</b>	¥ 10,456	¥ (0)	¥ 10,456	¥ 107	¥ 56,744
Cash dividends	-	-	-	-	(362)
Change due to increase in number of affiliates	-	-	-	-	145
Net loss for the year	-	-	-	-	(5,474)
Purchase of treasury stock, net	-	-	-	-	(8)
Net changes other than shareholders' equity	(4,786)	0	(4,786)	19	(4,767)
<b>Balance at March 31, 2008</b>	¥ 5,670	¥ -	¥ 5,670	¥ 126	¥ 46,278

	Thousands of U.S. dollars				
<b>Balance at March 31, 2007</b>	\$ 104,560	\$ (0)	\$ 104,560	\$ 1,070	\$ 567,440
Cash dividends	-	-	-	-	(3,620)
Change due to increase in number of affiliates	-	-	-	-	1,450
Net loss for the year	-	-	-	-	(54,740)
Purchase of treasury stock, net	-	-	-	-	(80)
Net changes other than shareholders' equity	(47,860)	0	(47,860)	190	(47,670)
<b>Balance at March 31, 2008</b>	\$ 56,700	\$ -	\$ 56,700	\$ 1,260	\$ 462,780

**NIPPON SHARYO, LTD. and Consolidated Subsidiaries**  
**Consolidated Statements of Cash Flows**  
**For the Years Ended March 31, 2008 and 2007**

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
<b>Cash flows from operating activities:</b>			
Income (loss) before income taxes and minority interests	¥ (6,795)	¥ 1,844	\$ (67,950)
Adjustments for:			
Depreciation	2,013	1,680	20,130
Loss on impairment of fixed assets	3,882	142	38,820
Interest and dividend income	(405)	(328)	(4,050)
Interest expense	532	519	5,320
Equity in net earnings of affiliates	(20)	-	(200)
Loss (gain) on disposal or sales of property, plant and equipment	142	(183)	1,420
Loss on write-down of marketable securities and other	407	5	4,070
Gain on sales of investment securities	(112)	(1,000)	(1,120)
Increase/decrease of assets and liabilities			
Trade notes and accounts receivable	5,228	1,091	52,280
Inventories	(6,620)	(3,363)	(66,200)
Trade notes and accounts payable	(1,408)	6,705	(14,080)
Allowance for loss on construction in progress	599	511	5,990
Advances received	3,161	913	31,610
Other, net	483	(2,169)	4,830
Subtotal	1,087	6,367	10,870
Interest and dividend received	405	331	4,050
Interest paid	(531)	(521)	(5,310)
Income taxes paid	(881)	(491)	(8,810)
Net cash provided by operating activities	80	5,686	800
<b>Cash flows from investing activities:</b>			
Payments for purchase of property, plant and equipment	(1,875)	(3,060)	(18,750)
Proceeds from sales of property, plant and equipment	8	985	80
Payments for purchase of investment securities	(858)	(873)	(8,580)
Proceeds from sales of investment securities	617	1,419	6,170
Proceeds from redemption of investment securities	1,100	-	11,000
Other, net	154	415	1,540
Net cash used in investing activities	(854)	(1,114)	(8,540)
<b>Cash flows from financing activities:</b>			
Net increase (decrease) in short-term borrowings	3,000	(1,900)	30,000
Repayments of long-term debt	(3,514)	(1,014)	(35,140)
Payments for purchase of fractional shares	(17)	(19)	(170)
Dividends paid	(362)	(723)	(3,620)
Other, net	8	1	80
Net cash used in financing activities	(885)	(3,655)	(8,850)
Effect of exchange rate changes on cash and cash equivalents	(2)	(0)	(20)
Net increase (decrease) in cash and cash equivalents	(1,661)	917	(16,610)
Cash and cash equivalents at the beginning of the year	13,428	12,511	134,280
Cash and cash equivalents at the end of the year	¥ 11,767	¥ 13,428	\$ 117,670

The accompanying notes are an integral part of these financial statements.

## NIPPON SHARYO, LTD. and Consolidated Subsidiaries

### Notes to Consolidated Financial Statements

#### 1. Basis of Consolidated Financial Statements

##### (a) Basis of presenting the consolidated financial statements

The accompanying consolidated financial statements of NIPPON SHARYO, LTD. (the "Company") and its consolidated subsidiaries have been prepared on the basis of accounting principles generally accepted in Japan, which are different in certain respects as to application and disclosure requirements from International Financial Reporting Standards, and have been compiled from the original consolidated financial statements in Japan prepared by the Company as required by the Financial Instruments and Exchange Law of Japan and submitted to the Director of Kanto Finance Bureau of Japan.

##### (b) U.S. dollar amounts

The Company and its consolidated subsidiaries maintain its accounting records in Japanese yen. The U.S. dollar amounts included in the accompanying consolidated financial statements and these notes represent the result of translating Japanese yen into U.S. dollars at a rate of ¥100 to \$1.00, the approximate rate of exchange at March 31, 2008. The inclusion of such dollar amounts is solely for convenience of the readers and is not intended to imply that the assets and liabilities originating in Japanese yen have been or could be readily converted, realized or settled in U.S. dollars at ¥100 to \$1.00 or at any other rate of exchange.

#### 2. Summary of Significant Accounting Policies

##### (a) Principles of consolidation

The accompanying consolidated financial statements include the accounts of the Company and its significant subsidiaries. All significant intercompany transactions and accounts have been eliminated. Investments in significant affiliates are accounted for by the equity method. Other investments in unconsolidated subsidiaries and affiliates are carried at cost, since the equities in retained earnings and net income of these companies are not material.

The number of the consolidated subsidiaries, unconsolidated subsidiaries and affiliates for the years ended March 31, 2008 and 2007 was as follows:

	2008	2007
Consolidated subsidiaries (domestic)	6	6
Unconsolidated subsidiaries, stated at cost	2	2
Affiliates, accounted for by the equity method	1	-
Affiliates, stated at cost	6	6

Due to increase in materiality, the equity method was used to account for NITTAI SERVICE CO., LTD., one of the affiliates for the year ended March 31, 2008, whereas the cost method was used for the year ended March 31, 2007.

For equity-method affiliates that have a different fiscal year from that of the Company, the affiliates' financial statements with the closest closing date prior to that of the Company are used for consolidation purposes.

##### (b) Accounting standard for presentation of net assets in the balance sheet

On December 9, 2005 the Accounting Standards Board of Japan ("ASBJ") issued the new accounting standard,

"Accounting Standard for Presentation of Net Assets in the Balance Sheet (ASBJ Statement No. 5)" and the implementation guidance, "Guidance on Accounting Standard for Presentation of Net Assets in the Balance Sheet (ASBJ Guidance No. 8)", applicable for the year ending on May 1, 2006. The standard requires that the presentation of the equity section in the balance sheet be similar to that of International Financial Reporting Standards. The Company and its consolidated subsidiaries have adopted these new accounting standards from the year ended March 31, 2007. If the previous accounting method had been applied for the consolidated balance sheet at March 31, 2007, equity would have amounted to ¥56,637 million.

##### (c) Cash equivalents

The Company and its consolidated subsidiaries consider cash equivalents to be highly liquid debt instruments purchased with an original maturity of three months or less.

##### (d) Valuation of securities

The accounting standard for financial instruments requires that securities to be classified into three categories: trading, held-to-maturity or non-trading, and available-for-sale. The classification determines the respective accounting method to be used to account for the securities. According to the Company's investment policies, the securities portfolio of the Company and its consolidated subsidiaries are classified as available-for-sale securities. The accounting standard requires that available-for-sale securities for which market quotations are available be stated at fair value and that net unrealized gains or losses on such securities be recorded as a separate component of shareholders' equity, net of applicable income taxes. Gains and losses on the disposition of marketable securities are computed by the moving average method. Available-for-sale securities that are nonmarketable and without marketable quotations are carried at cost determined by the moving average method. Adjustments in carrying values of individual investment securities are charged to income through write-downs when a decline in value is deemed other than temporary.

##### (e) Accounting for derivatives

Derivatives are valued at fair value if hedge accounting is not appropriate or where there is no hedging designation, and gains and losses on derivatives are recognized in current earnings. Certain transactions classified as hedging transactions are accounted for under the deferral method, whereby unrealized gains and losses on hedging instruments are carried as assets and liabilities respectively, on the balance sheet until gains and losses on the hedged items are realized. Foreign exchange forward contracts to translate foreign currency denominated assets and liabilities are accounted for at the contract rates as an interim measure if certain hedging criteria are met. According to the special treatment permitted by the accounting standard for financial instruments, hedging interest swaps are accounted for on an accrual basis and recorded net of interest expense generated from borrowings item if certain conditions are met.

**(f) Allowance for doubtful accounts**

The allowance for doubtful accounts is provided for at the aggregate amount of estimated credit loss based on an individual analysis of certain doubtful or troubled receivables and a general reserve for other receivables calculated using the historical loss experience of a certain past period.

**(g) Inventories**

Merchandise, finished goods and work-in-process are stated at cost accumulated by job order.

Semi-finished goods and raw materials and supplies are stated at moving average cost. Adjustments in carrying values of individual inventories are charged to income through write-downs.

**(h) Property, plant and equipment and depreciation**

Property, plant and equipment, including significant renewals and additions, are stated at cost and are depreciated principally by the straight-line method for buildings and the declining-balance method for other property at rates based on the estimated useful life of the asset.

The Company and its consolidated subsidiaries capitalize property with a cost of ¥100,000 or more. When this property is less than ¥200,000, it is depreciated over three years on a straight-line basis.

Expenditures on maintenance and repairs are charged to income as incurred. Upon the disposal of property, the cost and accumulated depreciation are removed from the related accounts and any gain or loss is recorded as income or expense.

(Changes in calculation methods)

Due to changes in the corporate tax law, the Company and its consolidated subsidiaries adopted new depreciation methods for tangible fixed assets acquired on or after April 1, 2007, effective from the year ended March 31, 2008. As a result of this change, operating loss, ordinary loss, and loss before taxes and minority interests were ¥38 million (\$380 thousand), ¥41 million (\$410 thousand) and ¥41 million (\$410 thousand) more, respectively, than they would have been without the change. In addition, for tangible fixed assets purchased before March 31, 2007, the Company and its consolidated subsidiaries depreciate the residual value using the straight-line method for five years starting in the year following the year the tangible fixed assets have been depreciated to the residual value. In the year ended March 31, 2008, operating loss, ordinary loss, and loss before taxes and minority interests were ¥128 million (\$1,280 thousand), ¥150 million (\$1,500 thousand) and ¥147 million (\$1,470 thousand) more, respectively, than they would have been without the change.

**(i) Impairment loss on long-lived assets**

The Company reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset or asset group may not be recoverable. An impairment loss shall be recognized in the income statement by reducing the carrying amount of impaired assets or a group of assets to the recoverable amount, measured as the higher of the asset's net selling price or value in use. For the years ended March 31, 2008 and 2007, the Company and its consolidated subsidiaries recognized ¥3,882 million (\$38,820 thousand) and ¥142

million as impairment loss on fixed assets.

**(j) Accounting for finance leases**

When financing leases do not transfer ownership of the leased property to the lessee during the term of the lease, the leased property of the Company and its consolidated subsidiaries is not capitalized and the related rental and lease expenses are charged to income as incurred.

**(k) Allowance for loss on construction in progress**

Allowance for losses on construction in progress has been provided based on an estimate of the total losses in respect to construction projects on which eventual losses are deemed inevitable and the amounts of the loss can be reasonably estimated.

The Company and its certain consolidated subsidiaries changed to provide for the allowance for loss on construction in progress from the year ended March 31, 2007. Previously, the difference between the actual costs incurred over the contract amount was previously charged to loss for the year. At March 31, 2006, there were no amounts comparable to such an allowance.

**(l) Employee retirement benefits**

Employees who terminate their service with the Company and its consolidated subsidiaries are entitled to retirement benefits generally determined by the reference to the current basic rate of pay, length of service and conditions under which the termination occurs. The Company has a lump-sum retirement benefit plan and has established a noncontributory defined benefit pension plan, which is assumed to cover retirement benefits for employees who have retired voluntarily. The Company's consolidated subsidiaries have similar retirement benefit plans.

Effective April 1, 2000, the Company and its consolidated subsidiaries adopted the new Japanese accounting standard for employees' retirement benefits, "Opinion Concerning Establishment of Accounting Standard for Retirement Benefits". In accordance with the new accounting standard, the Company and its consolidated subsidiaries recognize retirement benefits, including pension cost and related liability, based principally on the actuarial present value of the projected benefit obligation using the actuarial appraisal approach and the fair value of pension plan assets available for benefits at the respective year-end. The transitional provision for the adoption of this accounting standard amounted to ¥12,968 million. Transitional provision of ¥8,718 million was charged to income for the year ended March 31, 2001. The remaining unrecognized transitional provision of ¥4,250 million is being amortized on a straight-line basis over 15 years. Unrecognized actuarial differences in the projected benefit obligation or value of pension plan assets arising from actual amounts being different from the amounts projected and from changes in assumptions upon with the projections were made are to be amortized on a straight-line basis over 15 years, which is within average remaining service years of employees from the year following the fiscal year in which they arise.

**(m) Allowance for Polychlorinated Biphenyl ("PCB") disposal expenses**

An allowance for PCB disposal expenses has been provided based on the published estimated disposal fee schedule issued by the Japan Environmental Safety Corporation.

#### (n) Income taxes

Income taxes are accounted for by the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the carrying amounts of existing assets and liabilities and their respective tax bases and operating loss carryforward. Deferred tax assets and liabilities are measured using the tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the period that includes the enactment date.

#### (o) Translation of foreign currency accounts

Receivables, payables and securities denominated in foreign currencies, other than stocks of subsidiaries and certain other securities, are translated into Japanese yen at the exchange rates prevailing at the fiscal year-end. Transactions in foreign currencies are recorded based on the exchange rates prevailing on the transaction dates. Resulting translation gains and losses are included in the current earnings.

#### (p) Research and development expenses

Expenses related to research and development activities are charged to income as incurred. Research and development expenses amounted to ¥653 million (\$6,530 thousand) and ¥865 million for the years ended March 31, 2008 and 2007, respectively, and are included in general and administrative expenses and manufacturing cost in the accompanying consolidated statements of income.

#### (q) Appropriation of retained earnings

Cash dividends are recorded in the fiscal year in which a proposed appropriation of retained earnings is approved by the Board of Directors and/or shareholders.

#### (r) Per share data

Net income per share is computed by dividing the income available to common shareholders by the weighted average number of shares of common stock outstanding during the respective year. Diluted net income per share for the years ended March 31, 2008 and 2007 was not applicable because the Company had no diluted common shares. Cash dividends per share shown for each fiscal year in the accompanying consolidated statements of income represent dividends declared as applicable to the respective year.

### 3. Notes and Accounts Receivable

Notes and accounts receivable at March 31, 2008 and 2007 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Trade notes	¥ 6,795	¥ 5,698	\$ 67,950
Trade notes			
- Unconsolidated subsidiaries and affiliates	99	94	990
Trade accounts	24,467	30,780	244,670
Trade accounts			
- Unconsolidated subsidiaries and affiliates	61	77	610
Other	161	36	1,610
Less, allowance for doubtful accounts	(86)	(90)	(860)
	<u>¥ 31,497</u>	<u>¥ 36,595</u>	<u>\$314,970</u>

At March 31, 2007, the Company and its consolidated subsidiaries had trade notes receivable in the amount of ¥829 million due on the fiscal year-end date. As March 31, 2007 was a banking holiday, the clearance of such trade notes receivable was accounted for on a settlement date basis, and such trade notes were included in the balance above at the fiscal year-end.

### 4. Inventories

Inventories at March 31, 2008 and 2007 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Merchandise	¥ 429	¥ 557	\$ 4,290
Finished goods	1,403	1,401	14,030
Work-in-process and semi-finished goods	28,976	22,221	289,760
Raw materials	1,666	1,675	16,660
	<u>¥ 32,474</u>	<u>¥ 25,854</u>	<u>\$324,740</u>

### 5. Investments

Short-term investments at March 31, 2008 and 2007 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Time deposits with an original maturity of more than three months	¥ -	¥ 120	\$ -

Investment securities at March 31, 2008 and 2007 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Marketable securities:			
Equity securities	¥ 19,943	¥ 28,035	\$199,430
Bond	20	20	200
Total marketable securities	19,963	28,055	199,630
Other nonmarketable securities	2,260	2,874	22,600
	<u>¥ 22,223</u>	<u>¥ 30,929</u>	<u>\$222,230</u>

Marketable securities classified as available-for-sale are stated at fair value, with unrealized gains and losses excluded from current earnings and reported as a net amount within the equity account until realized. Gross unrealized gains and losses for marketable available-for-sale securities at March 31, 2008 and 2007 were summarized as follows:

	Cost	Gross unrealized gains
	Millions of yen	
At March 31, 2008:		
Marketable securities:		
Equity securities	¥ 10,516	¥ 10,093
Bonds	20	0
	<u>¥ 10,536</u>	<u>¥ 10,093</u>

At March 31, 2007:		
Marketable securities:		
Equity securities	¥ 10,614	¥ 17,442
Bonds	20	-
	<u>¥ 10,634</u>	<u>¥ 17,442</u>
	Thousands of U.S. dollars	

At March 31, 2008:		
Marketable securities:		
Equity securities	\$ 105,160	\$ 100,930
Bonds	200	0
	<u>\$ 105,360</u>	<u>\$ 100,930</u>

	Gross unrealized losses	Fair and carrying value
	Millions of yen	
At March 31, 2008:		
Marketable securities:		
Equity securities	¥ (666)	¥ 19,943
Bonds	-	20
	<u>¥ (666)</u>	<u>¥ 19,963</u>

At March 31, 2007:		
Marketable securities:		
Equity securities	¥ (21)	¥ 28,035
Bonds	(0)	20
	<u>¥ (21)</u>	<u>¥ 28,055</u>
	Thousands of U.S. dollars	

At March 31, 2008:		
Marketable securities:		
Equity securities	\$ (6,660)	\$ 199,430
Bonds	-	200
	<u>\$ (6,660)</u>	<u>\$ 199,630</u>

During the year ended March 31, 2008 and 2007, the Company and its consolidated subsidiaries recorded a loss on the write-down on investment securities due to a permanent diminution in value in the amount of ¥407 million (\$4,070 thousand) and ¥5 million, respectively. In addition, for the year ended March 31, 2008, the Company and its consolidated subsidiaries recorded realized gains of ¥112 million (\$1,120 thousand) for the sale of available-for-sale securities. For the year ended March 31, 2007, the Company and its consolidated subsidiaries recorded on the accompanying consolidated statements of income realized gains of ¥370 million for the sale of available-for-sale securities and a gain of ¥630 million for the sale of an equity security of affiliate.

Expected maturities of available-for-sale securities at March 31, 2008 were as follows:

	Millions of yen	Thousands of U.S. dollars
Due in one year or less	¥ -	\$ -
Due after one year through five years	20	200
Due after five years through ten years	-	-
	<u>¥ 20</u>	<u>\$ 200</u>

## 6. Notes and Accounts Payable

Notes and accounts payable at March 31, 2008 and 2007 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Trade notes	¥ 5,072	¥ 10,964	\$ 50,720
Trade notes			
- Unconsolidated subsidiaries and affiliates	-	29	-
Trade accounts	18,998	14,503	189,980
Trade accounts			
- Unconsolidated subsidiaries and affiliates	88	71	880
Other	1,259	1,373	12,590
	<u>¥ 25,417</u>	<u>¥ 26,940</u>	<u>\$ 254,170</u>

At March 31, 2007, the Company and its consolidated subsidiaries had trade notes payable in the amount of ¥1,367 million due on the fiscal year-end date. As March 31, 2007 was a banking holiday, the clearance of such trade notes receivable was accounted for on a settlement date basis, and such trade notes were included in the balance above at the fiscal year-end.

## 7. Short-term Borrowings and Long-term Debt

Short-term borrowings at March 31, 2008 and 2007 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Unsecured bank loans with an average interest rate of 1.44% per annum at March 31, 2008	¥ 9,935	¥ 6,935	\$ 99,350

Long-term debt at March 31, 2008 and 2007 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
0.68% unsecured straight bond due December 2009	¥ 3,000	¥ 3,000	\$ 30,000
1.992% unsecured straight bond due December 2012	2,500	2,500	25,000
Unsecured straight bonds with floating rates due 2010 through 2012	13,500	13,500	135,000
Unsecured bank loans due through 2012 with interest rates ranging from 0.99% to 1.52% at March 31, 2008	6,101	9,615	61,010
	<u>25,101</u>	<u>28,615</u>	<u>251,010</u>
Less, current portion	<u>(1,764)</u>	<u>(1,264)</u>	<u>(17,640)</u>
	<u>¥ 23,337</u>	<u>¥ 27,351</u>	<u>\$ 233,370</u>

The Company entered into the contracts with banks to swap interest from floating rates based on TIBOR to fixed rates in order to hedge against future fluctuations in interest rates. Under these swap contracts, fixed interest rates ranged from 1.423% to 1.940%.

The aggregate annual maturities of long-term debt at March 31, 2008 were as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2009	¥ 1,764	\$ 17,640
2010	7,337	73,370
2011	6,000	60,000
2012	-	-
2013	10,000	100,000
Thereafter	-	-
	<u>¥ 25,101</u>	<u>\$ 251,010</u>

To ensure its access to working capital, the Company has entered into loan commitment agreements with three banks amounting to ¥10,000 million (\$100,000 thousand). The total ¥10,000 amount was unused as of March 31, 2008.

#### 8. Employee Retirement Benefits

The Company and its consolidated subsidiaries have noncontributory defined benefit pension plans and lump-sum retirement benefit plans, which substantially cover all employees.

Employee retirement benefit liability at March 31, 2008 and 2007 was as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Projected benefit obligation	¥ 18,433	¥ 19,571	\$184,330
Less, fair value of pension plan assets	(14,681)	(20,884)	(146,810)
Less, unrecognized transitional provision	(1,981)	(2,264)	(19,810)
Less, unrecognized actuarial differences	(1,283)	4,042	(12,830)
Employee retirement benefit liability	<u>¥ 488</u>	<u>¥ 465</u>	<u>\$ 4,880</u>

*Note: Consolidated subsidiaries adopted the simplified method for the calculation of projected benefit obligation based on the amount which would be required if all eligible employees voluntarily terminated their employment as of the year-end.*

The components of retirement benefit expenses for the years ended March 31, 2008 and 2007 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Service cost	¥ 831	¥ 803	\$ 8,310
Interest cost	370	384	3,700
Expected return on pension plan assets	(217)	(198)	(2,170)
Amortization of transitional provision (Note 2(l))	283	283	2,830
Amortization of actuarial differences	(201)	(283)	(2,010)
Net periodic retirement benefit expenses	<u>¥ 1,066</u>	<u>¥ 989</u>	<u>\$ 10,660</u>

*Note: Retirement benefit expense of subsidiaries, calculated by the simplified method, was included in "service cost".*

Major assumptions used in the calculations of the above information at March 31, 2008 and 2007 were as follows:

	2008	2007
Method attributing the projected benefits to periods of services	Straight-line method	Straight-line method
Discount rate	2.0%	2.0%
Expected return on pension plan assets	2.0%	2.0%
Amortization period of unrecognized actuarial differences	15 years (expensed from following fiscal year)	15 years (expensed from following fiscal year)
Amortization period of transitional provision	15 years	15 years

#### 9. Assets Pledged as Collateral

Securities pledged as substitutes for cash deposits at an institution of real estate business at March 31, 2008 and 2007 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Investment securities	¥ 10	¥ 10	\$ 100

#### 10. Contingent Liabilities

In some cases, the Company sells its construction equipment products through leasing companies. Some of these leasing companies request the Company to enter into lease credits guarantee contracts. Under those contracts, if the lease credits are unrecoverable from the lessee, the Company's construction equipment products user, the Company guarantees payment of the amount defined by the contract. Such guarantees at March 31, 2008 and 2007 amounted to ¥1,591 million (\$15,910 thousand) and ¥2,042 million, respectively.

Trade notes discounted at March 31, 2008 and 2007 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Trade notes receivable discounted with bank	¥ 192	¥ 184	\$ 1,920

#### 11. Lease Transactions

The Company and its consolidated subsidiaries use certain machinery and equipment under finance lease contracts. Pro forma information regarding the leased property, such as the acquisition cost, accumulated depreciation and future minimum lease payments, under finance leases that do not transfer the ownership of the leased property to the lessee at March 31, 2008 and 2007 were as follows:

	Acquisition costs	Accumulated depreciation	Balance
Millions of yen			
At March 31, 2008:			
Machinery	¥ 2,660	¥ 1,117	¥ 1,543
Equipment	467	210	257
	<u>¥ 3,127</u>	<u>¥ 1,327</u>	<u>¥ 1,800</u>
At March 31, 2007:			
Machinery	¥ 1,355	¥ 836	¥ 519
Equipment	342	211	131
	<u>¥ 1,697</u>	<u>¥ 1,047</u>	<u>¥ 650</u>

	Acquisition costs	Accumulated depreciation	Balance
Thousands of U.S. dollars			
At March 31, 2008:			
Machinery	\$ 26,600	\$ 11,170	\$ 15,430
Equipment	4,670	2,100	2,570
	<u>\$ 31,270</u>	<u>\$ 13,270</u>	<u>\$ 18,000</u>

Aggregate minimum future lease obligations at March 31, 2008 and 2007 and lease expenses for the years then ended were as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Due within one year	¥ 515	¥ 306	\$ 5,150
Due over one year	1,285	344	12,850
	<u>¥ 1,800</u>	<u>¥ 650</u>	<u>\$ 18,000</u>
Lease expenses for the year	<u>¥ 611</u>	<u>¥ 361</u>	<u>\$ 6,110</u>

Pro forma amounts for acquisition costs and future minimum lease payments under finance leases include the imputed interest expense portion. Pro forma depreciation expense, which was not reflected in the accompanying consolidated statements of income, computed by the straightline method would have been ¥611 million (\$6,110 thousand) and ¥361 million for the years ended March 31, 2008 and 2007, respectively.

## 12. Equity

The authorized number of shares of common stock without par value is 328 million. At March 31, 2008 and 2007, respectively, the number of shares of common stock issued was 146,750,129 shares. At March 31, 2008 and 2007, the number of shares of treasury stock held by the Company and its consolidated subsidiaries was 2,169,942 and 2,135,085 shares, respectively.

At March 31, 2008 and 2007, respectively, capital surplus consisted principally of additional paid-in capital. In addition, retained earnings included legal reserve of the Company in the amount of ¥2,475 million (\$24,750 thousand), at March 31, 2008 and 2007, respectively. The Corporate Law of Japan (formerly the Commercial Code of Japan) provides that an amount equivalent to 10% of cash dividends as an appropriation of retained earnings be appropriated as legal reserve until the total amount of additional paid-in capital and legal reserve equals 25% of common stock. The reduction of legal reserve is restricted under certain circumstances by action of the shareholders of the Company.

On June 27, 2008 at the annual general meeting, shareholders of the Company resolved to approve the

payment of year-end cash dividends of ¥3.0 (\$0.03) per share, in the aggregate amount of ¥434 million (\$4,340 thousand).

The maximum amount that the Company can distribute as dividends is calculated based on the nonconsolidated financial statements of the Company in accordance with Japanese laws and regulations.

## 13. Income Taxes

The tax effects of temporary differences that give rise to a significant portion of deferred tax assets and liabilities at March 31, 2008 and 2007 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Deferred tax assets:			
Employee retirement benefit liability	¥ 1,561	¥ 1,655	\$ 15,610
Loss on impairment of fixed assets	1,408	1,233	14,080
Revaluation for fixed assets	907	940	9,070
Accrued bonuses to employees	465	519	4,650
Loss on write-down of inventories	531	275	5,310
Allowance for loss on construction in progress	447	200	4,470
Loss on write-down of marketable securities and other	219	149	2,190
Operating loss carryforwards	2,116	23	21,160
Other	881	646	8,810
	<u>8,535</u>	<u>5,640</u>	<u>85,350</u>
Less valuation allowance	<u>(3,755)</u>	<u>(2,397)</u>	<u>(37,550)</u>
Total deferred tax assets	4,780	3,243	47,800
Deferred tax liabilities:			
Unrealized gains on available-for-sale securities	(3,759)	(6,965)	(37,590)
Deferred gain on sale of property	(1,761)	(1,783)	(17,610)
Revaluation of fixed property	(2,741)	(2,741)	(27,410)
Total deferred tax liabilities	<u>(8,261)</u>	<u>(11,489)</u>	<u>(82,610)</u>
Net deferred tax liabilities	<u>¥ (3,481)</u>	<u>¥ (8,246)</u>	<u>\$(34,810)</u>

Deferred tax assets and liabilities at March 31, 2008 and 2007 were recorded as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Deferred tax assets:			
Current	¥ 1,661	¥ 1,241	\$ 16,610
Noncurrent	151	138	1,510
Deferred tax liabilities:			
Noncurrent	<u>(5,293)</u>	<u>(9,625)</u>	<u>(52,930)</u>
Net deferred tax liabilities	<u>¥ (3,481)</u>	<u>¥ (8,246)</u>	<u>\$(34,810)</u>

In assessing the reliability of deferred tax assets, management of the Company and its consolidated subsidiaries considers whether it is more likely than not

that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of the future taxable income during the periods in which those temporary differences become deductible. At March 31, 2008 and 2007, a valuation allowance was provided to reduce the deferred tax assets to the amount that the management believed the deferred tax assets to be realizable.

The reconciliation of the difference between the Japanese statutory tax rate and the effective tax rate on pretax income for the year ended March 31, 2007 was as follow:

	Percentage of pretax income
Japanese statutory tax rates:	40.2 %
Increase (decrease) due to:	
Permanently nondeductible expenses	1.9
Penalty on violation of the antimonopoly law	5.2
Tax exempt income	(3.4)
Local minimum taxes per capita levy	2.1
Other	1.2
Actual effective income tax rate	<u>47.2 %</u>

Such a reconciliation for the year ended March 31, 2008 is not disclosed because a loss was recorded before income taxes and minority interests.

#### 14. Derivative Financial Instruments

The Company enters into foreign currency forward contracts to hedge foreign exchange risk associated with assets and liabilities. The Company also enters into interest rate swap contracts to manage its interest rate exposure on certain liabilities. As foreign currency forward contracts and interest rate swap contracts qualified for hedge accounting for the years ended March 31, 2008 and 2007, fair value information was not disclosed.

#### 15. Loss on Impairment of Fixed Assets

The Company and its consolidated subsidiaries recognized impairment loss on the following asset groups.

Use application	Location	Account
For the year 2008:		
Assets of the PCB disposal business (1 item)	Handa-shi, Aichi	Construction in progress, etc.
NISSHA CONSTRUCTION CO., LTD. (1 item)	Handa-shi, Aichi, etc.	Other (tools, furniture and fixtures), etc.
Idle property, etc. (11 items)	Aso-shi, Kumamoto, etc.	Land, etc.
For the year 2007:		
Assets of the laminated lumber business (1 item)	Iwate-cho, Iwate	Machinery and equipment, etc.
Idle property, etc. (8 items)	Toyokawa-shi, Aichi, etc.	Land, etc.

Use application	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
For the year 2008:			
Assets of the PCB disposal business (1 item)	¥ 3,753	-	\$ 37,530
NISSHA CONSTRUCTION CO., LTD. (1 item)	113	-	1,130
Idle property, etc. (11 items)	16	-	160
For the year 2007:			
Assets of the laminated lumber business (1 item)	-	¥ 113	-
Idle property, etc. (8 items)	-	29	-
Total	<u>¥ 3,882</u>	<u>¥ 142</u>	<u>\$ 38,820</u>

The asset groups were segmented by business in accordance with the segmentation applied for management accounting. However, assets of the golf business, rental properties and idle properties were grouped according to the individual properties.

Impairment loss was recognized on the following grounds: for the assets of the PCB disposal business, the decision was made to proceed with an examination of the option of abandoning commercialization; for NISSHA CONSTRUCTION CO., LTD., negative operational income had been recorded for consecutive years; for idle property, etc., the market prices of the subject assets were less than the book values; and for the assets of the laminated lumber business, it was decided to abandon the business.

The recoverable amounts were measured by the net sales values of disposal, which were calculated by adjusting the property tax valuation.

#### 16. Additional Information

On March 8, 2007, the Company was sanctioned by the Fair Trade Commission of Japan for violation of the Antimonopoly Law in relation to the Company's construction contracts for specific river sluice equipment ordered by the Ministry of Land Infrastructure and Transport Regional Development Bureau. On March 9, 2007, the Ministry of Land Infrastructure and Transport Regional Development Bureau and other public authorities issued disciplinary orders for the Company to stop for the construction bidding. Therefore, the Company may suffer a restriction of business in the future.

## 17. Segment Information

The Companies' operations are classified into four segments, Transportation Equipment business, Construction Equipment business, Steel Structure business and Other business. The Transportation Equipment segment is composed of those operations involved in the manufacture and sale of rolling stocks, automated transit systems, high-pressure vessels and other specialized freight cars. The Construction Equipment segment is principally involved in the manufacture and sale of foundation work equipment for construction, portable/emergency diesel generators and machineries for paper mills. The Steel Structure segment is composed of manufacture and construction of roadway and railway bridges, water gates and building steel frames.

### (1) Business segment information

Information by business segment for the years ended March 31, 2008 and 2007 was as follows:

	Transportation Equipment	Construction Equipment	Steel Structure	Other	Total	Corporate or elimination	Consolidated
Millions of yen							
For the year 2008:							
Net sales:							
External customers	¥ 53,774	¥ 19,808	¥ 6,486	¥ 11,869	¥ 91,937	¥ -	¥ 91,937
Intersegment sales	486	-	-	978	1,464	(1,464)	-
Total net sales	54,260	19,808	6,486	12,847	93,401	(1,464)	91,937
Operating costs and expenses	54,605	17,315	7,933	12,652	92,505	549	93,054
Operating income (loss)	¥ (345)	¥ 2,493	¥ (1,447)	¥ 195	¥ 896	¥ (2,013)	¥ (1,117)
Identifiable assets	¥ 56,079	¥ 19,132	¥ 15,892	¥ 8,856	¥ 99,959	¥ 30,579	¥ 130,538
Depreciation	961	333	303	126	1,723	290	2,013
Loss on impairment of fixed assets	-	-	113	3,757	3,870	12	3,882
Capital expenditures	1,259	241	485	159	2,144	944	3,088
For the year 2007:							
Net sales:							
External customers	¥ 50,603	¥ 20,482	¥ 9,056	¥ 7,413	¥ 87,554	¥ -	¥ 87,554
Intersegment sales	324	0	-	1,437	1,761	(1,761)	-
Total net sales	50,927	20,482	9,056	8,850	89,315	(1,761)	87,554
Operating costs and expenses	48,591	18,540	9,986	8,630	85,747	321	86,068
Operating income (loss)	¥ 2,336	¥ 1,942	¥ (930)	¥ 220	¥ 3,568	¥ (2,082)	¥ 1,486
Identifiable assets	¥ 57,405	¥ 19,608	¥ 15,152	¥ 12,269	¥ 104,434	¥ 39,344	¥ 143,778
Depreciation	809	286	238	132	1,465	215	1,680
Loss on impairment of fixed assets	-	-	-	135	135	7	142
Capital expenditures	1,210	275	146	76	1,707	96	1,803
Thousands of U.S. dollars							
For the year 2008:							
Net sales:							
External customers	\$537,740	\$198,080	\$ 64,860	\$118,690	\$919,370	\$ -	\$919,370
Intersegment sales	4,860	-	-	9,780	14,640	(14,640)	-
Total net sales	542,600	198,080	64,860	128,470	934,010	(14,640)	919,370
Operating costs and expenses	546,050	173,150	79,330	126,520	925,050	5,490	930,540
Operating income (loss)	\$ (3,450)	\$ 24,930	\$(14,470)	\$ 1,950	\$ 8,960	\$(20,130)	\$(11,170)
Identifiable assets	\$560,790	\$191,320	\$158,920	\$ 88,560	\$999,590	\$305,790	\$1,305,380
Depreciation	9,610	3,330	3,030	1,260	17,230	2,900	20,130
Loss on impairment of fixed assets	-	-	1,130	37,570	38,700	120	38,820
Capital expenditures	12,590	2,410	4,850	1,590	21,440	9,440	30,880

Notes: 1. Operating costs and expenses in the elimination column represent unallocated corporate operating expenses, such as general and administrative expenses of the Company, net of intersegment transactions.

2. Identifiable assets in the elimination column represent unallocated general corporate items, such as cash and short-term or long-term investments in securities and general managed property, net of inter-segment balances.

3. As disclosed in Note 2(h), from the year ended March 31, 2008, the Company and its consolidated subsidiaries have changed depreciation method of tangible fixed assets acquired on or after April 1, 2007 in accordance with the Tax Reform 2007. As a result, operating loss for the year ended March 31, 2008 was ¥13 million (\$130 thousand) more in the Transportation Equipment business segment, ¥10 million (\$100 thousand) in the Construction Equipment business segment, ¥9 million (\$90 thousand) in the Steel Structure business segment, and ¥3 million (\$30 thousand) in the Other business segment, respectively, that it would have been with the previous accounting method.

4. As disclosed in Note 2(h), from the year ended March 31, 2008, the Company and its consolidated subsidiaries depreciate the residual amount of tangible fixed assets acquired on or before March 31, 2007 by the straight-line method over 5 years from the last year of their regular depreciation period. As a result, operating loss for the year ended March 31, 2008 was

¥46 million (\$460 thousand) more in the Transportation Equipment business segment, ¥34 million (\$340 thousand) in the Construction Equipment business segment, ¥21 million (\$210 thousand) in the Steel Structure business segment, and ¥22 million (\$220 thousand) in the Other business segment, respectively, that it would have been with the previous accounting method.

(Changes in segment classification)

As the Company established the “Engineering Division” through the integration of the “Plant Engineering Division” and the “Engineering Department” as of October 1, 2006, the Company changed the industry segment of the “Engineering Division,” which manufactures products such as wheelchair stair lifts or railway rolling stock inspection/maintenance systems, from the “Transportation Equipment” segment to the “Other” segment from the year ended March 31, 2007. This change had no material effect on segment information.

Machinery for Paper Mills was moved from the Industrial and Electrical Equipment Division to the Engineering Division on April 1, 2007. Accordingly, the segment information related to Machinery for Paper Mills, which was included in the “Construction Equipment” segment up until the year ended March 31, 2007, is included in the “Other” segment from the year ended March 31, 2008. Below is a presentation of business segment information for the year ended March 31, 2007 as it would be if the business segment classification method of the current year had been applied.

	Transportation Equipment	Construction Equipment	Steel Structure	Other	Total	Corporate or elimination	Consolidated
Millions of yen							
For the year 2007:							
Net sales:							
External customers	¥ 50,603	¥ 17,155	¥ 9,056	¥ 10,740	¥ 87,554	¥ -	¥ 87,554
Intersegment sales	324	0	-	1,437	1,761	(1,761)	-
Total net sales	50,927	17,155	9,056	12,177	89,315	(1,761)	87,554
Operating costs and expenses	48,591	15,325	9,986	11,845	85,747	321	86,068
Operating income (loss)	¥ 2,336	¥ 1,830	¥ (930)	¥ 332	¥ 3,568	¥ (2,082)	¥ 1,486
Identifiable assets	¥ 57,406	¥ 17,622	¥ 15,152	¥ 14,254	¥ 104,434	¥ 39,344	¥ 143,778
Depreciation	809	284	238	134	1,465	215	1,680
Loss on impairment of fixed assets	-	-	-	135	135	7	142
Capital expenditures	1,210	274	146	77	1,707	96	1,803

### (2) Geographic segment information

Information summarized by geographic area for the years ended March 31, 2008 and 2007 was not shown here, as the operating income and employed assets of the “Japan” segment exceeded 90% of those of all segments combined.

### (3) Overseas sales information

Overseas sales (export sales from Japan) for the years ended March 31, 2008 and 2007 was summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Overseas sales:			
Asia	¥ 9,178	¥ 10,245	\$ 91,780
North America	1,568	2,180	15,680
Other area	222	1,105	2,220
Total	¥ 10,968	¥ 13,530	\$ 109,680
Consolidated net sales	¥ 91,937	¥ 87,554	\$ 919,370
Percentage of overseas sales to total consolidated net sales	11.9%	15.4%	11.9%

### 18. Subsequent Events

On April 1, 2008, the Company completed the merger with NISSHA CONSTRUCTION CO., LTD., which was a 100% subsidiary of the Company.

Also, the Company has announced the dissolution of NISSHA KOGYO CO., LTD., a member of the consolidated group, as of June 30, 2008.

The effect of these reorganizations to the Company’s consolidated statement of earnings is estimated to be immaterial.

# Corporate Information

## Corporate Profile

**Company Name: Nippon Sharyo, Ltd.**

## Corporate History

### Capital Stock

Common Stock:Authorized	328,000,000 shares
Common Stock:Issued	146,750,129 shares
Number of Shareholders	1,698 persons (March 31, 2008)

Sep. 1896	Established in Nagoya City.
Jun. 1938	Founded Narumi Plant.
May 1949	Re-listed on Tokyo Security Exchange.
Jun. 1959	Began Construction Machinery Business.
Oct. 1961	Started Bridge Manufacturing.
Jul. 1964	Founded Toyokawa Plant.
Jun. 1975	Founded Kinuura Plant.
May 1983	Closed Nagoya Plant.
Sep. 1996	100th Anniversary.
Feb. 2002	Manufactured 2000th Shinkansen EMU.

## Line of Business

Overview of the Main Segments

Nippon Sharyo manufactures and sells the following products:

Business segment	Lines of business
Railway rolling stock and other transportation equipment	EMUs, Railway Motor Cars, Passenger Cars, Linear Motor Cars, Freight Cars, Locomotives, Track Maintenance Machines, Rolling Stock Components, Tank Trucks and Tank Trailers, Storage Tanks, Heavy-duty Industrial Vehicles, Containers, Automated Guideway Transit Systems, Automated Guided Vehicles
Construction equipment	Pile Driving Rigs, Crawler Cranes, Hydraulic Hammers, Casing Rotators, Other Products Related to Foundation Work, Portable Diesel Generator Sets, Emergency Generators, Various Products Related to Electric Machines
Steel structure	Roadway Bridges, Railway Bridges, Water Gates
Others	Agricultural Plants, Grain Complex, Seed Processing Plants, Composting Plants, Carbonization Facility, Railway Rolling Stock Inspection/Maintenance System, Pulp and Paper Plants, Real Estate Rental, Cast Steel Products, Forged Products, Golf Course Operations

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### PLANT

#### TOYOKAWA PLANT

(Railway rolling stock & other transportation equipment)

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#### NARUMI PLANT

(Construction equipment)

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#### KINUURA PLANT

(Steel structure)

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