Annual Business Report

April 1, 2016 through March 31, 2017

日本車両

NIPPON SHARYO, LTD.

Financial Highlights

Comparison of Sales by Segment

(Unit: millions of yen)

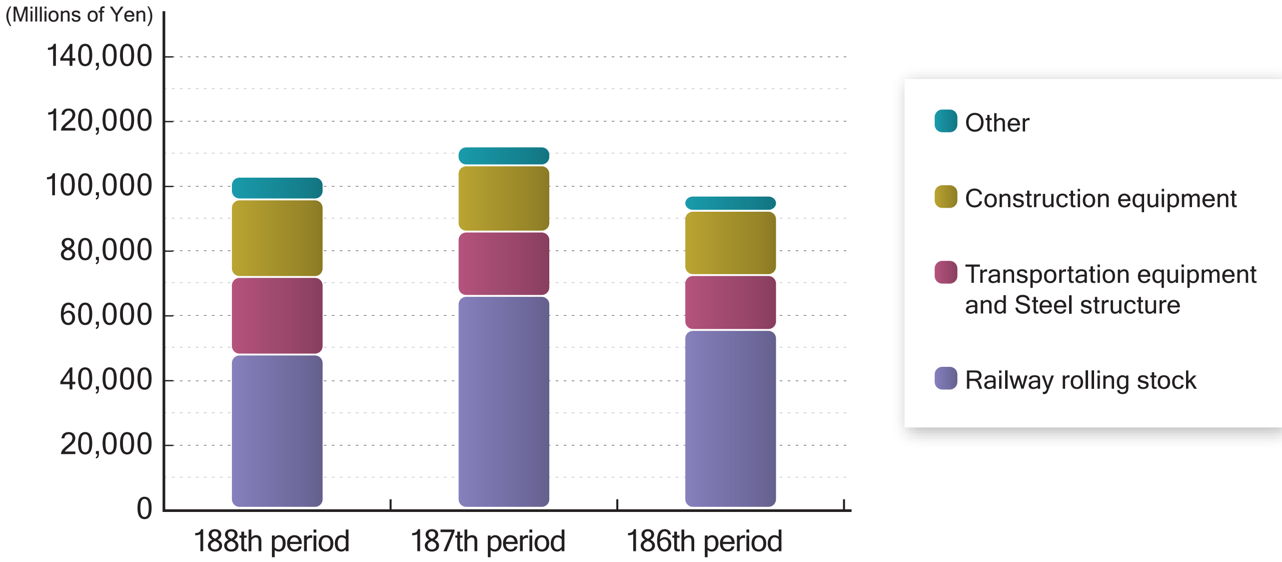
Business Segment	188th period (2016-2017)		187th period (2015-2016)		Increase/(Decrease)	
Railway rolling stock	48,554	48.0%	65,858	59.3%	(17,304)	(26.3)%
Transportation equipment and Steel structure	21,983	21.8	19,068	17.2	2,915	15.3
Construction equipment	22,420	22.2	21,138	19.0	1,282	6.1
Other	8,137	8.0	4,943	4.5	3,194	64.6
Total	101,094	100.0	111,007	100.0	(9,913)	(8.9)

Change in Operating Performance and Asset Status

(Unit: millions of yen except Net income per share)

Titles of account	188th period (2016-2017)	187th period (2015-2016)	186th period (2014-2015)
Net sales	101,094	111,007	96,299
Ordinary income (loss)	(5,149)	(10,174)	(8,234)
Net income (loss) attributable to owners of the parent	(5,124)	(16,130)	(14,568)
Net income per share (loss)	(¥35.50)	(¥111.74)	(¥100.91)
Total assets	129,194	132,265	145,137
Total equity	28,109	33,384	51,461

Comparison of Sales by Segment



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N700A Shinkansen Super-express E.M.U

Message from the President

Review of Business Operations

During the fiscal term under review, the Japanese economy showed improvement in employment as a result of various economic policies and continued to recover as overseas economies showed moderate levels of recovery although production and exports were sluggish due to the influence of the economic slowdown of emerging nations.

Under this business environment, our performance showed a decrease in sales of railway rolling stock, totaling ¥101,094 million, down 8.9% from the previous year. In terms of profits, we made provisions for losses from some overseas railway rolling stock projects. As a result, the operating loss was ¥5,104 million (the operating loss in the previous year was ¥10,172 million) and the ordinary loss was ¥5,149 million (the ordinary loss in the previous year was ¥10,174 million), and the net loss attributable to owners of the parent was ¥5,124 million (the net loss in the previous year was ¥16,130 million).

The Outlook

In the railway rolling stock business, the overall trend in the domestic market suggests that the mid- to long-term market expansion will remain poor and demands will mainly come from replacement demands of existing railcars, thus the business environment is presumed to remain challenging. In such a situation, we will continue to make efforts to enhance a competitive edge by differentiating ourselves from competitors through technological developments as well as cost reductions through improvements in efficiency of production processes, etc. In terms of Asian markets, we will make efforts in keeping losses in check by reviewing project execution structures in the large railway rolling stock project for Indonesia. As for our North American business especially for the large railway rolling stock project for the U.S.A. which makes a huge loss, we have consistent approach to implement the project stably and consistently by taking actions such as assigning dedicated personnel in the design department. However, we were faced with technical challenges while responding to design changes and we offered the customer about the difficulty to execute this project as planned and currently in negotiation with them. We will continue to discuss with the customer to decide upon a direction to properly carry out this project. We are working toward early resolution of these issues and improvement of performance.

In the transportation equipment and steel structure business, the transportation equipment business is facing difficulties in winning orders. We will, however, continue to make efforts in developing products which promptly capture market trends, further reducing costs in order to secure orders, and develop new customers. Our efforts in the steel structure business will be focused on enhancing our ability to propose technological solutions that match customer needs and reducing costs in terms of orders of new bridges. As we continue to secure incoming orders, we will also develop our business in peripheral areas such as repair/maintenance projects.

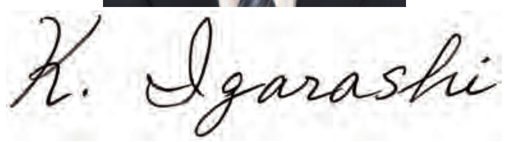
In the construction equipment business, we will capture business opportunities by maintaining and consolidating the production system to respond to steadily growing domestic demands and responding to local needs in Asia and other overseas markets in a flexible manner.

In other businesses, we will make efforts in securing profits by proposing products that cater to market needs.

Our major products - such as railcars and bridges - are mostly built to order and order units are also relatively large; therefore, the breakdown of the production and sales numbers changes greatly from year to year. This fluctuation poses permanent challenges to us; we must level the capacity utilization rate and effectively handle various specifications. Most of our projects require a long period of time from order to delivery, which greatly affects management performance because of changes in raw material costs and fluctuations in foreign exchange rates. We will make efforts to curtail cost increases by taking measures such as optimization of raw material procurement timing, yield increase, and material changes. We will also make efforts to reduce risks against foreign exchange fluctuation by hedging, such as foreign exchange contracts.

We anticipates a loss in the large railway rolling stock project for Indonesia,, as well as a loss associated with railcars delivered to compensate for the option rights attached to the railway rolling stock project in the U.S.A. In another large railway rolling stock project in the U.S.A., a further increase in manufacturing cost is expected due to the review of the design of the basic vehicle structure. We rationally calculated these losses and recorded a provision in this consolidated fiscal year. As a result, an operating loss was recorded for three consecutive years.

Considering these circumstances, we are well aware of events and situations which may raise significant doubt concerning the ongoing viability of our company. In such a circumstance with issues in each business segment requiring resolution, we will make efforts to enhance the profitability not only by aiming at improvement of our overseas business but also by promoting a further reduction of the raw material costs and expenses and trying to increase sales in the domestic business. As for financial arrangements, we participate in the CMS (Cash Management System) operated by our parent company (Central Japan Railway Company (hereinafter called as "JR Central")) group and can raise operating funds promptly from CMS, thanks to a strong coordination with the parent company. Therefore, we are able to secure funds which can sufficiently meet demands anticipated from the funding plan. In addition, factory assets were transferred to the parent company and some non-business assets were transferred to some domestic businesses as of the end of the consolidated fiscal year. Proceeds from these transactions were used to repay, in advance, the full amount of long-term loans remaining with financial institutions as of the end of this consolidated fiscal year. We are making these efforts to optimize the management resources and improve the financial health of our company. As we are taking measures to resolve issues and improve the situation, we consider that there is no critical uncertainty for any going concern.



Kazuhiro Igarashi
President and Chief Executive Officer

Review by Segment

Railway Rolling Stock Business

N700A Shinkansen trains for JR Central and JR West

In the railway rolling stock business, our sales to the JR Companies amounted to ¥21,822 million. It was achieved through the sales of the N700A Shinkansen trains to JR Central and West Japan Railway Company. Our sales for the public and private railways reached ¥12,478 million, including the sales of the Series 1000 trains for Tokyo Metro Ginza Line; the Model N3000 trains for Nagoya City's Transportation Bureau; the Series 2200, 3150, and 3300 trains for Nagoya Railroad Co., Ltd.; the Model 12-600 trains for the Oedo Line of the Bureau of Transportation Tokyo Metropolitan Government; the Model 3000 trains for Transportation Bureau, City of Yokohama; and the Model 3000 trains for Keisei Electric Railway Co., Ltd. For railcars for overseas, we had sales of ¥14,254 million, including Gallery type EMU and passenger cars for the U.S.A. and diesel cars for the U.S.A.

Series 2200 Trains for Nagoya Railroad Co., Ltd.

Consequently, our total sales for railway rolling stock recorded ¥48,554 million, down 26.3% from the previous year, with a reduction in railcars for overseas.

Series 1000 trains for Tokyo Metro Ginza Line

Transportation Equipment and Steel Structure Business

In the transportation equipment business, sales of container freight cars increased and sales of LPG tank lorries are steadily in good shape. As a result, sales reached ¥13,379 million, up 26.8% from the previous year.

LPG Tank Lorry

In the steel structure business, sales included new bridge construction work of Hakuryu Ohashi Bridge for the East Nippon Expressway Company, Fukushigawa Second Bridge for the Central Nippon Expressway Company, as well as construction work of Tokiwagawa Overpass, and Fujigawa First Overpass. In addition, large-scale renovation work for the Tokaido Shinkansen is included in sales and sales were up 1.0% from the previous year to ¥8,605 million.

Sasashima live 24 East-West Deck

In all, sales for the transportation equipment and steel structure businesses were ¥21,983 million, up 15.3% from the previous year.

Construction Equipment Business

In the construction equipment business, the domestic sales in large pile driving rigs showed an increase, due to reconstruction works arise from the Great East Japan Earthquake and demands in public works in anticipation of the Tokyo Olympic Games. The export business included large pile driving rigs to South Korea. As a result, the sales of construction equipment totaled ¥19,282 million, up 9.2% from the previous year.

Pile driving rig

The generator business saw an increase in sales of domestic products although sales of overseas products were sluggish. The sales of generators were ¥3,138 million, down 9.7% from the previous year.

In all, sales in our construction equipment business were ¥22,420 million, up 6.1% from the previous year.

Generator

Other Businesses

Grinding device for the Front Nose

Our main sales included; mechanical equipment for the Superconducting Maglev system for JR Central; vehicle inspection/repair facilities; repair work of agricultural plants for Agricultural Cooperatives all over Japan; paper-manufacturing equipment for household paper manufacturers; laser processing machines; and railway memorabilia. As a result, sales in other businesses areas totaled ¥8,137 million, up 64.6% from the previous year thanks to an increase in vehicle inspection/repair facilities.

The overseas sales for the year under review amount to ¥18,801 million, representing 18.6% of total sales, which includes ¥14,254 million for the railway rolling stock business and ¥4,168 million for the construction equipment business.
The order on hand at the end of the year under review reached ¥156,877 million. These comprised ¥125,500 million for the railway rolling stock business (¥54,838 million for rolling stock for JR companies such as the N700A Shinkansen trains, ¥19,205 million for railcars for other public and private railway companies, ¥51,456 million for rolling stock for overseas), ¥25,959 million for the transportation equipment and steel structure businesses (¥10,917 million for the transportation equipment, ¥15,042 million for steel structure businesses), ¥2,575 million for the construction equipment business, and ¥2,843 million for other businesses.

Investment in Plant and Equipment

Plant and equipment investment during the year under review totaled ¥2,362 million. Investment was mainly targeted at renewal of IT systems to streamline production control for the construction equipment business and renewal of equipment to maintain/improve the production capacity at each plant.

Financing Activities

As for the year under review, no significant borrowing occurred.

NIPPON SHARYO, LTD. AND
CONSOLIDATED SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2017
AND
INDEPENDENT AUDITOR'S REPORT

Deloitte.

Deloitte Touche Tohmatsu LLC
JP TOWER NAGOYA
1-1-1 Meieki, Nakamura-ku
Nagoya, Aichi 450-8530
Japan

Tel:+81 (52) 565 5511
Fax:+81 (52) 569 1394
www.deloitte.com/jp/en

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying consolidated balance sheet of NIPPON SHARYO, LTD. (the "Company") and its consolidated subsidiaries as of March 31, 2017, and the related consolidated statements of operations, comprehensive income, changes in equity, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of NIPPON SHARYO, LTD. and its consolidated subsidiaries as of March 31, 2017, and the consolidated results of their operations and their cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

Deloitte.

Deloitte Touche Tohmatsu LLC
JP TOWER NAGOYA
1-1-1 Meieki, Nakamura-ku
Nagoya, Aichi 450-8530
Japan

Tel:+81 (52) 565 5511
Fax:+81 (52) 569 1394
www.deloitte.com/jp/en

Emphasis of Matter

As discussed in Note 2 n. to the consolidated financial statements, the Company had difficulty in the execution of a large railway rolling stock project in the United States of America as scheduled to a customer. Depending on the result of the current discussion with the customer about the direction of future project execution, the amount of loss could vary.

As discussed in Note 19 (transfer of fixed assets) to the consolidated financial statements, the Company sold its factory assets to its parent company, Central Japan Railway Company on April 20, 2017 and its non-business use assets to domestic private-sector companies on April 27, 2017 and May 29, 2017.

As discussed in Note 19 (early redemption of long-term debt) to the consolidated financial statements, the Company early redeemed its long-term debt from financial institutions on April 20, 2017 in full of the carrying amount as of March 31, 2017. Accordingly, all collaterals pledged for long-term debt as of March 31, 2017 were released, and no debt is subject to financial covenants.

Our opinion is not modified in respect of these matters.

Convenience Translation

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

Deloitte Touche Tohmatsu LLC

June 29, 2017

NIPPON SHARYO, LTD. and Consolidated Subsidiaries
Consolidated Balance Sheet
March 31, 2017

ASSETS	Millions of Yen 2017	Millions of Yen 2016	Thousands of U.S. Dollars (Note 1) 2017
CURRENT ASSETS:			
Cash and cash equivalents (Notes 14 and 17)	¥ 11,713	¥ 13,247	$ 104,584
Notes and accounts receivable (Notes 3, 14 and 17)	31,361	21,220	280,010
Inventories (Notes 2.i and 4)	30,097	40,305	268,720
Deferred tax assets (Note 13)	60	80	536
Other current assets (Note 9)	1,824	2,169	16,280
Total current assets	75,055	77,021	670,130
PROPERTY, PLANT AND EQUIPMENT:			
Land (Note 9)	15,065	15,089	134,508
Buildings and structures (Note 9)	27,622	28,042	246,627
Machinery and equipment	35,018	34,850	312,664
Construction in progress	171	109	1,525
Total	77,876	78,090	695,324
Accumulated depreciation	(47,887)	(46,817)	(427,563)
Net property, plant, and equipment	29,989	31,273	267,761
INVESTMENTS AND OTHER ASSETS:			
Investment securities (Notes 5, 9 and 14)	16,765	16,975	149,689
Investments in an unconsolidated subsidiary and associated companies	1,661	1,511	14,831
Asset for employees' retirement benefits (Note 8)	4,082	3,982	36,449
Deferred tax assets (Note 13)	86	91	768
Other assets (Note 9)	1,556	1,412	13,889
Total investments and other assets	24,150	23,971	215,626
TOTAL	¥ 129,194	¥ 132,265	$ 1,153,517

(Continued)

NIPPON SHARYO, LTD. and Consolidated Subsidiaries
Consolidated Balance Sheet
March 31, 2017

LIABILITIES AND EQUITY	Millions of Yen 2017	Millions of Yen 2016	Thousands of U.S. Dollars (Note 1) 2017
CURRENT LIABILITIES:			
Short-term borrowings (Notes 7, 14 and 17)	¥ 1,595	¥ 362	$ 14,241
Current portion of long-term debt (Notes 7, 9 and 14)	5,000	-	44,643
Current portion of lease obligations (Notes 11 and 14)	825	770	7,366
Notes and accounts payable (Notes 6 and 14)	23,003	22,473	205,387
Accrued expenses	9,708	9,988	86,676
Advances received	10,191	15,602	90,990
Income taxes payable (Note 14)	565	50	5,045
Allowance for work in process on construction contracts	430	117	3,842
Provision for loss on orders received (Note 2.n)	16,606	13,679	148,265
Other current liabilities (Note 13)	2,456	257	21,934
Total current liabilities	70,379	63,298	628,389
LONG-TERM LIABILITIES:			
Long-term debt (Notes 7,9 and 14)	19,174	24,174	171,193
Liability for employees' retirement benefits (Note 8)	259	242	2,310
Lease obligations (Notes 11 and 14)	1,764	1,600	15,754
Allowance for PCB disposal expenses	461	334	4,116
Provision for compensation for health damage from asbestos	92	134	821
Deferred tax liabilities (Note 13)	8,680	8,746	77,502
Other long-term liabilities	276	353	2,463
Total long-term liabilities	30,706	35,583	274,159
COMMITMENTS AND CONTINGENT LIABILITIES (Notes 10 and 15)			
EQUITY (Note 12):			
Common stock, authorized, 328,000,000 shares; issued, 146,750,129 shares in 2017 and 2016	11,811	11,811	105,453
Capital surplus	12,045	12,045	107,555
Retained earnings	(3,157)	1,967	(28,201)
Treasury stock, at cost, 2,402,654 shares in 2017 and 2,396,024 shares in 2016	(515)	(513)	(4,597)
Accumulated other comprehensive income:			
Unrealized gain on available-for-sale securities	6,905	7,013	61,654
Deferred gain (loss) on derivatives under hedge accounting	5	(2)	48
Foreign currency translation adjustments	(2,068)	(2,261)	(18,472)
Defined retirement benefit plans	2,993	3,241	26,723
Total accumulated other comprehensive income	7,835	7,991	69,953
Noncontrolling interests	90	83	806
Total equity	28,109	33,384	250,969
TOTAL	¥ 129,194	¥ 132,265	$ 1,153,517

(Concluded)

See notes to consolidated financial statements.

NIPPON SHARYO, LTD. and Consolidated Subsidiaries
Consolidated Statement of Operations
Year Ended March 31, 2017

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2017	2016	2017
NET SALES (Note 17)	¥ 101,094	¥ 111,007	$ 902,622
COST OF SALES (Notes 2.i, 2.m and 2.u)	98,501	114,067	879,470
Gross profit (loss)	2,593	(3,060)	23,152
SELLING, GENERAL, AND ADMINISTRATIVE EXPENSES (Note 2.u)	7,697	7,112	68,725
Operating loss	(5,104)	(10,172)	(45,573)
OTHER INCOME (EXPENSES)			
Interest and dividend income (Note 17)	265	344	2,370
Interest expense (Note 17)	(178)	(189)	(1,588)
Equity in earnings of associated companies	150	188	1,338
Gain on sales of investment securities, net (Note 5)	23	2	207
Loss on impairment of property, plant and equipment (Note 16)	(2)	(50)	(20)
Gain (loss) on sales and disposals of property, plant and equipment, net	603	(30)	5,382
Other – net	(291)	(347)	(2,601)
Other income (expenses) – net	570	(82)	5,088
LOSS BEFORE INCOME TAXES	(4,534)	(10,254)	(40,485)
INCOME TAXES (Note 13):			
Current	450	117	4,016
Deferred	130	5,750	1,162
Total income taxes	580	5,867	5,178
NET LOSS	(5,114)	(16,121)	(45,663)
NET INCOME ATTRIBUTABLE TO NONCONTROLLING INTERESTS	10	9	93
NET LOSS ATTRIBUTABLE TO OWNERS OF THE PARENT	¥ (5,124)	¥ (16,130)	$ (45,756)

	Yen		U.S. Dollars
PER SHARE OF COMMON STOCK (Note 2.v):			
Basic net loss	¥ (35.50)	¥ (111.74)	$ (0.32)
Cash dividends applicable to the year	-	-	-

See notes to consolidated financial statements.

NIPPON SHARYO, LTD. and Consolidated Subsidiaries
Consolidated Statement of Comprehensive Income
Year Ended March 31, 2017

	Millions of Yen				Thousands of U.S. Dollars (Note 1)	
	2017		2016		2017	
NET LOSS	¥	(5,114)	¥	(16,121)	$	(45,663)
OTHER COMPREHENSIVE LOSS (Note 18):						
Unrealized loss on available-for-sale securities		(124)		(477)		(1,106)
Deferred gain on derivatives under hedge accounting		2		42		23
Foreign currency translation adjustments		202		(133)		1,803
Defined retirement benefit plans		(248)		(1,467)		(2,218)
Share of other comprehensive income in associated companies		12		33		103
Total other comprehensive loss		(156)		(2,002)		(1,395)
COMPREHENSIVE LOSS	¥	(5,270)	¥	(18,123)	$	(47,058)
TOTAL COMPREHENSIVE (LOSS) INCOME ATTRIBUTABLE TO:						
Owners of the parent	¥	(5,280)	¥	(18,132)	$	(47,151)
Noncontrolling interests		10		9		93

See notes to consolidated financial statements.

NIPPON SHARYO, LTD. and Consolidated Subsidiaries
Consolidated Statement of Changes in Equity
Year Ended March 31, 2017

	Number of shares of common stock outstanding	Millions of Yen							
		Common stock		Capital surplus		Retained earnings		Treasury stock	
BALANCE, APRIL 1, 2015	144,361,501	¥	11,811	¥	12,045	¥	18,049	¥	(511)
Net loss attributable to owners of the parent	-		-		-		(16,130)		-
Increase in treasury stock, net	(7,396)		-		-		-		(2)
Change due to increase in number of associated companies	-		-		-		48		-
Net changes in the year	-		-		-		-		-
BALANCE, MARCH 31, 2016	144,354,105		11,811		12,045		1,967		(513)
Net loss attributable to owners of the parent	-		-		-		(5,124)		-
Increase in treasury stock, net	(6,630)		-		-		-		(2)
Net changes in the year	-		-		-		-		-
BALANCE, MARCH 31, 2017	144,347,475	¥	11,811	¥	12,045	¥	(3,157)	¥	(515)

	Thousands of U.S. Dollars (Note 1)							
	Common stock		Capital surplus		Retained earnings		Treasury stock	
BALANCE, MARCH 31, 2016	$	105,453	$	107,555	$	17,555	$	(4,582)
Net loss attributable to owners of the parent		-		-		(45,756)		-
Increase in treasury stock, net		-		-		-		(15)
Net changes in the year		-		-		-		-
BALANCE, MARCH 31, 2017	$	105,453	$	107,555	$	(28,201)	$	(4,597)

See notes to consolidated financial statements.

Millions of Yen						
Accumulated other comprehensive income						
Unrealized gain on available-for-sale securities	Deferred gain (loss) on derivatives under hedge accounting	Foreign currency translation adjustments	Defined retirement benefit plans	Total accumulated other comprehensive income	Noncontrolling interests	Total equity
¥ 7,486	¥ (47)	¥ (2,155)	¥ 4,709	¥ 9,993	¥ 74	¥ 51,461
-	-	-	-	-	-	(16,130)
-	-	-	-	-	-	(2)
-	(45)	56	-	11	-	59
(473)	90	(162)	(1,468)	(2,013)	9	(2,004)
7,013	(2)	(2,261)	3,241	7,991	83	33,384
-	-	-	-	-	-	(5,124)
-	-	-	-	-	-	(2)
(108)	7	193	(248)	(156)	7	(149)
¥ 6,905	¥ 5	¥ (2,068)	¥ 2,993	¥ 7,835	¥ 90	¥ 28,109

Thousands of U.S. Dollars (Note 1)						
Accumulated other comprehensive income						
Unrealized gain on available-for-sale securities	Deferred gain (loss) on derivatives under hedge accounting	Foreign currency translation adjustments	Defined retirement benefit plans	Total accumulated other comprehensive income	Noncontrolling interests	Total equity
$ 62,614	$ (18)	$ (20,190)	$ 28,941	$ 71,347	$ 738	$ 298,066
-	-	-	-	-	-	(45,756)
-	-	-	-	-	-	(15)
(960)	66	(1,718)	(2,218)	(1,394)	68	(1,326)
$ 61,654	$ 48	$ (18,472)	$ 26,723	$ 69,953	$ 806	$ 250,969

NIPPON SHARYO, LTD. and Consolidated Subsidiaries
Consolidated Statement of Cash Flows
Year Ended March 31, 2017

	Millions of Yen		Thousands of U.S. Dollars(Note 1)
	2017	2016	2017
OPERATING ACTIVITIES:			
Loss before income taxes	¥ (4,534)	¥ (10,254)	$ (40,485)
Adjustments for:			
Income taxes-refund (paid)	423	(333)	3,777
Depreciation	2,730	2,888	24,377
Loss on impairment of property, plant and equipment	2	50	20
(Gain) loss on sales and disposals of property, plant and equipment	(623)	4	(5,561)
Gain on sales of investment securities	(23)	(2)	(207)
Changes in assets and liabilities:			
(Increase) decrease in trade notes and accounts receivable	(10,685)	8,599	(95,404)
Decrease in inventories	9,064	7,974	80,930
Increase in trade notes and accounts payable	659	116	5,885
Increase in allowance for work in process on construction contracts	314	108	2,800
Increase in provision for loss on orders received	3,638	4,113	32,479
Decrease in provision for compensation for health damage from asbestos	(42)	(15)	(375)
Decrease in advances received	(4,547)	(13,215)	(40,599)
Increase in liability for employees’ retirement benefits	17	13	153
Other-net	1,269	2,288	11,331
Net cash (used in) provided by operating activities	(2,338)	2,334	(20,879)
INVESTING ACTIVITIES:			
Purchases of property, plant and equipment	(1,077)	(1,704)	(9,620)
Proceeds from sales of property, plant and equipment	898	86	8,013
Purchases of investment securities	(4)	(15)	(32)
Proceeds from sales of investment securities	34	2	302
Other-net	(405)	14	(3,606)
Net cash used in investing activities	(554)	(1,617)	(4,943)
FINANCING ACTIVITIES:			
Net increase (decrease) in short-term borrowings	1,268	(9,618)	11,326
Proceeds from long-term debt	-	19,174	-
Dividends paid	(0)	(1)	(4)
Other-net	(93)	(86)	(829)
Net cash provided by financing activities	1,175	9,469	10,493
FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS	183	(120)	1,635
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(1,534)	10,066	(13,694)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	13,247	3,181	118,277
CASH AND CASH EQUIVALENTS, END OF YEAR	¥ 11,713	¥ 13,247	$ 104,584

See notes to consolidated financial statements.

1. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS

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

In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan. In addition, certain reclassifications have been made in the 2016 consolidated financial statements to conform to the classifications used in 2017.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which NIPPON SHARYO, LTD. (the "Company") is incorporated and operates. The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been made at the rate of ¥112 to $1, the approximate rate of exchange at March 31, 2017. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Consolidation

The consolidated financial statements as of March 31, 2017, include the accounts of the Company and its significant subsidiaries (together, the "Group"). Under the control and influence concepts, those companies in which the Company, directly or indirectly, is able to exercise control over operations are fully consolidated and those companies over which the Group has the ability to exercise significant influence are accounted for by the equity method.

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

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

The number of the consolidated subsidiaries, unconsolidated subsidiary, and associated companies for the years ended March 31, 2017 and 2016, was as follows:

	2017	2016
Consolidated subsidiaries	6	6
Unconsolidated subsidiary stated at cost	1	1
Associated companies accounted for by the equity method	3	3
Associated company stated at cost	1	1

The fiscal year-end of NIPPON SHARYO U.S.A., INC. and its subsidiaries, NIPPON SHARYO MANUFACTURING, LLC, and NIPPON SHARYO ENGINEERING & MARKETING, LLC is December 31 and their financial statements with the closest closing date prior to that of the Company are used for consolidation purposes. Necessary adjustments for significant transactions from January 1 to March 31 are made for consolidation purposes.

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

b. Unification of accounting policies applied to foreign subsidiaries for the consolidated financial statements

Under Accounting Standards Board of Japan ("ASBJ") Practical Issues Task Force ("PITF") No. 18, "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements," the accounting policies and procedures applied to a parent company and its subsidiaries for similar transactions and events under similar circumstances should, in principle, be unified for the preparation of the consolidated financial statements. However, financial statements prepared by foreign subsidiaries in accordance with either IFRS or generally accepted accounting principles in the United States of America (Financial Accounting Standards Board Accounting Standards Codification-"FASB ASC") tentatively may be used for the consolidation process, except for the following items that should be adjusted in the consolidation process so that net income is accounted for in accordance with Japanese GAAP, unless they are not material: (a) amortization of goodwill; (b) scheduled amortization of actuarial gain or loss of pensions that has been recorded in equity through other comprehensive income; (c) expensing capitalized development costs of research and development (R&D); and (d) cancellation of the fair value model of accounting for property, plant and equipment and investment properties and incorporation of the cost model accounting.

c. Unification of accounting policies applied to associated companies for the equity method
ASBJ Statement No. 16, "Accounting Standard for Equity Method of Accounting for Investments," requires adjustments to be made to conform the associate's accounting policies for similar transactions and events under similar circumstances to those of the parent company when the associate's financial statements are used in applying the equity method, unless it is impracticable to determine adjustments.

d. Business combinations
Business combinations are accounted for using the purchase method. Acquisition-related costs, such as advisory fees or professional fees, are accounted for as expenses in the periods in which the costs are incurred. If the initial accounting for a business combination is incomplete by the end of the reporting period in which the business combination occurs, an acquirer shall report in its financial statements provisional amounts for the items for which the accounting is incomplete. During the measurement period, which shall not exceed one year from the acquisition, the acquirer shall retrospectively adjust the provisional amounts recognized at the acquisition date to reflect new information obtained about facts and circumstances that existed as of the acquisition date and that would have affected the measurement of the amounts recognized as of that date. Such adjustments shall be recognized as if the accounting for the business combination had been completed at the acquisition date. A parent's ownership interest in a subsidiary might change if the parent purchases or sells ownership interests in its subsidiary. The carrying amount of noncontrolling interest is adjusted to reflect the change in the parent's ownership interest in its subsidiary while the parent retains its controlling interest in its subsidiary. Any difference between the fair value of the consideration received or paid and the amount by which the noncontrolling interest is adjusted is accounted for as capital surplus as long as the parent retains control over its subsidiary.

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

Cash equivalents include time deposits and Cash Management System ("CMS") funds due from Central Japan Railway Company ("CJR") group, all of which mature or become due within three months from the date of acquisition. CJR is the parent company of the Company.

f. Investment securities
Investment securities are classified and accounted for, depending on management's intent, as follows:

Available-for-sale securities are reported at fair value, with unrealized gains and losses, net of applicable taxes, reported in a separate component of equity.

Nonmarketable available-for-sale securities are stated at cost determined by the moving-average method. For other-than-temporary declines in fair value, investment securities are reduced to net realizable value by a charge to income.

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

Derivative financial instruments and foreign currency transactions are classified and accounted for as follows: 1) all derivatives are recognized as either assets or liabilities and measured at fair value and gains and losses on derivative transactions are recognized in the consolidated statement of operations and 2) for derivatives used for hedging purposes, if such derivatives qualify for hedge accounting because of high correlation and effectiveness between the hedging instruments and the hedged items, gains and losses on derivatives are deferred until maturity of the hedged transactions.

The forward foreign currency contracts are utilized to hedge foreign currency exposures in sales of merchandise and finished goods to overseas customers and procurement of raw materials from overseas suppliers. Trade receivables and payables denominated in foreign currencies are translated at the contracted rates if the forward contracts qualify for hedge accounting. The currency swaps are utilized to hedge foreign currency exposures in long-term debt. Long-term debt is translated at the contracted rates if the currency swaps qualify for hedge accounting.

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

h. Allowance for doubtful accounts
An 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 is calculated based on the historical loss experience.

i. Inventories
Inventories are stated at the lower of cost, determined principally by the specific identification method for merchandise, finished goods and work in process and by the moving-average method for semi-finished goods, raw materials, and supplies, or net selling value, which is defined as the selling price, less additional estimated manufacturing costs and estimated direct selling expenses. The replacement cost may be used in place of the net selling value, if appropriate. Write-downs of inventories in the amounts of ¥3,684 million ($32,889 thousand) and ¥3,427 million for the years ended March 31, 2017 and

2016, respectively, were included in cost of sales.

j. Property, plant and equipment

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 building improvements and structures acquired on or after April 1, 2016, and by the declining-balance method for other property at rates based on the estimated useful lives of the assets.

Depreciation of leased assets relating to financial lease transactions without transfer of ownership is computed by the straight-line method over the leased period.

The range of useful lives is principally from 10 to 60 years for buildings and structures and from six to 17 years for machinery and equipment.

Pursuant to an amendment to the Corporate Tax Act, the Group adopted ASBJ PITF Force No. 32 "Practical Solution on a change in depreciation method due to Tax Reform 2016" and changed the depreciation method for building improvements and structures acquired on or after April 1, 2016 from the declining-balance method to the straight-line method.

The effect of this change on profit/loss for the fiscal year ended March 31, 2017 is immaterial.

k. Long-lived assets

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

l. Intangible assets

Intangible assets that are included in other assets are amortized by the straight-line method. Software costs are amortized over five years.

m. Allowance for work in process on construction contracts

An allowance for work in process on construction contracts is provided based on an estimate of the total loss in respect to construction projects on which eventual losses are deemed inevitable and the amounts of the loss can be reasonably estimated. Provisions for work in process on construction contracts in the amounts of ¥314 million ($2,800 thousand) and ¥108 million for the years ended March 31, 2017 and 2016, respectively, were included in cost of sales.

n. Provision for loss on orders received

A provision for loss on orders received, except for construction contracts, is recorded based on an estimate of the total loss in respect to contracts on which eventual losses are deemed inevitable and the amounts of the loss can be reasonably estimated.

With regard to the order received amounting to ¥38,661 million ($345,184 thousand) for a large railway rolling stock project, a loss of ¥22,777 million ($203,363 thousand) was reasonably estimated as of March 31, 2017, of which an amount of ¥10,404 million ($92,893 thousand) was recognized as a provision for loss on orders received after offsetting with the inventories associated with the respective project in the amount of ¥12,373 million ($110,470 thousand). Technological problems to respond to design changes caused the difficulty in the scheduled execution of the project. Depending on the result of the current discussion with the customer about the direction of the future project execution, the amount of loss could vary.

o. Retirement and pension plans

The Company has a lump-sum retirement benefit plan, a defined contribution pension plan and a defined benefit pension plan. The Company's domestic consolidated subsidiaries have similar retirement benefit plans.

Liabilities for employees' retirement benefits are calculated based on the projected benefit obligations and plan assets at the consolidated balance sheet date. The projected benefit obligations are attributed to periods on a benefit formula basis. Prior service costs are amortized on a straight-line basis over 15 years, which is within the average remaining service period. Actuarial gains and losses are amortized on a straight-line basis mainly over 15 years, which is within the average remaining service period in the following the fiscal year.

p. 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.

q. Provision for compensation for health damage from asbestos

A provision for compensation for health damage from asbestos has been recorded based on the estimated compensation amount for former employees who suffered health damage from asbestos.

r. Income taxes

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

The Company applied ASBJ Guidance No. 26, "Guidance on Recoverability of Deferred Tax Assets," effective April 1, 2016. There was no impact from this for the year ended March 31, 2017.

s. Foreign currency transactions

All short-term and long-term monetary receivables and payables denominated in foreign currencies are translated into Japanese yen at the exchange rates at the consolidated balance sheet date. The foreign exchange gains and losses from translation are recognized in the consolidated statement of operations to the extent that they are not hedged by forward exchange contracts.

t. Foreign currency financial statements

The balance sheet accounts of the consolidated foreign subsidiaries are translated into Japanese yen at the current exchange rate as of the consolidated balance sheet date, except for equity, which is translated at the historical rate. Revenue and expense accounts of consolidated foreign subsidiaries are translated into yen at the average exchange rate. Differences arising from such translation are shown as foreign currency translation adjustments under accumulated other comprehensive income in a separate component of equity.

u. R&D expenses

Expenses related to R&D activities are charged to income as incurred. R&D expenses amounted to ¥1,579 million ($14,094 thousand) and ¥1,440 million for the years ended March 31, 2017 and 2016, respectively, and are included in general and administrative expenses and manufacturing costs in the accompanying consolidated statement of operations.

v. Per share information

Basic net loss per share is computed by dividing net loss attributable to common shareholders by the weighted-average number of shares of common stock outstanding during the respective year. Weighted-average number of shares of common stock for the years ended March 31, 2017 and 2016, were 144,351 thousand shares and 144,357 thousand shares, respectively. Diluted net loss per share for the years ended March 31, 2017 and 2016, was not applicable because the Company had no dilutive common shares. Cash dividends per share presented in the accompanying consolidated statement of operations are dividends applicable to the respective years, including dividends to be paid after the end of the year.

w. Construction contracts

Construction revenue and construction costs are recognized by the percentage-of-completion method if the outcome of a construction contract can be estimated reliably. When total construction revenue, total construction costs and the stage of completion of the contract at the consolidated balance sheet date can be reliably measured, the outcome of a construction contract is deemed to be estimated reliably. If the outcome of a construction contract cannot be reliably estimated, the completed-contract method should be applied. When it is probable that the total construction costs will exceed total construction revenue, an estimated loss on the contract should be immediately recognized by providing for a loss on such construction contracts.

x. Accounting changes and error corrections

Under ASBJ Statement No. 24, "Accounting Standard for Accounting Changes and Error Corrections" and ASBJ Guidance No. 24, "Guidance on Accounting Standard for Accounting Changes and Error Corrections," accounting treatments are required as follows: (1) Changes in Accounting Policies—When a new accounting policy is applied following revision of an accounting standard, the new policy is applied retrospectively, unless the revised accounting standard includes specific transitional provisions, in which case the entity shall comply with the specific transitional provisions. (2) Changes in Presentation—When the presentation of financial statements is changed, prior-period financial statements are reclassified in accordance with the new presentation. (3) Changes in Accounting Estimates—A change in an accounting estimate is accounted for in the period of the change if the change affects that period only, and is accounted for prospectively if the change affects both the period of the change and future periods. (4) Corrections of Prior-Period Errors—When an error in prior-period consolidated financial statements is discovered, those statements are restated.

3. NOTES AND ACCOUNTS RECEIVABLE

Notes and accounts receivable as of March 31, 2017 and 2016, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Trade notes receivable	¥ 7,057	¥ 3,789	$ 63,011
- Unconsolidated subsidiary and associated companies	154	134	1,376
Trade accounts receivable	18,445	13,801	164,692
- CJR, unconsolidated subsidiary and associated companies	5,634	2,857	50,301
Other	76	641	675
Less allowance for doubtful accounts	(5)	(2)	(45)
Total	¥ 31,361	¥ 21,220	$ 280,010

Note: Allowance for doubtful accounts was not recognized for accounts receivable-other, which was included in Other above.

4. INVENTORIES

Inventories as of March 31, 2017 and 2016, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Merchandise	¥ 161	¥ 93	$ 1,429
Finished goods	1,645	1,312	14,691
Work in process and semi-finished goods	26,288	36,166	234,717
Raw materials	2,003	2,734	17,883
Total	¥ 30,097	¥ 40,305	$ 268,720

Work in process and allowance for work in process on construction contracts are presented in the gross amount in the consolidated balance sheet. At March 31, 2017 and 2016, allowance for work in process on construction contracts of ¥2 million ($15 thousand) and ¥2 million, respectively, was provided and included in work in process and semi-finished goods above.

5. INVESTMENT SECURITIES

Investment securities as of March 31, 2017 and 2016, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Equity securities	¥ 16,765	¥ 16,975	$ 149,689
Total	¥ 16,765	¥ 16,975	$ 149,689

The costs and aggregate fair values of investment securities as of March 31, 2017 and 2016, were as follows:

	Millions of Yen			
	2017			
	Cost	Gross unrealized gains	Gross unrealized losses	Fair and carrying value
Securities classified as available-for-sale:				
Equity securities	¥ 6,056	¥ 9,833	¥ -	¥ 15,889
Total	¥ 6,056	¥ 9,833	¥ -	¥ 15,889

	Millions of Yen							
	2016							
	Cost		Gross unrealized gains		Gross unrealized losses		Fair and carrying value	
Securities classified as available-for-sale:								
Equity securities	¥	6,063	¥	10,042	¥	(14)	¥	16,091
Total	¥	6,063	¥	10,042	¥	(14)	¥	16,091

	Thousands of U.S. Dollars							
	2017							
	Cost		Gross unrealized gains		Gross unrealized losses		Fair and carrying value	
Securities classified as available-for-sale:								
Equity securities	$	54,071	$	87,798	$	-	$	141,869
Total	$	54,071	$	87,798	$	-	$	141,869

The information of available-for-sale securities which were sold for the years ended March 31, 2017 and 2016, was as follows:

	Millions of Yen					
	2017					
	Proceeds		Realized gains		Realized losses	
Available-for-sale:						
Equity securities	¥	34	¥	23	¥	-
Total	¥	34	¥	23	¥	-

	Millions of Yen					
	2016					
	Proceeds		Realized gains		Realized losses	
Available-for-sale:						
Equity securities	¥	2	¥	2	¥	-
Total	¥	2	¥	2	¥	-

	Thousands of U.S. Dollars					
	2017					
	Proceeds		Realized gains		Realized losses	
Available-for-sale:						
Equity securities	$	302	$	207	$	-
Total	$	302	$	207	$	-

No impairment losses were recognized on available-for-sale equity securities for the years ended March 31, 2017 and 2016.

6. NOTES AND ACCOUNTS PAYABLE

Notes and accounts payable as of March 31, 2017 and 2016, consisted of the following:

	Millions of Yen				Thousands of U.S. Dollars	
	2017		2016		2017	
Trade notes payable	¥	1,534	¥	1,103	$	13,695
Electronically recorded obligations-operating		10,190		9,149		90,994
-Unconsolidated subsidiary and associated companies		24		16		211
Trade accounts payable		9,364		10,262		83,606
-Unconsolidated subsidiary and associated companies		27		30		241
Other		1,864		1,913		16,640
Total	¥	23,003	¥	22,473	$	205,387

7. SHORT-TERM BORROWINGS AND LONG-TERM DEBT

Short-term borrowings as of March 31, 2017 and 2016, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
CMS with average interest rate of 0.43%	¥ 1,595	-	$ 14,241
Unsecured bank loans with average interest rate of 0.59%	-	¥ 362	-
Total	¥ 1,595	¥ 362	$ 14,241

Long-term debt as of March 31, 2017 and 2016, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Secured bank loans due in 2022 with average interest rate of 0.72%	¥ 24,174	-	$ 215,836
Unsecured bank loans due in 2022 with average interest rate of 0.71%	-	¥ 24,174	-
Less current portion	(5,000)	-	(44,643)
Total	¥ 19,174	¥ 24,174	$ 171,193

The aggregate annual maturities of long-term debt as of March 31, 2017, were as follows:

Years ending March 31	Millions of Yen	Thousands of U.S. Dollars
2018	¥ 5,000	$ 44,643
2019	-	-
2020	-	-
2021	-	-
2022	-	-
2023 and thereafter	19,174	171,193
Total	¥ 24,174	$ 215,836

Note: Subsequent to March 31, 2017, the long-term debt was early redeemed in full prior to maturity. Please Refer to Note 19 "Subsequent Events."

Long-term debt including current portion in the amount of ¥21,674 million ($193,515 thousand) is subject to the following financial covenants.

- In the consolidated balance sheet as of the end of each fiscal year, the borrower shall maintain net assets of not less than 70% of the net assets reported in the consolidated balance sheet as of March 31, 2016 or as of the most recent fiscal year-end, whichever is higher.
- The borrower shall not report loss before taxes and certain items for two consecutive fiscal years in the consolidated statement of operations for the years ending March 31, 2017 and thereafter.

After March 31, 2017, such a debt was not subject to financial covenants as the long-term debt above was early redeemed in full. Please refer to Note 19 "Subsequent Events."

8. RETIREMENT AND PENSION PLANS

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

(1) Defined benefit plans

(a) The changes in defined benefit obligation for the years ended March 31, 2017 and 2016, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Balance at beginning of year	¥ 13,807	¥ 14,011	$ 123,275
Current service cost	721	738	6,440
Interest cost	122	124	1,090
Actuarial gains	(240)	(150)	(2,140)
Benefits paid	(964)	(916)	(8,617)
Balance at end of year	¥ 13,446	¥ 13,807	$ 120,048

(b) The changes in plan assets for the years ended March 31, 2017 and 2016, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Balance at beginning of year	¥ 17,547	¥ 19,677	$ 156,668
Expected return on plan assets	227	230	2,025
Actuarial losses	(375)	(2,127)	(3,352)
Contribution from the employer	387	316	3,462
Benefits paid	(517)	(549)	(4,616)
Balance at end of year	¥ 17,269	¥ 17,547	$ 154,187

(c) Reconciliation between the liability (asset) recorded in the consolidated balance sheet and the balances of defined benefit obligation and plan assets as of March 31, 2017 and 2016, was as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Funded defined benefit obligation	¥ 13,187	¥ 13,565	$ 117,738
Plan assets	(17,269)	(17,547)	(154,187)
Total	(4,082)	(3,982)	(36,449)
Unfunded defined benefit obligation	259	242	2,310
Net asset arising from defined benefit obligation	¥ (3,823)	¥ (3,740)	$ (34,139)
Asset for employees' retirement benefits	¥ (4,082)	¥ (3,982)	$ (36,449)
Liability for employees' retirement benefits	259	242	2,310
Net asset arising from defined benefit obligation	¥ (3,823)	¥ (3,740)	$ (34,139)

(d) The components of net periodic benefit costs for the years ended March 31, 2017 and 2016, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Service cost *(Note)*	¥ 726	¥ 742	$ 6,481
Interest cost	122	124	1,090
Expected return on plan assets	(227)	(230)	(2,025)
Recognized actuarial gains	(216)	(279)	(1,927)
Amortization of prior service cost	(4)	(4)	(39)
Net periodic benefit costs	¥ 401	¥ 353	$ 3,580

Note: Retirement benefit costs of the consolidated subsidiaries applying the simplified method are included in service cost.

(e) Amounts recognized in other comprehensive income (before income tax effect) in respect of defined retirement benefit plans for the years ended March 31, 2017 and 2016

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Prior service cost	¥ 4	¥ 4	$ 39
Actuarial losses	352	2,256	3,139
Total	¥ 356	¥ 2,260	$ 3,178

(f) Amounts recognized in accumulated other comprehensive income (before income tax effect) in respect of defined retirement benefit plans as of March 31, 2017 and 2016

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Unrecognized prior service cost	¥ (35)	¥ (39)	$ (313)
Unrecognized actuarial gains	(4,253)	(4,605)	(37,972)
Total	¥ (4,288)	¥ (4,644)	$ (38,285)

(g) Plan assets

(i) Components of plan assets
Plan assets consisted of the following:

	2017	2016
Debt investments	13%	12%
Equity investments	78%	83%
Cash and deposits	3%	2%
Other	6%	3%
Total	100%	100%

Note: The employees' retirement benefit trusts for the contributory pension plans accounted for 17% and 18% of total plan assets for the years ended March 31, 2017 and 2016, respectively.

*(ii)*Method of determining the expected rate of return on plan assets
The expected rate of return on plan assets is determined considering the current and future asset portfolio and the long-term rates of return which are expected currently and in the future from the various components of the plan assets.

(h) Assumptions used for the years ended March 31, 2017 and 2016, were set forth as follows:

	2017	2016
Discount rate	0.9%	0.9%
Expected rate of return on plan assets	2.0%	2.0%

(2) Defined contribution plans
The required contribution of the Company and its consolidated subsidiaries amounted to ¥128 million ($1,147 thousand) and ¥124 million for the years ended March 31, 2017 and 2016, respectively.

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9. ASSETS PLEDGED AS COLLATERAL

(1) Assets pledged as collateral for long-term debt (including current portion) in the amount of ¥24,174 million ($215,836 thousand) and none as of March 31, 2017 and 2016, respectively, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Land	¥ 11,975	¥ -	$ 106,923
(thereof: factory foundation mortgages)	(11,975)	(-)	(106,923)
Buildings and structures	3,915	-	34,951
(thereof: factory foundation mortgages)	(3,915)	(-)	(34,951)
Investment securities	11,740	-	104,826
(thereof: factory foundation mortgages)	(-)	(-)	(-)
Total	¥ 27,630	¥ -	$ 246,700
(thereof: factory foundation mortgages)	(15,890)	(-)	(141,874)

Note: After March 31, 2017, the above collateral was released as the respective long-term debt was early redeemed in full. Please refer to Note 19 "Subsequent Events."

(2) Other assets pledged as collateral as of March 31, 2017 and 2016, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Other current assets *(Note 1)*	¥ 58	¥ 60	$ 520
Other assets under Investments and Other Assets *(Note 2)*	10	10	89
Total	¥ 68	¥ 70	$ 609

Notes 1: Deposit required by insurance contracts
2: Guarantee deposit required by the Building Lots and Buildings Transaction Business Law

10. CONTINGENT LIABILITIES

In some cases, the Company sells its construction equipment products through leasing companies. Some of these leasing companies request that the Company enter into lease credit guarantee contracts. Under these contracts, if the lease credits are unrecoverable from users of the Company's construction equipment products, the Company guarantees payment of the amount defined by the contract to the leasing companies. Such guarantees as of March 31, 2017 and 2016, amounted to ¥512 million ($4,569 thousand) and ¥657 million, respectively.

11. LEASE TRANSACTIONS

The Group uses certain machinery and equipment under finance lease contracts.

All finance lease transactions are accounted for in a manner similar to ordinary sale or purchase transactions.

The aggregate annual maturities of lease obligations as of March 31, 2017, were as follows:

Years ending March 31	Millions of Yen	Thousands of U.S. Dollars
2018	¥ 825	$ 7,366
2019	612	5,464
2020	383	3,420
2021	348	3,106
2022	402	3,590
2023 and thereafter	19	174
Total	¥ 2,589	$ 23,120

A consolidated subsidiary subleases machinery.

Investments in leases and lease obligations, which include an interest portion, resulting from sublease transactions as of March 31, 2017 and 2016, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Investments in leases:			
Due within one year	¥ 170	¥ 190	$ 1,511
Due after one year	337	367	3,012
Total	¥ 507	¥ 557	$ 4,523

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Lease obligations:			
Due within one year	¥ 177	¥ 198	$ 1,583
Due after one year	380	402	3,390
Total	¥ 557	¥ 600	$ 4,973

12. EQUITY

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

(1) Dividends

Under the Companies Act, companies can pay dividends at any time during the fiscal year in addition to the year-end dividend upon resolution at the shareholders' meeting. Additionally, for companies that meet certain criteria including (1) having a Board of Directors, (2) having independent auditors, (3) having an Audit & Supervisory Board, and (4) the term of service of the directors being prescribed as one year rather than the normal two-year term by its articles of incorporation, the Board of Directors may declare dividends (except for dividends-in-kind) at any time during the fiscal year if the company has prescribed so in its articles of incorporation. However, the Company cannot do so because it does not meet all the above criteria.

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

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

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

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

(3) Treasury stock and treasury stock acquisition rights

The Companies Act also provides for companies to purchase treasury stock and dispose of such treasury stock by resolution of the Board of Directors. The amount of treasury stock purchased cannot exceed the amount available for distribution to the shareholders which is determined by a specific formula. Under the Companies Act, stock acquisition rights are presented as a separate component of equity. The Companies Act also provides that companies can purchase both treasury stock acquisition rights and treasury stock. Such treasury stock acquisition rights are presented as a separate component of equity or deducted directly from stock acquisition rights.

13. INCOME TAXES

The Company and its domestic subsidiaries are subject to Japanese national and local income taxes which, in the aggregate, resulted in a normal effective statutory tax rate of approximately 30.5% and 32.6% for the years ended March 31, 2017 and 2016, respectively.

The tax effects of significant temporary differences and tax loss carryforwards that resulted in deferred tax assets and liabilities as of March 31, 2017 and 2016, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Deferred tax assets:			
Loss on write-downs of inventories	¥ 5,492	¥ 4,790	$ 49,032
Tax loss carryforwards	4,918	4,834	43,912
Liability for employees' retirement benefits	2,535	2,535	22,636
Provision for loss on orders received	2,029	102	18,112
Loss on impairment of fixed assets	1,748	1,930	15,605
Accrued bonuses to employees	452	454	4,033
Other	3,717	3,061	33,199
	20,891	17,706	186,529
Less valuation allowance	(20,730)	(17,509)	(185,091)
Total	161	197	1,438
Deferred tax liabilities:			
Unrealized gain on available-for-sale securities	(2,955)	(3,031)	(26,384)
Revaluation of property	(2,059)	(2,059)	(18,387)
Deferred gain on sales of property	(1,201)	(1,213)	(10,723)
Other	(2,483)	(2,485)	(22,171)
Total	(8,698)	(8,788)	(77,665)
Net deferred tax liabilities	¥ (8,537)	¥ (8,591)	$ (76,227)

Deferred tax assets and liabilities as of March 31, 2017 and 2016, were recorded as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Deferred tax assets:			
Current	¥ 60	¥ 80	$ 536
Noncurrent	86	91	768
Deferred tax liabilities:			
Other under Current Liabilities	(3)	(16)	(29)
Noncurrent	(8,680)	(8,746)	(77,502)
Net deferred tax liabilities	¥ (8,537)	¥ (8,591)	$ (76,227)

A reconciliation between the normal effective statutory tax rates and the actual effective tax rates reflected in the accompanying consolidated statement of operations for the year ended March 31, 2017, with the corresponding figures for 2016, is as follows:

	2017	2016
Normal effective statutory tax rate	30.5 %	32.6 %
Increase (decrease) due to:		
Expenses not deductible for income tax purposes	(16.4)	(31.1)
Tax-exempt income	0.5	0.2
Changes in valuation allowance	(69.4)	(94.3)
Per capita inhabitant tax	(0.8)	(0.3)
Transfer price adjustments on consolidation	35.2	30.8
Lower income tax rates applicable to income in certain foreign countries	3.5	1.7
Effect of changes in tax rate	-	2.2
Other	4.1	1.0
Actual effective income tax rate	(12.8) %	(57.2) %

14. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

(1) Group policy for financial instruments

The Group finances capital investments and necessary funds mainly internally, with bank loans and with CMS provided by a consolidated subsidiary of CJR. The Company also operates funds by utilizing CMS. Derivative transactions are used, not for speculative purposes, but to manage exposure to financial risks as described in (2) below.

(2) Nature and extent of risks arising from financial instruments

Receivables, such as notes and accounts receivable, are exposed to customer credit risk.
Although receivables in foreign currencies are exposed to the risk of fluctuation in foreign currency exchange rates, the position, net of payables in foreign currencies, is hedged by using forward foreign currency contracts. Investment securities, mainly equity instruments of customers and suppliers of the Group, are exposed to the risk of market price fluctuations.

Payment terms of payables, such as trade notes and trade accounts, are less than one year. Although payables in foreign currencies are exposed to the risk of fluctuation in foreign currency exchange rates, the position, net of receivables in foreign currencies, is hedged by using forward foreign currency contracts.

Short-term borrowings are mainly used for financing operating capital and long-term debt and lease obligations are primarily used for financing capital investments. Although a part of long-term debt is exposed to market risks from changes in variable interest rates, those risks are mitigated by using derivatives of currency swaps and interest rate swaps.

Derivatives mainly include forward foreign currency contracts, which are used to manage exposure to risks associated with fluctuations in foreign currency exchange rates related to receivables and payables denominated in foreign currencies and forecasted transactions denominated in foreign currencies, and currency swaps and interest rate swaps, which are used to manage exposure to exchange fluctuations and interest rate fluctuations on long-term debt. Please see Note 15 for more information about derivatives.

(3) Risk management for financial instruments

Credit risk management

Credit risk is the risk of economic loss arising from a counterparty's failure to repay or service debt according to the contractual terms. The Group manages its credit risk from receivables by monitoring financial position, payment terms and balances of customers to identify default risk of customers at an early stage.

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

Foreign currency trade receivables and payables are exposed to market risk resulting from fluctuations in foreign currency exchange rates. Such foreign exchange risk is hedged principally by forward foreign currency contracts. In addition, when foreign currency trade receivables and payables are expected from forecasted transactions, forward foreign currency contracts may be used.

Currency swaps and interest rate swaps are used to manage exposure to market risks from changes in foreign currency exchange rates and the interest rates of long-term debt.

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

Liquidity risk management

The Group establishes or updates its cash management plan according to the monthly cash management plan from each subsidiary in order to monitor its liquidity risk associated with operating payables and short-term borrowings and long-term debt.

(4) Fair values of financial instruments

Fair values of financial instruments are based on quoted prices in active markets. If quoted prices are not available, other rational valuation techniques are used instead. Please see Note 15 for the details of the fair value of derivatives.

(a) Fair value of financial instruments

	Millions of Yen		
	2017		
	Carrying amount	Fair value	Unrealized gain (loss)
Cash and cash equivalents	¥ 11,713	¥ 11,713	-
Notes and accounts receivable	31,361	31,361	-
Investment securities	15,889	15,889	-
Total	¥ 58,963	¥ 58,963	-
Notes and accounts payable	¥ 23,003	¥ 23,003	-
Short-term borrowings	1,595	1,595	-
Income taxes payable	565	565	-
Long-term debt, including current portion	24,174	24,565	¥ (391)
Lease obligations, including current portion	2,589	2,572	17
Total	¥ 51,926	¥ 52,300	¥ (374)

	Millions of Yen		
	2016		
	Carrying amount	Fair value	Unrealized gain (loss)
Cash and cash equivalents	¥ 13,247	¥ 13,247	-
Notes and accounts receivable	21,220	21,220	-
Investment securities	16,091	16,091	-
Total	¥ 50,558	¥ 50,558	-
Notes and accounts payable	¥ 22,473	¥ 22,473	-
Short-term borrowings	362	362	-
Income taxes payable	50	50	-
Long-term debt, including current portion	24,174	24,796	¥ (622)
Lease obligations, including current portion	2,370	2,365	5
Total	¥ 49,429	¥ 50,046	¥ (617)

	Thousands of U.S. Dollars		
	2017		
	Carrying amount	Fair value	Unrealized gain (loss)
Cash and cash equivalents	$ 104,584	$ 104,584	-
Notes and accounts receivable	280,010	280,010	-
Investment securities	141,869	141,869	-
Total	$ 526,463	$ 526,463	-
Notes and accounts payable	$ 205,387	$ 205,387	-
Short-term borrowings	14,241	14,241	-
Income taxes payable	5,045	5,045	-
Long-term debt, including current portion	215,836	219,324	$ (3,488)
Lease obligations, including current portion	23,120	22,969	151
Total	$ 463,629	$ 466,966	$ (3,337)

Assets

Cash and cash equivalents, and notes and accounts receivable

The carrying values of cash and cash equivalents, and notes and accounts receivable approximate fair value because of their short maturities.

Investment securities

The fair values of investment securities are measured at the quoted market prices of the stock exchange. The information on the fair value of investment securities by classification is included in Note 5.

Liabilities

Notes and accounts payable, short-term borrowings and income taxes payable

The carrying values of notes and accounts payable, short-term borrowings, and income taxes payable approximate fair value since they are scheduled to be settled in a short period of time.

Long-term debt and lease obligations

The fair values of long-term debt (including current portion) and lease obligations are measured at the present value of the total of the principal and interest discounted by the interest rate applied to new loans.

Derivative transactions

Information on the fair value of derivatives is included in Note 15.

(b) Carrying amount of financial instruments whose fair value cannot be reliably determined

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Unlisted securities	¥ 876	¥ 884	$ 7,820
Investments in an unconsolidated subsidiary and associated companies	1,661	1,511	14,831

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

	Millions of Yen			
	2017			
	Due in one year or less	Due after one year through five years	Due after five years through 10 years	Due after 10 years
Cash and cash equivalents	¥ 11,713	-	-	-
Notes and accounts receivable	31,110	¥ 240	¥ 11	-
Total	¥ 42,823	¥ 240	¥ 11	-

	Thousands of U.S. Dollars			
	2017			
	Due in one year or less	Due after one year through five years	Due after five years through 10 years	Due after 10 years
Cash and cash equivalents	$ 104,584	-	-	-
Notes and accounts receivable	277,766	$ 2,145	$ 99	-
Total	$ 382,350	$ 2,145	$ 99	-

Please see Note 7 for annual maturities of long-term debt and Note 11 for obligations under finance leases.

15. DERIVATIVE TRANSACTIONS

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

All derivative transactions are entered into to hedge interest and foreign currency exposures incorporated within its business. Accordingly, market risk in these derivatives is basically offset by opposite movements in the value of hedged assets or liabilities.

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

Derivative transactions to which hedge accounting is applied for the years ended March 31, 2017 and 2016, were as follows:

		Millions of Yen					
		2017			2016		
	Hedged item	Contract amount	Contract amount due after one year	Fair value	Contract amount	Contract amount due after one year	Fair value
Currency:							
Forward foreign currency contracts							
Buying							
USD	Advance payments	¥ 8	-	¥ (0)	¥ 10	-	¥ (0)
EUR	Advance payments	-	-	-	10	-	(1)
CNY	Advance payments	-	-	-	22	-	(1)
Interest rate:							
Interest rate currency swap contracts (USD floating rate receipt/ JPY fixed-rate payment)	Long-term debt	¥ 16,072	¥ 13,572	*Note*	¥ 16,072	¥ 16,072	*Note*
Interest rate swap contracts (floating rate receipt/ fixed-rate payment)	Long-term debt	6,902	5,602	*Note*	6,902	6,902	*Note*

		Thousands of U.S. Dollars		
		2017		
	Hedged item	Contract amount	Contract amount due after one year	Fair value
Currency:				
Forward foreign currency contracts				
Buying				
USD	Advance payments	$ 74	-	$ (1)
Interest rate:				
Interest rate currency swap contracts (USD floating rate receipt/ JPY fixed-rate payment)	Long-term debt	$ 143,498	$ 121,177	*Note*
Interest rate swap contracts (floating rate receipt/ fixed-rate payment)	Long-term debt	61,623	50,016	*Note*

Note: Fair values of interest rate currency swaps, which qualify for hedge accounting, and those of interest rate swaps, which qualify for hedge accounting and meet specific matching criteria, are included in the fair values of the long-term debt in Note 14. After March 31, 2017, the balance of long-term debt as of March 31, 2017 was early redeemed in full. Please refer to Note 19 "Subsequent Events."

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16. LOSS ON IMPAIRMENT OF PROPERTY, PLANT AND EQUIPMENT

The Group recognized impairment losses on the following asset groups.

For the year ended March 31, 2017:

			Millions of Yen	Thousands of U.S. Dollars
Asset group	Location	Account	2017	2017
Idle real estate	Kani, Gifu	Land	¥ 2	$ 20
		Total	¥ 2	$ 20

The Group reviewed its long-lived assets for impairment as of March 31, 2017.

For the year ended March 31, 2017, the Group recognized an impairment loss for idle real estate by writing down the property to its net selling value (based on reasonably adjusted amount of property tax assessment value).

For the year ended March 31, 2016:

Asset group	Location	Account	Millions of Yen 2016	
Railway rolling stock business property	Illinois, the United States	Machinery and equipment, etc.	¥	50
		Total	¥	50

The Group reviewed its long-lived assets for impairment as of March 31, 2016.

For the year ended March 31, 2016, the Group recognized impairment losses for railway rolling stock business property of NIPPON SHARYO U.S.A., INC. and two other subsidiaries by writing down the property to its net selling value (primarily determined at real estate appraisal values) due to their consecutive operating losses in recent years. As a result, impairment losses were recognized on machinery and equipment, construction in progress, and other in the amounts of ¥25 million, ¥7 million, and ¥18 million, respectively.

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17. RELATED-PARTY DISCLOSURES

(1) Parent and major shareholders

CJR directly owned 51.2% of the total shares of the Company as of March 31, 2017 and 2016. The Company distributes transportation vehicles to CJR.

Transactions of the Company with CJR for the years ended March 31, 2017 and 2016, were as follows:

	Millions of Yen				Thousands of U.S. Dollars	
	2017		2016		2017	
Sales	¥	18,351	¥	21,302	$	163,845
Interest income		-		1		-

The balances due to or from CJR as of March 31, 2017 and 2016, were as follows:

	Millions of Yen				Thousands of U.S. Dollars	
	2017		2016		2017	
Accounts receivable	¥	5,544	¥	2,746	$	49,497
Short-term loans		-		5,976		-

(2) Fellow subsidiaries and subsidiaries of other affiliates

Transactions of the Company with the fellow subsidiaries for the years ended March 31, 2017 and 2016, were as follows:

	Millions of Yen				Thousands of U.S. Dollars	
	2017		2016		2017	
Tokai Rolling Stock & Machinery Co., Ltd.						
Sales	¥	2,922	¥	-	$	26,087
JR Central Financial Management Co., Ltd.						
Interest expense		3		-		24

The balances due to or from the fellow subsidiaries as of March 31, 2017 and 2016, were as follows:

	Millions of Yen				Thousands of U.S. Dollars	
	2017		2016		2017	
Tokai Rolling Stock & Machinery Co., Ltd.						
Notes and accounts receivable	¥	1,786	¥	-	$	15,949
JR Central Financial Management Co., Ltd.						
Short-term borrowings		1,595		-		14,241

18. OTHER COMPREHENSIVE LOSS

The components of other comprehensive loss for the years ended March 31, 2017 and 2016, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Unrealized loss on available-for-sale securities:			
Losses arising during the year	¥ (172)	¥ (932)	$ (1,531)
Reclassification adjustments to profit or loss	(23)	0	(207)
Amount before income tax effect	(195)	(932)	(1,738)
Income tax effect	71	455	632
Total	¥ (124)	¥ (477)	$ (1,106)
Deferred gain on derivatives under hedge accounting:			
Gains arising during the year	¥ 2	¥ 65	$ 23
Income tax effect	-	(23)	-
Total	¥ 2	¥ 42	$ 23
Foreign currency translation adjustments:			
Adjustments arising during the year	¥ 202	¥ (133)	$ 1,803
Total	¥ 202	¥ (133)	$ 1,803
Defined retirement benefit plans:			
Adjustments arising during the year	¥ (136)	¥ (1,977)	$ (1,213)
Reclassification adjustments to profit or loss	(220)	(283)	(1,965)
Amount before income tax effect	(356)	(2,260)	(3,178)
Income tax effect	108	793	960
Total	¥ (248)	¥ (1,467)	$ (2,218)
Share of other comprehensive income in associated companies			
Gains arising during the year	¥ 6	¥ 34	$ 53
Income tax effect	6	(1)	50
Total	¥ 12	¥ 33	$ 103
Total other comprehensive loss	¥ (156)	¥ (2,002)	$ (1,395)

19. SUBSEQUENT EVENTS

Transfer of fixed assets

1. Reason for the transfer

To make effective utilization of the Company's resources and improvement of the Company's financial position, the Company early redeemed its long-term debt including the current portion in full of the carrying amount of ¥24,174 million ($215,836 thousand) as of March 31, 2017 by selling its factory assets to CJR, and its non-business use assets to domestic private-sector companies.

2. Transfer of factory assets

(1) Summary of assets transferred

Description of asset and location	Millions of Yen Carrying amount	Transfer price	Net gain (Note)	Current conditions
"Toyokawa Plant" 2-20 Honohara, Toyokawa, Aichi Land: 229,655.60 m² Building: 121,222.66 m²	(Land) ¥ 4,560 (Buildings) 2,131	¥ 7,665	¥ -	Manufacturing plant of the Company for rolling stocks, transportation equipment, etc.
"Kinuura Plant" 20 11-gochi, Handa, Aichi Land: 331,678.72 m² Building: 52,199.25 m²	(Land) 4,726 (Buildings) 1,240	7,746	-	Manufacturing plant of the Company for steel structures
"Narumi Plant" 80 Ryucho, Narumi-cho, Midori-ku, Nagoya, Aichi Land: 63,098.67 m² Building: 32,805.12 m²	(Land) 2,689 (Buildings) 765	5,589	-	Manufacturing plant of the Company for industrial and electrical equipment
Total	¥ 16,111	¥ 21,000	¥ -	

Description of asset and location	Thousands of U.S. Dollars Carrying amount	Transfer price	Net gain (Note)	Current conditions
"Toyokawa Plant" 2-20 Honohara, Toyokawa, Aichi Land: 229,655.60 m² Building: 121,222.66 m²	(Land) $ 40,719 (Buildings) 19,024	$ 68,437	$ -	Manufacturing plant of the Company for rolling stocks, transportation equipment, etc.
"Kinuura Plant" 20 11-gochi, Handa, Aichi Land: 331,678.72 m² Building: 52,199.25 m²	(Land) 42,196 (Buildings) 11,077	69,161	-	Manufacturing plant of the Company for steel structures
"Narumi Plant" 80 Ryucho, Narumi-cho, Midori-ku, Nagoya, Aichi Land: 63,098.67 m² Building: 32,805.12 m²	(Land) 24,009 (Buildings) 6,827	49,902	-	Manufacturing plant of the Company for industrial and electrical equipment
Total	$ 143,852	$ 187,500	$ -	

Note: The above transfer of factory assets was not treated as a buying and selling transaction and accordingly, no gain was accordingly recognized since the relevant factory assets were transferred to CJR, and the Company continues to utilize the relevant factory assets as before based on a lease agreement concluded between the Company and CJR after the transfer. The total transfer price in the amount of ¥21,000 million ($187,500 thousand) is expected to be recorded as long-term debt since the relevant transactions do not fall under finance lease transaction.

(2) Name of the transferee

Central Japan Railway Company

(3) Schedule

Resolution by the Board of Directors: March 22, 2017
Conclusion of transfer agreement: March 30, 2017
Date of delivery: April 20, 2017

(4) Conclusion of lease agreement

To further utilize the transferred factory assets, which are the Company's business-use assets, a lease agreement relating to the factory assets was concluded between the Company and CJR. The Company continues to utilize the relevant factory assets as before.

(5) Matters related transactions with CJR

In the relevant transactions, CJR is the transferee of the factory assets as well as the lessor of the respective factory assets. The Company sells the finished goods such as rolling stocks to CJR where the selling prices and other terms and conditions are determined in consideration of market value transaction on an arm's length basis. Furthermore, the conclusion of significant agreement with CJR is subject to deliberations and confirmation by the Board of Directors that the interests of the other shareholders are not harmed. In this connection, the following measures were taken for the relevant transactions:

i) Measures taken for ensuring the fairness and avoiding conflicts of interest

With regard to determining the transfer prices of the relevant factory assets, the Company obtained multiple appraisal valuation reports from independent third-party appraisers and then negotiated with CJR on an arm's length basis. With regard to concluding the lease agreement for the relevant factory assets, the Company also negotiated with CJR based on an arm's length basis. For above reasons, the Company's independence and autonomy were ensured.
In addition, none of the Company's directors are considered a special interested person. Mr. Mamoru Tanaka, an audit & supervisory board member of the Company, however, is an executive person of CJR, but did not participate in any deliberations of the Board of Directors concerning the relevant transactions.

ii) Outline of the written opinions that the relevant transactions are not disadvantageous to the interests of noncontrolling shareholders obtained from the disinterested persons with CJR

The Company consulted with disinterested persons with CJR, namely independent directors; Mr. Tsutomu Saito and Mr. Atsushi Niimi (both: outside director) and Mr. Kiyoshi Mizutani and Ms. Michiko Kato (both: outside audit & supervisory board members) and obtained their written opinions dated March 21, 2017 that, with regard to the transfer of factory assets and conclusion of the lease agreement, the relevant transactions were not disadvantageous to the interests of noncontrolling shareholders of the Company based on their comprehensive judgement from the viewpoints of the purpose, procedures in the course of the negotiation, reasonableness of terms and conditions of the agreement, etc.

3. Transfer of non-business use assets

(1) Summary of assets transferred

Description of asset and location	Millions of Yen: Carrying amount	Millions of Yen: Transfer price	Millions of Yen: Net gain (Note)	Current conditions
101-2, Sanbonmatsu-cho, Atsuta-ku, Nagoya Land: 16,298.30 m^2	¥ 36	¥ 7,770	¥ 5,015	Leased to a third party company
101-1, Sanbonmatsu-cho, Atsuta-ku, Nagoya Land: 5,438.76 m^2	13	2,800	2,109	Leased to a third party company
503-1, Sanbonmatsu-cho, Atsuta-ku, Nagoya Land: 6,611.79 m^2	1	2,210	1,960	Monthly contracted parking
Total	¥ 50	¥ 12,780	¥ 9,084	

Description of asset and location	Thousands of U.S. Dollars Carrying amount	Transfer price	Net gain (Note)	Current conditions
101-2, Sanbonmatsu-cho, Atsuta-ku, Nagoya Land: 16,298.30 m^2	$ 326	$ 69,375	$ 44,773	Leased to a third party company
101-1, Sanbonmatsu-cho, Atsuta-ku, Nagoya Land: 5,438.76 m^2	113	25,000	18,833	Leased to a third party company
503-1, Sanbonmatsu-cho, Atsuta-ku, Nagoya Land: 6,611.79 m^2	8	19,732	17,498	Monthly contracted parking
Total	$ 447	$ 114,107	$ 81,104	

Note: Net gain is the amount of transfer price less carrying amount, expenses relating to the transfer and the measures against soil contamination.

(2) Name of the transferee

Not disclosed as agreed with the transferees. The transferees are domestic private-sector companies and have no particular matters in respect of capital, personal and business relationship as well as related parties.

(3) Schedule

Resolution by the Board of Directors: March 22, 2017
Conclusion of transfer agreement: March 30, 2017
Date of delivery: April 27 and May 29, 2017

4. Impact on consolidated profit/loss of the relevant event

With regard to the transferred factory assets, no gain was recognized since a lease agreement relating to the relevant factory assets was concluded between the Company and CJR and the Company continues to utilize the relevant factory assets as before. On the other hand, with respect to the transferred non-business use assets, gain on sales of property, plant and equipment in the amount of ¥9,084 million ($81,104 thousand) is expected to be recognized under "other income" during the year ending March 31, 2018.

Early redemption of long-term debt

To make effective utilization of the Company's resources and improvement of the Company's financial position, the Company early redeemed its long-term debt from financial institutions on April 20, 2017 in full of the carrying amount of ¥24,174 million ($215,836 thousand) including the current portion as of March 31, 2017 by appropriating the proceeds from the above fixed asset transfer.
Accordingly, all collateral pledged for long-term debt as of March 31, 2017 were released, and no debt is no longer subject to financial covenants.
As a result of the early redemption of long-term debt, interest expenses for the year ending March 31, 2018 through the maturity decreased in the amount of ¥774 million ($6,910 thousand) while expenses for penalty payment due to the cancellation is expected to be recognized in the amount of ¥1,077 million ($9,612 thousand) for the year ending March 31, 2018.

20. SEGMENT INFORMATION

1. Under ASBJ Statement No. 17, "Accounting Standard for Segment Information Disclosures," and ASBJ Guidance No. 20, "Guidance on Accounting Standard for Segment Information Disclosures," an entity is required to report financial and descriptive information about its reportable segments. Reportable segments are operating segments or aggregations of operating segments that meet specified criteria. Operating segments are components of an entity about which separate financial information is available and such information is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. Generally, segment information is required to be reported on the same basis as is used internally for evaluating operating segment performance and deciding how to allocate resources to operating segments.

(1) Description of reportable segments

The Group's reportable segments are those for which separate financial information is available and regular evaluation by the Company's management is being performed in order to decide how resources are allocated among the Group.

The Group has operational headquarters by each product or service. Each of the operational headquarters develops comprehensive strategies and engages in business activities relating to each product and service. Accordingly, the Group is comprised of segments organized by products or services based on the operational headquarters and there are three reportable segments: "Railway Rolling Stock," "Transportation Equipment and Steel Structure," and "Construction Equipment."

"Railway Rolling Stock" consists of manufacture and sales of rolling stock, such as EMUs and railway motor cars.

"Transportation Equipment and Steel Structure" consists of manufacture and sales of transportation equipment, such as freight cars, tank trucks, heavy-duty industrial vehicles and manufacture and construction of roadway and railway bridges.

"Construction Equipment" consists of manufacture and sales of pile driving rigs, crawler cranes, casing rotators, portable diesel generator sets and emergency generators.

(2) Method of measurement for the amount of sales, profit (loss), assets and other items for each reportable segment

The accounting policies of each reportable segment are consistent with those disclosed in Note 2 "Summary of Significant Accounting Policies." Reporting segment profit represents operating income. Intersegment transactions are based upon arm's-length transactions.

(3) Information of sales, profit (loss), assets and other items was as follows:

	Millions of Yen						
	2017						
	Reportable segment						
	Railway Rolling Stock	Transportation Equipment and Steel Structure	Construction Equipment	Other	Total	Reconciliations	Consolidated
Net sales							
Sales to external customers	¥ 48,554	¥ 21,983	¥ 22,420	¥ 8,137	¥ 101,094	-	¥ 101,094
Intersegment sales or transfers	366	336	7	191	900	¥ (900)	-
Total	¥ 48,920	¥ 22,319	¥ 22,427	¥ 8,328	¥ 101,994	¥ (900)	¥ 101,094
Segment profit (loss)	¥ (9,837)	¥ 1,760	¥ 4,195	¥ 273	¥ (3,609)	¥ (1,495)	¥ (5,104)
Segment assets	¥ 57,786	¥ 19,971	¥ 23,105	¥ 4,710	¥ 105,572	¥ 23,622	¥ 129,194
Other:							
Depreciation	¥ 1,250	¥ 386	¥ 734	¥ 25	¥ 2,395	¥ 335	¥ 2,730
Increase in property, plant, and equipment and intangible assets	747	82	1,400	2	2,231	131	2,362

	Millions of Yen						
	2016						
	Reportable segment						
	Railway Rolling Stock	Transportation Equipment and Steel Structure	Construction Equipment	Other	Total	Reconciliations	Consolidated
Net sales							
Sales to external customers	¥ 65,858	¥ 19,068	¥ 21,138	¥ 4,943	¥ 111,007	-	¥ 111,007
Intersegment sales or transfers	30	208	5	196	439	¥ (439)	-
Total	¥ 65,888	¥ 19,276	¥ 21,143	¥ 5,139	¥ 111,446	¥ (439)	¥ 111,007
Segment profit (loss)	¥ (13,115)	¥ 488	¥ 3,307	¥ 338	¥ (8,982)	¥ (1,190)	¥ (10,172)
Segment assets	¥ 65,253	¥ 18,413	¥ 19,763	¥ 3,148	¥ 106,577	¥ 25,688	¥ 132,265
Other:							
Depreciation	¥ 1,368	¥ 404	¥ 747	¥ 33	¥ 2,552	¥ 336	¥ 2,888
Increase in property, plant, and equipment and intangible assets	1,177	272	947	12	2,408	249	2,657

	Thousands of U.S. Dollars						
	2017						
	Reportable segment						
	Railway Rolling Stock	Transportation Equipment and Steel Structure	Construction Equipment	Other	Total	Reconciliations	Consolidated
Net sales							
Sales to external customers	$ 433,517	$ 196,280	$ 200,175	$ 72,650	$ 902,622	-	$ 902,622
Intersegment sales or transfers	3,273	2,999	61	1,704	8,037	$ (8,037)	-
Total	$ 436,790	$ 199,279	$ 200,236	$ 74,354	$ 910,659	$ (8,037)	$ 902,622
Segment profit (loss)	$ (87,827)	$ 15,715	$ 37,453	$ 2,435	$ (32,224)	$ (13,349)	$ (45,573)
Segment assets	$ 515,951	$ 178,314	$ 206,294	$ 42,051	$ 942,610	$ 210,907	$1,153,517
Other:							
Depreciation	$ 11,159	$ 3,448	$ 6,558	$ 223	$ 21,388	$ 2,989	$ 24,377
Increase in property, plant, and equipment and intangible assets	6,675	735	12,490	21	19,921	1,166	21,087

Note: 1. "Other" represents businesses that are not included in any reportable segment, which includes manufacture and sales of Railway Rolling Stock inspection/maintenance systems, agricultural plants, and pulp and paper plants, and real estate rental for the years ended March 31, 2017 and 2016.

2. "Reconciliations" in segment profit (loss) include corporate expenses of ¥(1,537) million ($(13,727) thousand) and ¥(1,196) million for the years ended March 31, 2017 and 2016, respectively, adjustments in inventories of ¥31 million ($274 thousand) for the year ended March 31, 2017, and elimination of intersegment transactions of ¥9 million for the year ended March 31, 2016. Corporate expenses principally consist of general and administrative expenses that are not attributable to any reportable segment.

3. "Reconciliations" in segment assets include total corporate assets of ¥21,149 million ($188,831 thousand) and ¥27,672 million, elimination of intersegment balances of ¥(123) million ($(1,097) thousand) and ¥(4,531) million, and adjustments in inventories of ¥(81) million ($(723) thousand) and ¥(112) million as of March 31, 2017 and 2016, respectively. Total corporate assets principally consist of investment securities and general management properties as of March 31, 2017 and 2016.

4. Segment profit (loss) is reconciled to operating loss in the consolidated statement of operations.

Associated Information

(1) Information about products and services is not disclosed since similar information is disclosed above.

(2) Information about geographical areas for the years ended March 31, 2017 and 2016, was as follows:

	Millions of Yen				
	2017				
	Japan	U.S.A.	Asia	Other	Total
Net sales	¥ 82,293	¥ 12,725	¥ 6,013	¥ 63	¥ 101,094

	Millions of Yen				
	2016				
	Japan	U.S.A.	Asia	Other	Total
Net sales	¥ 79,086	¥ 22,156	¥ 6,710	¥ 3,055	¥ 111,007

	Thousands of U.S. Dollars				
	2017				
	Japan	U.S.A.	Asia	Other	Total
Net sales	$ 734,758	$ 113,620	$ 53,686	$ 558	$ 902,622

Note: Sales are based on the location of the customers and grouped by country or area.

	Millions of Yen				
	2017				
	Japan	U.S.A.	Asia	Other	Total
Property, plant and equipment	¥ 24,965	¥ 5,024	¥ 0	¥ 0	¥ 29,989

	Millions of Yen				
	2016				
	Japan	U.S.A.	Asia	Other	Total
Property, plant and equipment	¥ 25,618	¥ 5,654	¥ 1	¥ 0	¥ 31,273

	Thousands of U.S. Dollars				
	2017				
	Japan	U.S.A.	Asia	Other	Total
Property, plant, and equipment	$ 222,900	$ 44,859	$ 2	$ 0	$ 267,761

(3) Information about major customers

	Net sales			
	Millions of Yen		Thousands of U.S. Dollars	
Name of major customer	2017	2016	2017	Related segment
CJR	¥ 18,351	¥ 21,302	$ 163,845	Railway Rolling Stock, Transportation equipment and Steel structure
Sumitomo Corporation of Americas	11,335	19,590	101,202	Railway Rolling Stock

(4) Information about loss on impairment of property, plant and equipment by reportable segment

	Millions of Yen						
	2017						
	Reportable segment						
	Railway Rolling Stock	Transportation Equipment and Steel Structure	Construction Equipment	Other	Total	Reconciliations	Consolidated
Impairment loss	¥ -	-	-	-	¥ -	2	¥ 2

	Millions of Yen						
	2016						
	Reportable segment						
	Railway Rolling Stock	Transportation Equipment and Steel Structure	Construction Equipment	Other	Total	Reconciliations	Consolidated
Impairment loss	¥ 50	-	-	-	¥ 50	-	¥ 50

	Thousands of U.S. Dollars						
	2017						
	Reportable segment						
	Railway Rolling Stock	Transportation Equipment and Steel Structure	Construction Equipment	Other	Total	Reconciliations	Consolidated
Impairment loss	$ -	-	-	-	$ -	20	$ 20

Note: The amount of "Reconciliations" is related to the idle property which is not attributable to any reporting segment.

Corporate Information

Corporate Profile

Company Name: NIPPON SHARYO, LTD.

Capital Stock

Common Stock:Authorized	328,000,000 shares
Common Stock:Issued	146,750,129 shares
Number of Shareholders	14,721 persons
	(March 31, 2017)

Company History

Sep.	1896	Established in Nagoya City.
Jun.	1938	Founded Narumi Plant.
May.	1949	Re-listed on Tokyo Security Exchange.
Jan.	1959	Began Construction Machinery Business.
Oct.	1961	Started Bridge Manufacturing.
Jul.	1964	Founded Toyokawa Plant.
Jun.	1975	Founded Kinuura Plant.
Sep.	1996	100th Anniversary.
Aug.	2008	Equity and business tie-up entered into with Central Japan Railway Company.
Sep.	2010	Manufactured 3000th Shinkansen EMU.
Jul.	2012	Founded Rochelle Plant of NIPPON SHARYO U.S.A., INC.

Line of Business

Overview of the Main Segments
NIPPON SHARYO manufactures and sells the following products:

Business segment	Lines of business
Railway rolling stock	EMUs, DMUs, Passenger Cars, Linear Motor Cars, Track Maintenance Machines, Rolling Stock Components, and Automated Guideway Transit Systems
Transportation equipment and Steel structure	Freight Cars, Locomotives, Tank Trucks, Tank Trailers, Storage Tanks, Heavy-duty Industrial Vehicles, Containers, Automated Guided Vehicles, Roadway Bridges, Railway Bridges, Water Gates
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
Other	Agricultural Plants, Grain Complex, Seed Processing Plants, Railway Rolling Stock Inspection/Maintenance System, Pulp and Paper Plants, Real Estate Rental

Directory

OFFICE

HEAD OFFICE (NAGOYA)

1-1 Sanbonmatsu-cho,
Atsuta-ku, Nagoya 456-8691, JAPAN
Phone: +81-52-882-3316
Fax : +81-52-882-3781

TOKYO OFFICE

12th Fl. Marunouchi Central Bldg.
1-9-1 Marunouchi,
Chiyoda-ku, Tokyo 100-0005 JAPAN
Phone: +81-3-6688-6808
Fax : +81-3-6688-6813

OSAKA BRANCH

14th FL,North Gate Building.
3-1-3 Umeda,
Kita-ku, Osaka 530-0001, JAPAN
Phone: +81-6-6341-4455
Fax : +81-6-6341-4487

NIPPON SHARYO U.S.A.,INC.

2340 S. Arlington Heights Road,
Suite 605 Arlington Heights,
IL 60005 U.S.A.
Phone: +1-847-228-2700
Fax : +1-847-228-5530

PLANT

TOYOKAWA PLANT
(Railway rolling stock & other transportation equipment)

2-20 Honohara,
Toyokawa, Aichi-pref 442-8502, JAPAN
Phone: +81-533-85-4900
Fax : +81-533-85-4123

NARUMI PLANT
(Construction equipment)

80 Ryucho, Narumi-cho,
Midori-ku, Nagoya 458-8502, JAPAN
Phone: +81-52-623-3529
Fax : +81-52-623-4349

KINUURA PLANT
(Steel structure)

20 11-gouchi,
Handa, Aichi 475-0831, JAPAN