Annual Business Report

April 1, 2015 through March 31, 2016

日本車両

NIPPON SHARYO, LTD.

Financial Highlights

Comparison of Sales by Segment

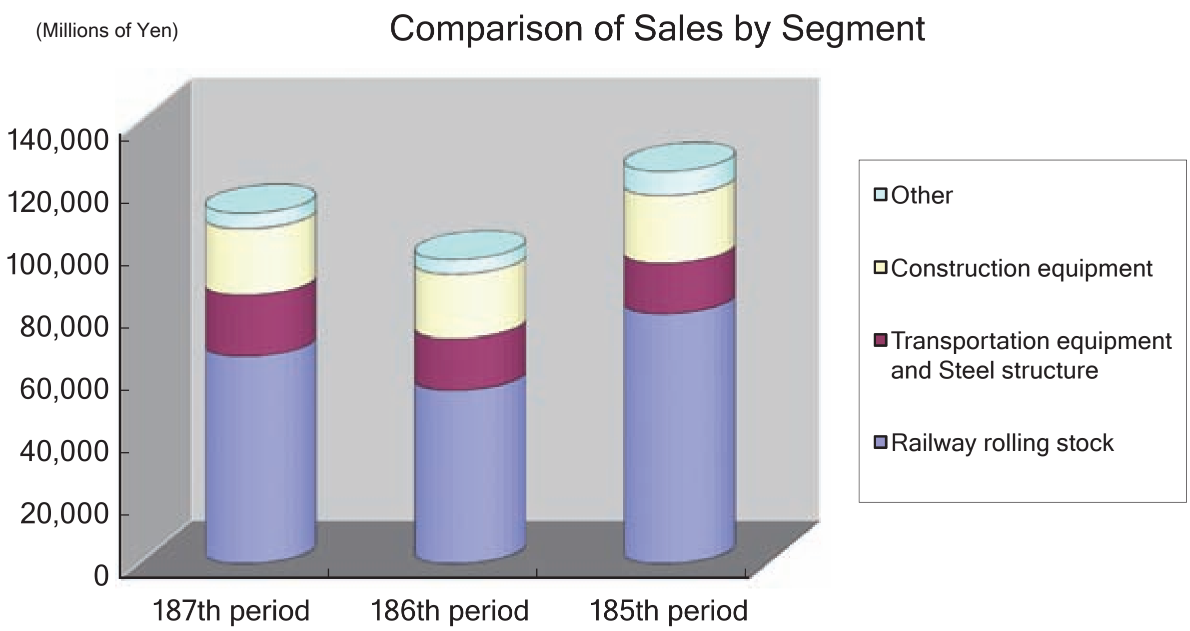
(Unit: millions of yen)

Business Segment	187th period (2015-2016)		186th period (2014-2015)		Increase/(Decrease)	
Railway rolling stock	65,858	59.3 %	55,035	57.1 %	10,823	19.7 %
Transportation equipment and Steel structure	19,068	17.2	16,260	16.9	2,807	17.3
Construction equipment	21,138	19.0	20,311	21.1	827	4.1
Other	4,943	4.5	4,693	4.9	251	5.3
Total	111,007	100.0	96,299	100.0	14,708	15.3

Change in Operating Performance and Asset Status

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

Titles of account	187th period (2015-2016)	186th period (2014-2015)	185th period (2013-2014)
Net sales	111,007	96,299	124,311
Ordinary income (loss)	(10,174)	(8,234)	6,677
Net income (loss) attributable to owners of the parent	(16,130)	(14,568)	6,930
Net income per share (loss)	(¥111.74)	(¥100.91)	¥48.00
Total assets	132,265	145,137	141,453
Total equity	33,384	51,461	63,332



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Model KiHa25 Diesel Cars

Message from the President

Review of Business Operations

During the fiscal term under review, the Japanese economy saw a delay in recovery of exports and production due to the influence of the economic slowdown of emerging nations such as China although employment and corporate profits showed healthy movement as a result of various economic policies.

Under this business environment, the Group performance showed an increase in sales of railway rolling stock this year, totaling ¥111,007 million, up 15.3% from the previous year. In terms of profits, the Group made provisions for a loss due to the large railway rolling stock project for the U.S.A. As a result, the ordinary loss was ¥10,174 million (The ordinary loss in the previous year was ¥8,234 million). We also withdrew all our deferred tax assets after careful consideration of the possibility to collect deferred tax assets. Consequently, the net loss that belongs to the stockholders of the parent company was ¥16,130 million (The net loss in the previous year was ¥14,568 million).

The Outlook

The environment surrounding the Group is expected to grow difficult in terms of receiving orders. 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 due to replacement demands having come full cycle as well as factors related to the country's aging population. Setting our eyes on such a situation, we continue to make efforts to gain 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 where growth in demand is anticipated, we will make an effort in acquiring promising projects by analyzing local needs in Taiwan and Southeast Asian countries. As for our North American business promoted mainly by the railway rolling stock plant in Illinois, U.S.A., we are enhancing our permanent system in the design department for the large railway rolling stock project for the U.S.A. in which a great loss has occurred, in order to accurately handle review of the design, etc. We are also making efforts to stably and steadily carry out this project by adjusting and reviewing the manufacturing system. The entire Group is working to improve performance for these measures.

In the transportation equipment and steel structure business segment, the transportation equipment business is facing difficulties. We will, however, make efforts to secure orders and develop new markets by developing products which promptly capture market trends and promote reduction of costs by improving the efficiency of operation. 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. At the same time, we will expand our repair/maintenance projects, both of which are anticipated to grow, as well as peripheral businesses.

In the construction equipment segment and other businesses, we will capture business opportunities through monitoring trends in public works and private capital investment in Japan as well as overseas market situations. We will secure profits by proposing products that cater to market needs.

The Group's major products such as railway cars and bridges are mostly built to order and order units are also relatively large; therefore, the product breakdown of the production and sales numbers changes greatly from year to year. This fluctuation poses permanent challenges to the Group; we must level the capacity utilization rate and effectively handle specifications that vary by product. Most of our projects require a long period of time from order to delivery, which greatly affects management performance because of changes in exchange rates and the cost of steel and other materials. The Group will therefore make efforts to reduce risks against foreign exchange fluctuation by anticipating currency movements and making use of hedging, such as foreign exchange contracts. As for raw materials, the Group will curtail cost increases by taking measures such as optimization of procurement timing, yield increase, and material changes.

The Group has decided to review the design of the large railway rolling stock project for the U.S.A., for which sales are expected in the future. Since the delivery of this project is expected to be significantly delayed, we calculated the amount of loss that was rationally estimated, which may rise in the future, and recorded a provision in this consolidated fiscal year. As a result, an operating loss was recorded for two consecutive years, following the previous consolidated fiscal year.

In such a circumstance, we will make efforts to enhance the profitability not only by aiming at improvement of our North American business but also by promoting further reduction of the raw 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) and can raise short-term loans fluidly. We also raise long-term loans from financial institutions as necessary to secure funds that can sufficiently meet demands anticipated from the funding plan. Thus we take measures to resolve or improve the situation. We consider that there is no critical uncertainty for any going concern.

On July 16, 2015, the chief of the Chubu Regional Bureau of Ministry of Land, Infrastructure, Transport and Tourism ordered the Group to suspend its construction business based on the regulations of the Construction Business Act because of a violation of antitrust laws in relation to construction work of grain drying, mixing, and storing facilities and rice-processing facilities ordered by the Agricultural Cooperatives, etc. For this issue, the Group submitted an application for the leniency policy in August 2013 to the Fair Trade Commission. Prior to this, the board of directors has reconfirmed the Group's intention of non-violation of antitrust laws and reviewed in-house compliance programs in order to ensure compliance. Though this issue concerns our business activities before August 2013, we take this matter seriously and will redouble our efforts in fulfilling regulatory compliance as well as consolidating the internal control systems.this matter seriously and will redouble our efforts in fulfilling regulatory compliance as well as consolidating the internal control systems.

K. Igarashi

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 ¥25,910 million. It was achieved through the sales of the N700A Shinkansen trains to JR Central and JR West and the Model KiHa 25 diesel cars to JR Central. Our sales for the public and private railways reached ¥11,490 million, including the sales of the Series 1000 trains for the Tokyo Metro Ginza Line; the Models N1000 and 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 60000 trains for Odakyu Electric Railway Co., Ltd.; the Model 3000 trains for Keisei Electric Railway Co., Ltd; and the Model N800 trains for Shin-Keisei Electric Railway Co., Ltd. For railway cars for overseas, we had sales of ¥28,458 million, including bi-level EMU for the U.S.A.; diesel cars for Canada; trains for Venezuela, and EMU with a tilting system for Taiwan.


Series 2200 Trains for Nagoya Railroad Co., Ltd.


EMU with Tilting System for Taiwan

Consequently, our total sales for railway rolling stock recorded ¥65,858 million, up 19.7% from the previous year, with an increase in railway cars for overseas.

Transportation Equipment and Steel Structure Business


LPG Tank Lorry

In the transportation equipment business, we had sales of carriers, AGV, and other heavy-duty industrial vehicles, as well as LPG tank lorries. There were also demands for container flat cars and consumer-purpose LPG bulk tank lorries. As a result, sales reached ¥10,551 million, up 15.5% from the previous year.

In the steel structure business, sales included Shin-Atsubetsugawa Bridge for the Hokkaido Regional

Development Bureau; Misakashinden Elevated Bridge for the Kanto Regional Development Bureau; Fukushigawa Second Bridge for the Central Nippon Expressway Company; as well as temporary construction work of the Fujigawa First overpass, Tokiwagawa overpass, and Fukuda overpass. The sales also included large-scale repair work for Tokaido Shinkansen. Sales were up 19.6% from the previous year to ¥8,516 million. In all, sales for the transportation equipment and steel structure businesses were ¥19,068 million, up 17.3% from the previous year.


Shin-Atsubetsugawa Bridge

Construction Equipment Business

In the construction equipment business, the domestic demand in casing rotators showed healthy movement, thanks to recovery efforts from the Great East Japan Earthquake being in full swing and the increase in construction work for the Tokyo Olympic Games. The export business included large pile driving rigs to South Korea and casing rotators to China. As a result, sales reached ¥17,664 million, up 6.2% from the previous year.

Casing Rotator

Generator

The generator business showed healthy movement in sales of overseas products, however, sluggish movement in sales of domestic products. The sales of generators were ¥3,475 million, down 5.4% from the previous year. In all, sales in our construction equipment business were ¥21,138 million, up 4.1% from the previous year.

Other Businesses

Our main sales included; mechanical equipment for Maglev trains for JR Central; vehicle inspection/repair facilities; expansion and repair work of agricultural plants for Agricultural Cooperatives all over Japan; paper-manufacturing equipment for household paper manufacturers; laser processing machines; and railway memorabilia. Sales in other businesses areas totaled ¥4,943 million, up 5.3% from the previous year.


Agricultural Plant

The overseas sales for the year under review amount to ¥31,918 million, representing 28.8% of total sales, which includes ¥28,458 million for the railway rolling stock business and ¥2,643 million for the construction equipment business.

The orders on hand at the end of the year under review reached ¥124,145 million. These comprised ¥95,812 million for the railway rolling stock business (¥18,801 million for rolling stock for JR companies such as the N700A Shinkansen trains, ¥14,012 million for railway cars for other public and private railway companies, ¥62,999 million for rolling stock for overseas), ¥21,576 million for the transportation equipment and steel structure businesses (¥11,971 million for the transportation equipment business, ¥9,606 million for the steel structure business), ¥3,125 million for the construction equipment business, and ¥3,632 million for other businesses.

Investment in Plant and Equipment

Plant and equipment investment during the year under review totaled ¥2,657 million. Investment was mainly targeted at introduction of IT systems to consolidate design/development capabilities for railway rolling stock and renewal of power receiving equipment at the Toyokawa Plant. Investment was also made for renewal of equipment to maintain/improve the production capacity at each plant.

Financing Activities

In June 2015, the Group raised a long-term loan of ¥19,173 million from two financial institutions.

**NIPPON SHARYO, LTD. AND
CONSOLIDATED SUBSIDIARIES**

**CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2016,
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. and its consolidated subsidiaries (the "Company") as of March 31, 2016, 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, 2016, 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 19 to the consolidated financial statements, the Company revised its financial covenants. Along with this revision, the Company pledged investment securities as collateral for long-term debt on April 20, 2016 and agreed with the financial institutions to pledge additional assets as collateral by establishing a factory foundation mortgage consisting of major assets of Company's plants. Our opinion is not modified in respect of this matter.

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, 2016

NIPPON SHARYO, LTD. and Consolidated Subsidiaries
Consolidated Balance Sheet
March 31, 2016

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
ASSETS	2016	2015	2016
CURRENT ASSETS:			
Cash and cash equivalents (Notes 14 and 17)	¥ 13,247	¥ 3,181	$ 118,277
Notes and accounts receivable (Notes 3, 14, and 17)	21,220	29,213	189,462
Inventories (Notes 2.i and 4)	40,305	48,244	359,862
Deferred tax assets (Note 13)	80	2,794	715
Other current assets (Note 9)	2,169	3,115	19,369
Total current assets	77,021	86,547	687,685
PROPERTY, PLANT, AND EQUIPMENT:			
Land	15,089	15,089	134,725
Buildings and structures	28,042	27,783	250,376
Machinery and equipment	34,850	34,429	311,161
Construction in progress	109	333	970
Total	78,090	77,634	697,232
Accumulated depreciation	(46,817)	(45,777)	(418,013)
Net property, plant, and equipment	31,273	31,857	279,219
INVESTMENTS AND OTHER ASSETS:			
Investment securities (Notes 5 and 14)	16,975	18,040	151,567
Investments in an unconsolidated subsidiary and associated companies	1,511	1,293	13,488
Asset for employees' retirement benefits (Note 8)	3,982	5,895	35,550
Deferred tax assets (Note 13)	91	87	815
Other assets (Note 9)	1,412	1,418	12,610
Total investments and other assets	23,971	26,733	214,030
TOTAL	¥ 132,265	¥ 145,137	$ 1,180,934

(Continued)

NIPPON SHARYO, LTD. and Consolidated Subsidiaries
Consolidated Balance Sheet
March 31, 2016

LIABILITIES AND EQUITY	Millions of Yen 2016	Millions of Yen 2015	Thousands of U.S. Dollars (Note 1) 2016
CURRENT LIABILITIES:			
Short-term borrowings (Notes 7, 14, and 17)	¥ 362	¥ 10,015	$ 3,231
Current portion of lease obligations (Notes 11 and 14)	770	987	6,875
Notes and accounts payable (Notes 6 and 14)	22,473	22,499	200,649
Accrued expenses	9,988	5,819	89,183
Advances received	15,602	28,766	139,300
Income taxes payable (Note 14)	50	770	442
Allowance for work in process on construction contracts	117	9	1,042
Provision for loss on orders received	13,679	9,576	122,130
Other current liabilities	257	286	2,311
Total current liabilities	63,298	78,727	565,163
LONG-TERM LIABILITIES:			
Long-term debt (Notes 7 and 14)	24,174	5,000	215,836
Liability for employees' retirement benefits (Note 8)	242	229	2,157
Lease obligations (Notes 11 and 14)	1,600	1,672	14,283
Allowance for PCB disposal expenses	334	334	2,982
Provision for compensation for health damage from asbestos	134	149	1,196
Deferred tax liabilities (Note 13)	8,746	6,946	78,086
Other long-term liabilities	353	619	3,165
Total long-term liabilities	35,583	14,949	317,705
COMMITMENTS AND CONTINGENT LIABILITIES(Notes 10 and 15)			
EQUITY (Note 12):			
Common stock, authorized, 328,000,000 shares; issued, 146,750,129 shares in 2016 and 2015	11,811	11,811	105,453
Capital surplus	12,045	12,045	107,555
Retained earnings	1,967	18,049	17,555
Treasury stock, at cost, 2,396,024 shares in 2016 and 2,388,628 shares in 2015	(513)	(511)	(4,582)
Accumulated other comprehensive income:			
Unrealized gain on available-for-sale securities	7,013	7,486	62,614
Deferred loss on derivatives under hedge accounting	(2)	(47)	(18)
Foreign currency translation adjustments	(2,261)	(2,155)	(20,190)
Defined retirement benefit plans	3,241	4,709	28,941
Total accumulated other comprehensive income	7,991	9,993	71,347
Noncontrolling interests	83	74	738
Total equity	33,384	51,461	298,066
TOTAL	¥ 132,265	¥ 145,137	$ 1,180,934

(Concluded)

See notes to consolidated financial statements.

NIPPON SHARYO, LTD. and Consolidated Subsidiaries
Consolidated Statement of Operations
Year Ended March 31, 2016

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2016	2015	2016
NET SALES (Note 17)	¥ 111,007	¥ 96,299	$ 991,134
COST OF SALES (Notes 2.i, 2.m, and 2.u)	114,067	97,134	1,018,456
Gross loss	(3,060)	(835)	(27,322)
SELLING, GENERAL, AND ADMINISTRATIVE EXPENSES (Note 2.u)	7,112	7,343	63,495
Operating loss	(10,172)	(8,178)	(90,817)
OTHER EXPENSES			
Interest and dividend income (Note 17)	344	240	3,074
Interest expense (Note 17)	(189)	(87)	(1,690)
Equity in earnings of associated companies	188	40	1,678
Gain on sales of investment securities, net (Note 5)	2	247	15
Loss on impairment of property, plant, and equipment (Note 16)	(50)	(4,815)	(444)
Loss on sales and disposals of property, plant, and equipment, net	(30)	(23)	(265)
Other – net	(347)	(279)	(3,102)
Other expenses – net	(82)	(4,677)	(734)
LOSS BEFORE INCOME TAXES	(10,254)	(12,855)	(91,551)
INCOME TAXES (Note 13):			
Current	117	1,002	1,044
Deferred	5,750	700	51,338
Total income taxes	5,867	1,702	52,382
NET LOSS	(16,121)	(14,557)	(143,933)
NET INCOME ATTRIBUTABLE TO NONCONTROLLING INTERESTS	9	11	85
NET LOSS ATTRIBUTABLE TO OWNERS OF THE PARENT	¥ (16,130)	¥ (14,568)	$ (144,018)

	Yen		U.S. Dollars
PER SHARE OF COMMON STOCK (Note 2.v):			
Basic net loss	¥ (111.74)	¥ (100.91)	$ (1.00)
Cash dividends applicable to the year	-	2.50	-

See notes to consolidated financial statements.

NIPPON SHARYO, LTD. and Consolidated Subsidiaries
Consolidated Statement of Comprehensive Income
Year Ended March 31, 2016

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2016	2015	2016
NET LOSS	¥ (16,121)	¥ (14,557)	$ (143,933)
OTHER COMPREHENSIVE (LOSS) INCOME (Note 18):			
Unrealized (loss) gain on available-for-sale securities	(477)	2,759	(4,258)
Deferred gain (loss) on derivatives under hedge accounting	42	(59)	377
Foreign currency translation adjustments	(133)	(1,817)	(1,184)
Defined retirement benefit plans	(1,467)	4,103	(13,099)
Share of other comprehensive income in associated companies	33	(0)	293
Total other comprehensive (loss) income	(2,002)	4,986	(17,871)
COMPREHENSIVE LOSS	¥ (18,123)	¥ (9,571)	$ (161,804)
TOTAL COMPREHENSIVE (LOSS) INCOME ATTRIBUTABLE TO:			
Owners of the parent	¥ (18,132)	¥ (9,582)	$ (161,889)
Noncontrolling interests	9	11	85

See notes to consolidated financial statements.

NIPPON SHARYO, LTD. and Consolidated Subsidiaries
Consolidated Statement of Changes in Equity
Year Ended March 31, 2016

		Millions of Yen			
	Number of shares of common stock outstanding	Common stock	Capital surplus	Retained earnings	Treasury stock
BALANCE, APRIL 1, 2014 (as previously reported)	144,370,295	¥ 11,811	¥ 12,045	¥ 34,914	¥ (508)
Cumulative effect of accounting change	-	-	-	(1,575)	-
BALANCE, APRIL 1, 2014 (as restated)	144,370,295	11,811	12,045	33,339	(508)
Cash dividends, ¥5.0 per share	-	-	-	(722)	-
Net loss attributable to owners of the parent	-	-	-	(14,568)	-
Increase in treasury stock, net	(8,794)	-	0	-	(3)
Net changes in the year	-	-	-	-	-
BALANCE, MARCH 31, 2015	144,361,501	11,811	12,045	18,049	(511)
Cash dividends	-	-	-	-	-
Net loss attributable to owners of 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)

	Thousands of U.S. Dollars (Note 1)			
	Common stock	Capital surplus	Retained earnings	Treasury stock
BALANCE, MARCH 31, 2015	$ 105,453	$ 107,555	$ 161,144	$ (4,562)
Cash dividends	-	-	-	-
Net loss attributable to owners of the parent	-	-	(144,018)	-
Increase in treasury stock, net	-	-	-	(20)
Change due to increase in number of associated companies	-	-	429	-
Net changes in the year	-	-	-	-
BALANCE, MARCH 31, 2016	$ 105,453	$ 107,555	$ 17,555	$ (4,582)

See notes to consolidated financial statements.

Millions of Yen						
Accumulated other comprehensive income						
Unrealized gain on available-for-sale securities	Deferred loss on derivatives under hedge accounting	Foreign currency translation adjustments	Defined retirement benefit plans	Total accumulated other comprehensive income	Noncontrolling interests	Total equity
¥ 4,728	¥ 12	¥ (338)	¥ 604	¥ 5,006	¥ 64	¥ 63,332
-	-	-	-	-	-	(1,575)
4,728	12	(338)	604	5,006	64	61,757
-	-	-	-	-	-	(722)
-	-	-	-	-	-	(14,568)
-	-	-	-	-	-	(3)
2,758	(59)	(1,817)	4,105	4,987	10	4,997
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

Thousands of U.S. Dollars (Note 1)						
Accumulated other comprehensive income						
Unrealized gain on available-for-sale securities	Deferred loss on derivatives under hedge accounting	Foreign currency translation adjustments	Defined retirement benefit plans	Total accumulated other comprehensive income	Noncontrolling interests	Total equity
$ 66,843	$ (424)	$ (19,242)	$ 42,041	$ 89,218	$ 665	$ 459,473
-	-	-	-	-	-	-
-	-	-	-	-	-	(144,018)
-	-	-	-	-	-	(20)
-	(398)	502	-	104	-	533
(4,229)	804	(1,450)	(13,100)	(17,975)	73	(17,902)
$ 62,614	$ (18)	$ (20,190)	$ 28,941	$ 71,347	$ 738	$ 298,066

NIPPON SHARYO, LTD. and Consolidated Subsidiaries
Consolidated Statement of Cash Flows
Year Ended March 31, 2016

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2016	2015	2016
OPERATING ACTIVITIES:			
Loss before income taxes	¥ (10,254)	¥ (12,855)	$ (91,551)
Adjustments for:			
Income taxes-paid	(333)	(4,433)	(2,975)
Depreciation	2,888	3,021	25,787
Loss on impairment of property, plant, and equipment	50	4,815	444
Loss on sales and disposals of property, plant, and equipment	4	9	39
Gain on sales of investment securities	(2)	(247)	(15)
Changes in assets and liabilities:			
Decrease in trade notes and accounts receivable	8,599	5,062	76,780
Decrease (increase) in inventories	7,974	(7,935)	71,195
Increase (decrease) in trade notes and accounts payable	116	(1,341)	1,039
Increase (decrease) in allowance for work in process on construction contracts	108	(86)	965
Increase in provision for loss on orders received	4,113	7,994	36,723
(Decrease) increase in provision for compensation for health damage from asbestos	(15)	6	(134)
(Decrease) increase in advances received	(13,215)	1,020	(117,995)
Increase (decrease) in liability for employees' retirement benefits	13	(1,572)	113
Other-net	2,288	2,856	20,428
Net cash provided by (used in) operating activities	2,334	(3,686)	20,843
INVESTING ACTIVITIES:			
Purchases of property, plant, and equipment	(1,704)	(4,414)	(15,215)
Proceeds from sales of property, plant, and equipment	86	48	765
Purchases of investment securities	(15)	(3)	(137)
Proceeds from sales of investment securities	2	440	18
Other-net	14	(381)	132
Net cash used in investing activities	(1,617)	(4,310)	(14,437)
FINANCING ACTIVITIES:			
Net (decrease) increase in short-term borrowings	(9,618)	4,772	(85,873)
Proceeds from long-term debt	19,174	-	171,193
Dividends paid	(1)	(722)	(12)
Other-net	(86)	(70)	(765)
Net cash provided by financing activities	9,469	3,980	84,543
FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS	(120)	152	(1,076)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	10,066	(3,864)	89,873
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	3,181	7,045	28,404
CASH AND CASH EQUIVALENTS, END OF YEAR	¥ 13,247	¥ 3,181	$ 118,277

See notes to consolidated financial statements.

(Concluded)

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 2015 consolidated financial statements to conform to the classifications used in 2016.

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, 2016. 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, 2016, 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, 2016 and 2015, was as follows:

	2016	2015
Consolidated subsidiaries	6	6
Unconsolidated subsidiary, stated at cost	1	1
Associated company accounted for by the equity method	3	1
Associated companies stated at cost	1	4

NIHONDENSO ALL CO,.LTD. and TAIWAN ROLLING STOCK, CO., LTD. were included in the scope of application of the equity method from the year ended March 31, 2016 due to their increasing materiality.

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

In May 2006, the Accounting Standards Board of Japan (the "ASBJ") issued ASBJ Practical Issues Task Force ("PITF") No. 18, "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements" which was subsequently revised in February 2010 and March 2015 to reflect revisions of the relevant Japanese GAAP or accounting standards in other jurisdictions. PITF No. 18 prescribes that 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

In March 2008, the ASBJ issued ASBJ Statement No. 16, "Accounting Standard for Equity Method of Accounting for Investments" which was subsequently revised in line with the revisions to PITF No. 18 above. The standard 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

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

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

On September 13, 2013, the ASBJ issued revised ASBJ Statement No. 21, "Accounting Standard for Business Combinations," revised ASBJ Statement No. 22, "Accounting Standard for Consolidated Financial Statements," and revised ASBJ Statement No. 7 "Accounting Standard for Business Divestitures." Major accounting changes are as follows:

(a) *Transactions with noncontrolling interest*—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. Under the previous accounting standard, 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 an adjustment of goodwill or as profit or loss in the consolidated statement of income. Under the revised accounting standard, such difference is accounted for as capital surplus as long as the parent retains control over its subsidiary.

(b) *Presentation of the consolidated balance sheet*—In the consolidated balance sheet, "minority interest" under the previous accounting standard is changed to "noncontrolling interest" under the revised accounting standard.

(c) *Presentation of the consolidated statement of income*—In the consolidated statement of income, "net income before minority interest" under the previous accounting standard is changed to "net income" under the revised accounting standard, and "net income" under the previous accounting standard is changed to "net income attributable to owners of the parent" under the revised accounting standard.

(d) *Provisional accounting treatments for a business combination*—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. Under the previous accounting standard guidance, the impact of adjustments to provisional amounts recorded in a business combination on profit or loss is recognized as profit or loss in the year in which the measurement is completed. Under the revised accounting standard guidance, 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.

(e) *Acquisition-related costs*—Acquisition-related costs are costs, such as advisory fees or professional fees, which an acquirer incurs to effect a business combination. Under the previous accounting standard, the acquirer accounts for acquisition-related costs by including them in the acquisition costs of the investment. Under the revised accounting standard, acquisition-related costs shall be accounted for as expenses in the periods in which the costs are incurred.

The Company applied the revised accounting standards for (a) transactions with noncontrolling interest, (b) presentation of the consolidated balance sheet, (c) presentation of the consolidated statement of income, and (e) acquisition-related costs above, effective April 1, 2015, and (d) provisional accounting treatments for a business combination above for a business combination which occurred on or after April 1, 2015. The revised accounting standards for (a) transactions with noncontrolling interest and (e) acquisition-related costs were applied prospectively as permitted in the transitional treatment of the revised standards.

With respect to (b) presentation of the consolidated balance sheet and (c) presentation of the consolidated statement of income, the applicable line items in the 2015 consolidated financial statements have been accordingly reclassified and presented in line with those in 2016.

The effects of the application of the revised accounting standards on the consolidated financial statements were immaterial.

e. Cash equivalents

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

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

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 ¥3,427 million ($30,599 thousand) and ¥3,059 million for the years ended March 31, 2016 and 2015, 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 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.

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 ¥108 million ($965 thousand) and ¥(86) million for the years ended March 31, 2016 and 2015, 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.

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.

ASBJ issued ASBJ Statement No. 26, "Accounting Standard for Retirement Benefits" in May 2012 and ASBJ Guidance No. 25, "Guidance on Accounting Standard for Retirement Benefits" in March 2015, which replaced the accounting standard for retirement benefits that had been issued by the Business Accounting Council in 1998 with an effective date of April 1, 2000, and the other related practical guidance, and were followed by partial amendments from time to time through 2009.

(a) Under the revised accounting standard, actuarial gains and losses and prior service costs that are yet to be recognized in profit or loss are recognized within equity (accumulated other comprehensive income), after adjusting for tax effects, and any resulting deficit or surplus is recognized as a liability (liability for retirement benefits) or asset (asset for retirement benefits).

(b) The revised accounting standard does not change how to recognize actuarial gains and losses and prior service costs in profit or loss. Those amounts are recognized in profit or loss over a certain period no longer than the expected average remaining service period of the employees. However, actuarial gains and losses and prior service costs that arose in the current period and have not yet been recognized in profit or loss are included in other comprehensive income, and actuarial gains and losses and prior service costs that were recognized in other comprehensive income in prior periods and then recognized in profit or loss in the current period are treated as reclassification adjustments (see Note 18).

(c) The revised accounting standard also made certain amendments relating to the method of attributing expected benefit to periods, the discount rate, and expected future salary increases.

This accounting standard and the guidance for (a) and (b) above are effective for the end of annual periods beginning on or after April 1, 2013, and for (c) above are effective for the beginning of annual periods beginning on or after April 1, 2014, or for the beginning of annual periods beginning on or after April 1, 2015, subject to certain disclosure in March 2015, all with earlier application being permitted from the beginning of annual periods beginning on or after April 1, 2013. However, no retrospective application of this accounting standard to consolidated financial statements in prior periods is required.

The Companies applied the revised accounting standard and guidance for retirement benefits for (a) and (b) above, effective March 31, 2014, and for (c) above, effective April 1, 2014.

With respect to (c) above, the Companies changed the method of attributing the expected benefit to periods from a straight-line basis to a benefit formula basis and the method of determining the discount rate, and recorded the effect of (c) above as of April 1, 2014, in retained earnings. As a result, retained earnings as of April 1, 2014, decreased by ¥1,575 million.

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.

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 ¥1,440 million ($12,853 thousand) and ¥1,130 million for the years ended March 31, 2016 and 2015, 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 income (loss) per share is computed by dividing net income (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, 2016 and 2015, were 144,357 thousand shares and 144,366 thousand shares, respectively. Diluted net income (loss) per share for the years ended March 31, 2016 and 2015, 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 construction contracts.

x. Accounting changes and error corrections

In December 2009, the ASBJ issued ASBJ Statement No. 24, "Accounting Standard for Accounting Changes and Error Corrections," and ASBJ Guidance No. 24, "Guidance on Accounting Standard for Accounting Changes and Error Corrections." Accounting treatments under this standard and guidance are as follows: (1) Changes in Accounting Policies—When a new accounting policy is applied 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, 2016 and 2015, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	2016
Trade notes	¥ 3,789	¥ 3,903	$ 33,833
- Unconsolidated subsidiary and associated companies	134	138	1,193
Trade accounts	13,801	21,955	123,222
- The Parent, unconsolidated subsidiary and associated companies	2,857	3,186	25,511
Other	641	51	5,723
Less allowance for doubtful accounts	(2)	(20)	(20)
Total	¥ 21,220	¥ 29,213	$ 189,462

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, 2016 and 2015, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	2016
Merchandise	¥ 93	¥ 92	$ 826
Finished goods	1,312	1,297	11,717
Work in process and semi-finished goods	36,166	38,947	322,906
Raw materials	2,734	7,908	24,413
Total	¥ 40,305	¥ 48,244	$ 359,862

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, 2016, allowance for work in process on construction contracts of ¥2 million ($17 thousand) was provided and included in work in process above. At March 31, 2015, no such allowance was provided and included in work in process.

5. INVESTMENT SECURITIES

Investment securities as of March 31, 2016 and 2015, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	2016
Equity securities	¥ 16,975	¥ 18,040	$ 151,567
Total	¥ 16,975	¥ 18,040	$ 151,567

The costs and aggregate fair values of investment securities as of March 31, 2016 and 2015, were as follows:

	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

	Millions of Yen			
	2015			
	Cost	Gross unrealized gains	Gross unrealized losses	Fair and carrying value
Securities classified as available-for-sale:				
Equity securities	¥ 6,060	¥ 10,938	¥ -	¥ 16,998
Total	¥ 6,060	¥ 10,938	¥ -	¥ 16,998

	Thousands of U.S. Dollars			
	2016			
	Cost	Gross unrealized gains	Gross unrealized losses	Fair and carrying value
Securities classified as available-for-sale:				
Equity securities	$ 54,136	$ 89,658	$ (122)	$ 143,672
Total	$ 54,136	$ 89,658	$ (122)	$ 143,672

The information of available-for-sale securities which were sold for the years ended March 31, 2016 and 2015, was as follows:

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

	Millions of Yen		
	2015		
	Proceeds	Realized gains	Realized losses
Available-for-sale:			
Equity securities	¥ 420	¥ 228	¥ -
Total	¥ 420	¥ 228	¥ -

	Thousands of U.S. Dollars		
	2016		
	Proceeds	Realized gains	Realized losses
Available-for-sale:			
Equity securities	$ 18	$ 15	$ -
Total	$ 18	$ 15	$ -

No impairment losses on available-for-sale equity securities for the years ended March 31, 2016 and 2015, were recognized.

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6. NOTES AND ACCOUNTS PAYABLE

Notes and accounts payable as of March 31, 2016 and 2015, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	2016
Trade notes	¥ 1,103	¥ 941	$ 9,845
Electronically recorded obligations-operating	9,149	8,964	81,690
-Unconsolidated subsidiary and associated companies	16	18	146
Trade accounts	10,262	10,478	91,617
-Unconsolidated subsidiary and associated companies	30	39	266
Other	1,913	2,059	17,085
Total	¥ 22,473	¥ 22,499	$ 200,649

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7. SHORT-TERM BORROWINGS AND LONG-TERM DEBT

Short-term borrowings as of March 31, 2016 and 2015, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	2016
CMS with average interest rates of 0.49% in 2015	¥ -	¥ 648	$ -
Unsecured bank loans with interest rates of 0.59% in 2016 and interest rates ranging from 0.47% to 0.70% in 2015	362	9,367	3,231
Total	¥ 362	¥ 10,015	$ 3,231

Long-term debt as of March 31, 2016 and 2015, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	2016
Unsecured bank loans due in 2022 and 2018 with average interest rates of 0.71% and 0.55% in 2016 and 2015, respectively	¥ 24,174	¥ 5,000	$ 215,836
Total	¥ 24,174	¥ 5,000	$ 215,836

Note: Long-term debt as of March 31, 2016 and 2015, had no current portion.

The aggregate annual maturities of long-term debt as of March 31, 2016, were as follows:

Years ending March 31	Millions of Yen	Thousands of U.S. Dollars
2017	-	-
2018	¥ 5,000	$ 44,643
2019	-	-
2020	-	-
2021	-	-
2022 and thereafter	19,174	171,193
Total	¥ 24,174	$ 215,836

Long-term debt in the amount of ¥21,674 million ($193,515 thousand) is subject to the following financial covenants. Financial institutions agreed with a waiver of their right to claim forfeiture of the benefit of time as of March 31, 2016.

(a) Financial covenant in the term loan agreement concluded on March 14, 2013 (outstanding balance: ¥2,500 million ($22,321 thousand))

- 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, 2012 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.

(b) Financial covenants in the term loan agreement concluded on June 16, 2015 (outstanding balance: ¥13,572 million ($121,177 thousand)) and the loan agreement concluded on June 17, 2015 (outstanding balance: ¥5,602 million ($50,016 thousand))

- 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, 2015 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 ended March 31, 2015 and thereafter.

After March 31, 2016, the above covenants were revised as follows and agreed to by the relevant financial institutions:

- 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.

Along with the above revision of financial covenants, significant assets were pledged as collateral to the relevant financial institutions. Refer to Note 19 “Subsequent Event.”

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, 2016 and 2015, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	2016
Balance at beginning of year (as previously reported)	¥ 14,011	¥ 11,880	$ 125,102
Cumulative effect of accounting change	-	2,426	-
Balance at beginning of year (as restated)	14,011	14,306	125,102
Current service cost	738	699	6,591
Interest cost	124	125	1,108
Actuarial (gains) losses	(150)	88	(1,342)
Benefits paid	(916)	(1,207)	(8,184)
Balance at end of year	¥ 13,807	¥ 14,011	$ 123,275

(b) The changes in plan assets for the years ended March 31, 2016 and 2015, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	2016
Balance at beginning of year	¥ 19,677	¥ 13,880	$ 175,690
Expected return on plan assets	230	205	2,055
Actuarial (losses) gains	(2,127)	5,766	(18,992)
Contribution from the employer	316	456	2,816
Benefits paid	(549)	(630)	(4,901)
Balance at end of year	¥ 17,547	¥ 19,677	$ 156,668

(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, 2016 and 2015, was as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	2016
Funded defined benefit obligation	¥ 13,565	¥ 13,782	$ 121,118
Plan assets	(17,547)	(19,677)	(156,668)
Total	(3,982)	(5,895)	(35,550)
Unfunded defined benefit obligation	242	229	2,157
Net asset arising from defined benefit obligation	¥ (3,740)	¥ (5,666)	$ (33,393)
Asset for employees' retirement benefits	¥ (3,982)	¥ (5,895)	$ (35,550)
Liability for employees' retirement benefits	242	229	2,157
Net asset arising from defined benefit obligation	¥ (3,740)	¥ (5,666)	$ (33,393)

(d) The components of net periodic benefit costs for the years ended March 31, 2016 and 2015, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	2016
Service cost *(Note)*	¥ 742	¥ 719	$ 6,629
Interest cost	124	125	1,108
Expected return on plan assets	(230)	(205)	(2,055)
Amortization of transitional obligation	-	214	-
Recognized actuarial (gains) losses	(279)	99	(2,490)
Amortization of prior service cost	(4)	(4)	(39)
Net periodic benefit costs	¥ 353	¥ 948	$ 3,153

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, 2016 and 2015

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	2016
Transitional obligation	¥ –	¥ (199)	$ –
Prior service cost	4	4	39
Actuarial losses (gains)	2,256	(5,777)	20,141
Total	¥ 2,260	¥ (5,972)	$ 20,180

(f) Amounts recognized in accumulated other comprehensive income (before income tax effect) in respect of defined retirement benefit plans as of March 31, 2016 and 2015

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	2016
Unrecognized prior service cost	¥ (39)	¥ (44)	$ (352)
Unrecognized actuarial gains	(4,605)	(6,860)	(41,111)
Total	¥ (4,644)	¥ (6,904)	$ (41,463)

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

	2016	2015
Debt investments	12%	11%
Equity investments	83%	84%
Cash and deposits	2%	2%
Other	3%	3%
Total	100%	100%

Note: The employees' retirement benefit trusts for the lump-sum retirement benefit plan accounted for 50%, and that for the contributory pension plans accounted for 18% of total plan assets for the years ended March 31, 2016 and 2015.

(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, 2016 and 2015, were set forth as follows:

	2016	2015
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 ¥124 million ($1,105 thousand) and ¥116 million for the years ended March 31, 2016 and 2015, respectively

9. ASSETS PLEDGED AS COLLATERAL

Assets pledged as collateral as of March 31, 2016 and 2015, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	2016
Other current assets *(Note 1)*	¥ 60	¥ -	$ 538
Other assets under Investments and Other Assets *(Note 2)*	10	10	89
Total	¥ 70	¥ 10	$ 627

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, 2016 and 2015, amounted to ¥657 million ($5,869 thousand) and ¥598 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, 2016, were as follows:

Years ending March 31	Millions of Yen	Thousands of U.S. Dollars
2017	¥ 770	$ 6,875
2018	662	5,905
2019	451	4,031
2020	254	2,267
2021	233	2,080
2022 and thereafter	-	-
Total	¥ 2,370	$ 21,158

A consolidated subsidiary subleases machinery.

Investments in leases and lease obligations, which include an interest portion, resulting from sublease transactions as of March 31, 2016 and 2015, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	2016
Investments in leases:			
Due within one year	¥ 190	¥ 287	$ 1,692
Due after one year	367	356	3,278
Total	¥ 557	¥ 643	$ 4,970

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	2016
Lease obligations:			
Due within one year	¥ 198	¥ 296	$ 1,764
Due after one year	402	411	3,591
Total	¥ 600	¥ 707	$ 5,355

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.

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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 32.6% and 35.1% for the years ended March 31, 2016 and 2015, respectively.

The tax effects of significant temporary differences and tax loss carryforwards that resulted in deferred tax assets and liabilities as of March 31, 2016 and 2015, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015 (as restated)	2016
Deferred tax assets:			
Tax loss carryforwards	¥ 4,834	¥ 680	$ 43,160
Loss on write-downs of inventories	4,790	7,979	42,768
Loss on impairment of fixed assets	1,930	2,058	17,232
Accrued bonuses to employees	454	534	4,049
Amount transferred to defined contribution pension plan	144	245	1,283
Other *	5,554	4,495	49,593
	17,706	15,991	158,085
Less valuation allowance *	(17,509)	(9,938)	(156,330)
Total *	197	6,053	1,755
Deferred tax liabilities:			
Unrealized gain on available-for-sale securities	(3,031)	(3,486)	(27,066)
Revaluation of property	(2,059)	(2,168)	(18,387)
Deferred gain on sales of property	(1,213)	(1,289)	(10,828)
Other *	(2,485)	(3,175)	(22,181)
Total *	(8,788)	(10,118)	(78,462)
Net deferred tax liabilities	¥ (8,591)	¥ (4,065)	$ (76,707)

* Although these items were restated for the year ended March 31, 2015 since misstatements had been identified, there was no effect on the consolidated financial statements for the year ended March 31, 2015.

Deferred tax assets and liabilities as of March 31, 2016 and 2015, were recorded as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	2016
Deferred tax assets:			
Current	¥ 80	¥ 2,794	$ 715
Noncurrent	91	87	815
Deferred tax liabilities:			
Other under Current Liabilities	(16)	-	(151)
Noncurrent	(8,746)	(6,946)	(78,086)
Net deferred tax liabilities	¥ (8,591)	¥ (4,065)	$ (76,707)

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, 2016, with the corresponding figures for 2015, is as follows:

	2016	2015
Normal effective statutory tax rate	32.6 %	35.1 %
Increase (decrease) due to:		
Expenses not deductible for income tax purposes	(31.1)	(0.2)
Tax-exempt income	0.2	0.6
Changes in valuation allowance	(94.3)	(49.4)
Per capita inhabitant tax	(0.3)	(0.3)
Transfer price adjustments on consolidation	32.5	-
Effect of changes in tax rate	2.2	(0.6)
Other	1.0	1.6
Actual effective income tax rate	(57.2) %	(13.2) %

New tax reform laws enacted in 2016 in Japan changed the normal effective statutory tax rate for the fiscal year beginning on or after April 1, 2016. The statutory tax rate used to calculate deferred tax assets and deferred tax liabilities was changed from 31.8% to 30.5% for temporary differences expected to be reversed in the years beginning April 1, 2016 and April 1, 2017, and to 30.2% for temporary differences expected to be reversed in the years beginning on or after April 1, 2018.

As a result of this change, deferred tax liability, net of deferred tax assets, decreased by ¥463 million ($4,130 thousand) while unrealized gain on available-for-sale securities increased by ¥161 million ($1,434 thousand) in the consolidated balance sheet as of March 31, 2016, and income taxes - deferred decreased by ¥228 million ($2,033 thousand) in the consolidated statement of operations for the year then ended.

14. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

(1) Group policy for financial instruments

The Group utilizes CMS provided by the Parent to operate and finance funds. The Group finances capital investments mainly with bank loans. 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		
	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)

	Millions of Yen		
	2015		
	Carrying amount	Fair value	Unrealized gain (loss)
Cash and cash equivalents	¥ 3,181	¥ 3,181	-
Notes and accounts receivable	29,213	29,213	-
Investment securities	16,998	16,998	-
Total	¥ 49,392	¥ 49,392	-
Notes and accounts payable	¥ 22,499	¥ 22,499	-
Short-term borrowings	10,015	10,015	-
Income taxes payable	770	770	-
Long-term debt, including current portion	5,000	5,021	¥ (21)
Lease obligations, including current portion	2,659	2,639	20
Total	¥ 40,943	¥ 40,944	¥ (1)

	Thousands of U.S. Dollars		
	2016		
	Carrying amount	Fair value	Unrealized gain (loss)
Cash and cash equivalents	$ 118,277	$ 118,277	-
Notes and accounts receivable	189,462	189,462	-
Investment securities	143,672	143,672	-
Total	$ 451,411	$ 451,411	-
Notes and accounts payable	$ 200,649	$ 200,649	-
Short-term borrowings	3,231	3,231	-
Income taxes payable	442	442	-
Long-term debt, including current portion	215,836	221,391	$ (5,555)
Lease obligations, including current portion	21,158	21,109	49
Total	$ 441,316	$ 446,822	$ (5,506)

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 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
	2016	2015	2016
Unlisted securities	¥ 884	¥ 1,042	$ 7,895
Investments in unconsolidated subsidiary and associated companies	1,511	1,293	13,488

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

	Millions of Yen			
	2016			
	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	¥ 13,247	-	-	-
Notes and accounts receivable	20,966	¥ 254	-	-
Total	¥ 34,213	¥ 254	-	-

	Thousands of U.S. Dollars			
	2016			
	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	$ 118,277	-	-	-
Notes and accounts receivable	187,199	$ 2,263	-	-
Total	$ 305,476	$ 2,263	-	-

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, 2016 and 2015, were as follows:

		Millions of Yen					
		2016			2015		
	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	¥ 10	-	¥ (0)	¥ 112	-	¥ 1
EUR	Advance payments	10	-	(1)	40	-	(1)
CNY	Advance payments	22	-	(1)	-	-	-
Selling							
USD	Advances received	-	-	-	786	-	(69)
Interest rate:							
Interest rate currency swap contracts (USD floating rate receipt/ JPY fixed-rate payment)	Long-term debt	¥ 16,072	¥ 16,072	*Note*	¥ 2,500	¥ 2,500	*Note*
Interest rate swap contracts (floating rate receipt/fixed-rate payment)	Long-term debt	6,902	6,902	*Note*	1,300	1,300	*Note*

	Hedged item	Thousands of U.S. Dollars 2016 Contract amount	Contract amount due after one year	Fair value
Currency:				
Forward foreign currency contracts				
Buying				
USD	Advance payments	$ 92	-	$ (1)
EUR	Advance payments	88	-	(5)
CNY	Advance payments	197	-	(9)
Interest rate:				
Interest rate currency swap contracts (USD floating rate receipt/ JPY fixed-rate payment)	Long-term debt	$143,498	$143,498	*Note*
Interest rate swap contracts (floating rate receipt/fixed-rate payment)	Long-term debt	61,623	61,623	*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.

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16. LOSS ON IMPAIRMENT OF PROPERTY, PLANT, AND EQUIPMENT

The Group recognized impairment loss on the following asset groups.

For the year ended March 31, 2016:

Asset group	Location	Account	Millions of Yen 2016	Thousands of U.S. Dollars 2016
Railway rolling stock business property	Illinois, the United States	Machinery and equipment, etc.	¥ 50	$ 444
		Total	¥ 50	$ 444

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 ($218 thousand), ¥7 million ($62 thousand), and ¥18 million ($164 thousand), respectively.

For the year ended March 31, 2015:

Asset group	Location	Account	Millions of Yen 2015
Railway rolling stock business property	Illinois, the United States	Buildings and structures, Machinery and equipment, etc.	¥ 4,815
		Total	¥ 4,815

The Group reviewed its long-lived assets for impairment as of March 31, 2015.

For the year ended March 31, 2015, 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 buildings and structures, machinery and equipment, land, construction in progress, and other in the amounts of ¥2,674 million, ¥826 million, ¥449 million, ¥366 million, and ¥500 million, respectively.

17. RELATED-PARTY DISCLOSURES

The Parent directly owned 51.2% of the total shares of the Company as of March 31, 2016 and 2015. The Company distributes transportation vehicles to the Parent.

Transactions of the Company with the Parent for the years ended March 31, 2016 and 2015, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	2016
Sales	¥ 21,302	¥ 25,993	$ 190,198
Interest income	1	-	12
Interest expense	-	31	-

The balances due to or from the Parent as of March 31, 2016 and 2015, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	2016
Accounts receivable	¥ 2,746	¥ 3,048	$ 24,519
Short-term loans	5,976	-	53,357
Short-term borrowings	-	648	-

18. OTHER COMPREHENSIVE (LOSS) INCOME

The components of other comprehensive (loss) income for the years ended March 31, 2016 and 2015, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	2016
Unrealized (loss) gain on available-for-sale securities:			
(Losses) gains arising during the year	¥ (932)	¥ 3,920	$ (8,323)
Reclassification adjustments to profit or loss	0	(228)	0
Amount before income tax effect	(932)	3,692	(8,323)
Income tax effect	455	(933)	4,065
Total	¥ (477)	¥ 2,759	$ (4,258)
Deferred gain (loss) on derivatives under hedge accounting:			
Gains (losses) arising during the year	¥ 65	¥ (88)	$ 582
Income tax effect	(23)	29	(205)
Total	¥ 42	¥ (59)	$ 377
Foreign currency translation adjustments:			
Adjustments arising during the year	¥ (133)	¥ (1,817)	$ (1,184)
Total	¥ (133)	¥ (1,817)	$ (1,184)
Defined retirement benefit plans:			
Adjustments arising during the year	¥ (1,977)	¥ 5,677	$ (17,651)
Reclassification adjustments to profit or loss	(283)	295	(2,529)
Amount before income tax effect	(2,260)	5,972	(20,180)
Income tax effect	793	(1,869)	7,081
Total	¥ (1,467)	¥ 4,103	$ (13,099)
Share of other comprehensive income in associated companies			
Gains (losses) arising during the year	¥ 34	¥ (0)	$ 302
Income tax effect	(1)	0	(9)
Total	¥ 33	¥ (0)	$ 293
Total other comprehensive (loss) income	¥ (2,002)	¥ 4,986	$ (17,871)

19. SUBSEQUENT EVENT

Significant assets pledged as collateral

As described in Note 7 “Short-term Borrowings and Long-term Debt,” the financial covenants attached to long-term debt were revised. Along with this revision, investment securities (with a carrying amount as of March 31, 2016, of ¥11,973 million ($106,898 thousand)) were pledged as collateral for long-term debt of ¥24,174 million ($215,836 thousand) as of April 20, 2016, as requested by the relevant financial institutions. The duration of collateral is from April 20, 2016, through the due date of the respective long-term debt.

Furthermore, the Company agreed with the financial institutions to pledge additional assets as collateral by establishing a factory foundation mortgage consisting of major assets of the Company’s plants.

20. SEGMENT INFORMATION

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						
	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

	Millions of Yen						
	2015						
	Reportable segment						
	Railway Rolling Stock	Transportation Equipment and Steel Structure	Construction Equipment	Other	Total	Reconciliations	Consolidated
Net sales							
Sales to external customers	¥ 55,035	¥ 16,260	¥ 20,311	¥ 4,693	¥ 96,299	-	¥ 96,299
Intersegment sales or transfers	30	622	10	246	908	¥ (908)	-
Total	¥ 55,065	¥ 16,882	¥ 20,321	¥ 4,939	¥ 97,207	¥ (908)	¥ 96,299
Segment profit (loss)	¥ (10,785)	¥ 407	¥ 3,352	¥ (27)	¥ (7,053)	¥ (1,125)	¥ (8,178)
Segment assets	¥ 75,774	¥ 17,225	¥ 20,571	¥ 2,671	¥ 116,241	¥ 28,896	¥ 145,137
Other:							
Depreciation	¥ 1,581	¥ 421	¥ 655	¥ 35	¥ 2,692	¥ 329	¥ 3,021
Increase in property, plant, and equipment and intangible assets	4,037	329	902	48	5,316	288	5,604

	Thousands of U.S. Dollars						
	2016						
	Reportable segment						
	Railway Rolling Stock	Transportation Equipment and Steel Structure	Construction Equipment	Other	Total	Reconciliations	Consolidated
Net sales							
Sales to external customers	$ 588,020	$ 170,240	$ 188,736	$ 44,138	$ 991,134	-	$ 991,134
Intersegment sales or transfers	265	1,865	44	1,747	3,921	$ (3,921)	-
Total	$ 588,285	$172,105	$ 188,780	$ 45,885	$ 995,055	$ (3,921)	$ 991,134
Segment profit (loss)	$ (117,094)	$ 4,360	$ 29,523	$ 3,019	$ (80,192)	$ (10,625)	$ (90,817)
Segment assets	$ 582,613	$ 164,405	$ 176,454	$ 28,104	$ 951,576	$ 229,358	$1,180,934
Other:							
Depreciation	$ 12,210	$ 3,607	$ 6,674	$ 291	$ 22,782	$ 3,005	$ 25,787
Increase in property, plant, and equipment and intangible assets	10,508	2,433	8,456	111	21,508	2,219	23,727

Notes: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, 2016, and 2015.

2. "Reconciliations" in segment profit (loss) include corporate expenses of ¥(1,196) million ($(10,677) thousand) and ¥(1,158) million and elimination of intersegment transactions of ¥9 million ($82 thousand) and ¥28 million for the years ended March 31, 2016, and 2015, respectively. 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 ¥27,672 million ($247,069 thousand) and ¥24,653 million, elimination of intersegment balances of ¥(4,531) million ($(40,455) thousand) and ¥(113) million, and adjustments in inventories of ¥(112) million ($(996) thousand) and ¥(105) million as of March 31, 2016 and 2015, respectively. Total corporate assets principally consist of investment securities and general management properties as of March 31, 2016 and 2015.*
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, 2016 and 2015, was as follows:

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

	Millions of Yen				
	2015				
	Japan	U.S.A.	Asia	Other	Total
Net sales	¥ 73,317	¥ 10,594	¥ 7,630	¥ 4,758	¥ 96,299

	Thousands of U.S. Dollars				
	2016				
	Japan	U.S.A.	Asia	Other	Total
Net sales	$ 706,121	$ 197,821	$ 59,913	$ 27,279	$ 991,134

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

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

	Millions of Yen				
	2015				
	Japan	U.S.A.	Asia	Other	Total
Property, plant, and equipment	¥ 26,050	¥ 5,805	¥ 2	¥ 0	¥ 31,857

	Thousands of U.S. Dollars				
	2016				
	Japan	U.S.A.	Asia	Other	Total
Property, plant, and equipment	$ 228,734	$ 50,480	$ 5	$ 0	$ 279,219

(3) Information about major customers

	Net sales			
	Millions of Yen		Thousands of U.S. Dollars	
Name of major customer	2016	2015	2016	Related segment
The Parent	¥ 21,302	¥ 25,993	$ 190,198	Railway Rolling Stock, Transportation equipment and Steel structure
Sumitomo Corporation of Americas	19,590	-	174,913	Railway Rolling Stock

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

	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

	Millions of Yen						
	2015						
	Reportable segment						
	Railway Rolling Stock	Transportation Equipment and Steel Structure	Construction Equipment	Other	Total	Reconciliations	Consolidated
Impairment loss	¥ 4,815	-	-	-	¥ 4,815	-	¥ 4,815

	Thousands of U.S. Dollars						
	2016						
	Reportable segment						
	Railway Rolling Stock	Transportation Equipment and Steel Structure	Construction Equipment	Other	Total	Reconciliations	Consolidated
Impairment loss	$ 444	-	-	-	$ 444	-	$ 444

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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	15,751 persons
	(March 31, 2016)

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: +81-3-6688-6789
Fax : +81-3-6688-6809

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

SHANGHAI REPRESENTATIVE OFFICE

Tomson Centre Room A1607,
No.228 Zhangyang Road,
Pudong New District,
Shanghai, PRC
Phone: +86-21-5888-8706
Fax : +86-21-5888-8705

PLANT

TOYOKAWA PLANT
(Railway rolling stock & other transportation equipment)

2-20 Honohara,
Toyokawa, Aichi-pref 442-8502, JAPAN
Phone: +81-533-85-4112
Fax : +81-533-85-3619

NARUMI PLANT
(Construction equipment)

80 Ryucho, Narumi-cho,
Midori-ku, Nagoya 458-8502, JAPAN
Phone: +81-52-623-3311
Fax : +81-52-623-4349

KINUURA PLANT
(Steel structure)

20 11-gouchi,
Handa, Aichi 475-0831, JAPAN
Phone: +81-569-22-7511
Fax : +81-569-22-7577

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