Annual Business Report

April 1, 2017 through March 31, 2018

日本車両

NIPPON SHARYO, LTD.

Financial Highlights

Comparison of Sales by Segment

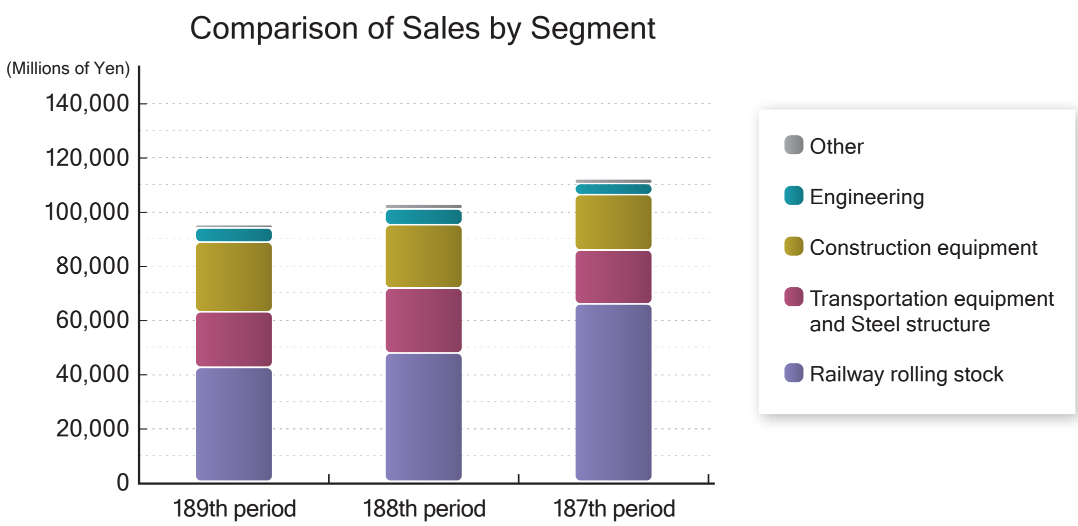
(Unit: millions of yen)

Business Segment	189th period (2017-2018)		188th period (2016-2017)		Increase/(Decrease)	
Railway rolling stock	41,455	43.5 %	48,554	48.0 %	(7,099)	(14.6)%
Transportation equipment and Steel structure	22,475	23.6	21,983	21.8	492	2.2
Construction equipment	24,573	25.8	22,420	22.2	2,153	9.6
Engineering	6,560	6.9	7,496	7.4	(936)	(12.5)
Other	248	0.2	641	0.6	(393)	(61.3)
Total	95,311	100.0	101,094	100.0	(5,783)	(5.7)

Change in Operating Performance and Asset Status

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

Titles of account	189th period (2017-2018)	188th period (2016-2017)	187th period (2015-2016)
Net sales	95,311	101,094	111,007
Ordinary income (loss)	7,315	(5,149)	(10,174)
Net income (loss) attributable to owners of the parent	(8,271)	(5,124)	(16,130)
Net income per share (loss)	(¥57.30)	(¥35.50)	(¥111.74)
Total assets	127,413	129,194	132,265
Total equity	20,954	28,109	33,384



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Model 70000 trains for Odakyu Electric Railway Co., Ltd.

Message from the President

Review of Business Operations

During the fiscal term under review, the Japanese economy saw continuous improvements in production, export, employment, etc. as a result of various economic policies and modest recovery of overseas business conditions.

Under this business environment, our performance for this year showed an increase in sales of steel structures and construction equipment and a decrease in sales of railway rolling stock and transportation equipment, totaling ¥95,311 million, down 5.7% from the previous year. In terms of profits, in addition to we made provisions for profits from reversing the amount recorded for the large railway rolling stock project for the U.S.A., and the profit of construction equipment increased. As a result, the operating profit was ¥7,266 million (the operating loss in the previous year was ¥5,104 million) and the ordinary profit ¥7,315 million (the ordinary loss in the previous year was ¥5,149 million). However, we recorded an extraordinary loss due to payment of the settlement money for the large railway rolling stock project for the U.S.A. Consequently, the net loss that belongs to the stockholders of the parent company was ¥8,271 million (the net loss in the previous year was ¥5,124 million).

The Outlook

Considering the decline in performance of recent years and the increasingly severe market environment, we will aim at “enhancement of operation control structure and human resource development” and promote “technology/product development by exerting collective strength” while ensuring a profit with “business development where we can exert our advantages.” Concretely, we will enhance the operation control structure including the quality, cost, and process, focusing on our core business, namely the railway rolling stock business, and exert our advantages in our strong areas of various business fields by providing products and services that match customer needs. We will also increase our competitiveness by promoting reduction of costs and make efforts to secure stable receipt of orders with all our strength. In such approaches, we will contribute to improvement of the enterprise value of the entire Central Japan Railway Company (hereinafter called as "JR Central") Group and promote development of our businesses with a closer cooperative relationship with the parent company.

In the railway rolling stock business, we will make efforts for differentiation with technology development and cost reduction with efficient production processes and continuously enhance our competitiveness for railway rolling stocks, mainly for high speed railways, expecting the continuous severe environment in terms of receiving orders. For projects with losses, we will work to improve by reviewing the project promotion system.

In the transportation equipment and steel structure business , the transportation equipment business is facing difficulties in winning orders. We will, however, continue to make efforts in developing products which promptly capture market trends, further reducing costs in order to secure orders, and develop new customers. Our efforts in the steel structure business will be focused on enhancing our ability to propose technological solutions that match customer needs and reducing costs in terms of orders of new bridges. As we continue to secure incoming orders, we will also develop our business in peripheral areas such as repair/maintenance projects. In the construction equipment business, we will capture business opportunities by maintaining and consolidating the production system to respond to steadily growing domestic demands and responding to local needs in Asia and other overseas markets in a flexible manner.

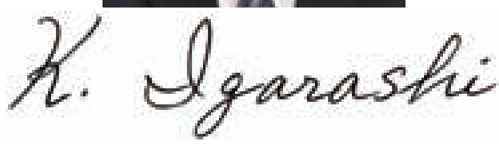
In the engineering business, we will secure profits by proposing products that cater to market needs.

For the existence of events and situations which may raise significant doubt concerning the ongoing viability of our company, we have discussed the direction of project implementation concerning the large railway rolling stock project for the U.S.A. that has caused great losses until now. As a result, it was decided that another railway car manufacturer would manufacture railway cars in the relevant project during the fiscal term under review to minimize the influence on the parties involved. Consequently, we negotiated with Sumitomo Corporation and Sumitomo Corporation of Americas (hereinafter, collectively referred to as "Sumitomo Corporation Group") who were the direct contractors of the relevant project. At the board meeting held on November 6, 2017, we decided to conclude a compromise agreement that specifies that we and NIPPON SHARYO MANUFACTURING, LLC should pay $328,942 thousand in total to the Sumitomo Group as settlement money and the relevant project should be eventually settled with the Sumitomo Group, and we concluded this agreement on the same day. As a result, we recorded a net loss of ¥8,271 million that belongs to the stockholders of the parent company during the fiscal term under review. For this, there was no new loss expected concerning the relevant project in the future because of the payment of the settlement money mentioned above.

In domestic business which is our main market, we recorded a profit stably. We will continuously make efforts to capture orders of railway cars and bridges, for which there are high-level orders on hand, and secure maximum sales in the brisk construction equipment business by utilizing production facilities of other businesses. At the same time, we will make efforts to enhance profitability by promoting further reduction of raw costs and expenses. The entire Group is working to improve performance for these measures.

As for funds, we make efforts to secure stable funds necessary for business activities and maintain mobility while maintaining sound financial balance. Concretely, we borrowed the funds to provide for payment of the settlement money described above from our parent company (Central Japan Railway Company) on November 30, 2017, and finished payment of the settlement money during the fiscal term under review. In addition, we participate in the CMS (Cash Management System) operated by our parent company. With this, as for financial arrangements, we provide internal funds for necessary funds such as capital investment funds and working capital. For fund mobility, we can also flexibly raise funds necessary at the moment from CMS by strengthening cooperation with our parent company to secure funds that can sufficiently meet demands anticipated from the funding plan.

As we are taking measures to resolve issues and improve the situation , we consider that there is no critical uncertainty for any going concern.



Kazuhiro Igarashi
President and Chief Executive Officer

Review by Segment

Railway Rolling Stock Business

In the railway rolling stock business, our sales to the JR Companies amounted to ¥28,553 million. It was achieved through the sales of the N700S validation test vehicles to JR Central, N700A Shinkansen trains to JR Central and West Japan Railway Company, and the rail transport cars to East Japan Railway Company (hereinafter called as "JR East "). Our sales for the public and private railways reached ¥7,255 million, including the sales of the Model 70000 trains for Odakyu Electric Railway Co., Ltd.; the Model 3000 trains for Keisei Electric Railway Co., Ltd; the Model N3000 trains for Nagoya City's Transportation Bureau; the Series 3150 and 3300 trains for Nagoya Railroad Co., Ltd.; and the Model 2000 trains for Enshu Railway Co., Ltd. For rail cars for overseas, we had sales of ¥5,646 million, including the Gallery type passenger car for the U.S.A.

N700S validation test vehicles to JR Central


Model N3000 trains for Nagoya City's Transportation Bureau

Consequently, our total sales for railway rolling stock recorded ¥41,455 million, down 14.6% from the previous year, with an increase in railway cars for the JR Companies and a decrease in rail cars for overseas and the public and private railways.


Model 3000 trains for Keisei Electric Railway Co., Ltd.

Transportation Equipment and Steel Structure Business

In the transportation equipment business, sales of chemical engineering machinery products mainly including consumer-purpose LPG bulk tank lorries are steadily in good shape, sale of industrial vehicle products such as carriers and AGV increased, and a decrease in sales of logistics equipment products such as container freight cars. As a result, sales reached ¥11,229 million, down 16.1% from the previous year.

In the steel structure business, sales included the Tokai-Kanjo Expressway Nagafuke Number 4 Bridge, Kita-


LPG bulk tank lorry

Kanto Expressway Ota Parking Area Ramp Bridge, National Route 1 Seishin Bypass Mariko Viaduct, Fujigawa First Overpass, and large-scale renovation work for the Tokaido Shinkansen. Sales were up 30.7% from the previous year to ¥11,245 million.

In all, sales for the transportation equipment and steel structure businesses were ¥22,475 million, up 2.2% from the previous year.


Kita-Kanto Expressway Ota Parking Area Ramp Bridge

Construction Equipment Business

In the construction equipment business, the domestic sales in large pile driving rigs continuously showed healthy movement, due to construction works arise from the Great East Japan Earthquake and mands in public works in anticipation of the Tokyo Olympic Games. We also had an increase in sales of casting rotators and compact pile driving rigs. The export business included large pile driving rigs. As a result, the sales of construction equipment totaled ¥21,360 million, up 10.8% from the previous year.


Pile driving rig

The generator business showed a decrease in sales of exported products, however, there was an increase in sales of domestic products. The sales of generators reached ¥3,212 million, up 2.4% from the previous year.

In all, sales in our construction equipment business were ¥24,573 million, up 9.6% from the previous year.


Generator

Engineering Business

Our main sales included; mechanical equipment for the Superconducting Maglev system for JR Central; agricultural plants for Japan Agricultural Cooperatives; and paper-manufacturing equipment for household paper manufacturers. We had a decrease in sales of vehicle inspection/repair facilities. Sales in the engineering business totaled ¥6,560 million, down 12.5% from the previous year.


Toilet roll packaging line

Other Businesses

Our main sales included laser processing machines and real estate leasing. We ended our railway memorabilia business during the year under review.

The overseas sales for the year under review amount to ¥9,034 million, representing 9.5% of total sales, which includes ¥5,646 million for the railway rolling stock business and ¥3,386 million for the construction equipment business.

The orders on hand at the end of the year under review reached ¥94,310 million. These comprised ¥62,766 million for the railway rolling stock business (¥34,121 million for rolling stock for JR Companies such as the N700A Shinkansen trains, ¥17,675 million for rail cars for other public and private railway companies, ¥10,969 million for rolling stock for overseas), ¥26,635 million for the transportation equipment and steel structure businesses (¥8,741 million for the transportation equipment business, ¥17,894 million for the steel structure business), ¥2,549 million for the construction equipment , and ¥2,316 million for the engineering business.

Investment in Plant and Equipment

Plant and equipment investment during the year under review totaled ¥1,780 million. Investment was mainly targeted at extension of plants in the construction equipment business to increase production volume. Investment was also made for renewal of equipment to maintain/improve the production capacity at each plant.

Financing Activities

Assets pledged as collateral for long-term debt from JR Central in the amount of ¥35,000 million ($330,189 thousand) for the payment of settlement money related to a large railway rolling stock project in the U.S.A. as of March 31, 2018 were as follows.

The Company has transferred its factory assets of Toyokawa Plant, Kinuura Plant, and Narumi Plant to JR Central on April 20, 2017. The transfer was not treated as a buying and selling transaction since the relevant factory assets were transferred to JR Central and the Company continues to utilize these factory assets as before based on a lease agreement concluded between the Company and JR Central. The relevant factory assets were therefore still recorded under property, plant and equipment of the Company . As the relevant transactions do not fall under a finance lease transaction, the total transfer price was recorded as long-term debt for which the borrowing of the fund is ¥21,000 million.

NIPPON SHARYO, LTD. AND CONSOLIDATED SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED MARCH 31, 2018 AND INDEPENDENT AUDITOR'S REPORT

Deloitte.

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying consolidated balance sheet of NIPPON SHARYO, LTD. (the "Company") and its consolidated subsidiaries as of March 31, 2018, 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.

Deloitte.

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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, 2018, 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.

Emphasis of Matter

As discussed in Note 2.n to the consolidated financial statements, the Company and NIPPON SHARYO MANUFACTURING, LLC reached an agreement that the manufacturing project of a large railway rolling stock in the U.S.A. will be taken over by an alternative manufacturer and concluded a final settlement agreement with the contractor with regard to the order received for the respective project.

Our opinion is not modified in respect of these matters.

Convenience Translation

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

Deloitte Touche Tohmatsu LLC

June 28, 2018

Member of
Deloitte Touche Tohmatsu Limited

NIPPON SHARYO, LTD. and Consolidated Subsidiaries
Consolidated Balance Sheet
March 31, 2018

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
ASSETS	2018	2017	2018
CURRENT ASSETS:			
Cash and cash equivalents (Notes 14 and 17)	¥ 15,837	¥ 11,713	$ 149,409
Notes and accounts receivable (Notes 3, 14 and 17)	28,526	31,361	269,111
Inventories (Notes 2.i and 4)	26,705	30,097	251,931
Deferred tax assets (Note 13)	51	60	484
Other current assets (Note 9)	1,146	1,824	10,816
Total current assets	72,265	75,055	681,751
PROPERTY, PLANT AND EQUIPMENT:			
Land (Note 9)	14,996	15,065	141,475
Buildings and structures (Note 9)	27,639	27,622	260,744
Machinery and equipment	34,860	35,018	328,868
Construction in progress	35	171	326
Total	77,530	77,876	731,413
Accumulated depreciation	(48,966)	(47,887)	(461,940)
Net property, plant, and equipment	28,564	29,989	269,473
INVESTMENTS AND OTHER ASSETS:			
Investment securities (Notes 5, 9 and 14)	18,632	16,765	175,771
Investments in an unconsolidated subsidiary and associated companies (Note 14)	728	1,661	6,864
Asset for employees' retirement benefits (Note 8)	5,623	4,082	53,047
Deferred tax assets (Note 13)	85	86	804
Other assets (Note 9)	1,516	1,556	14,302
Total investments and other assets	26,584	24,150	250,788
TOTAL	¥ 127,413	¥ 129,194	$ 1,202,012

(Continued)

NIPPON SHARYO, LTD. and Consolidated Subsidiaries
Consolidated Balance Sheet
March 31, 2018

		Millions of Yen			Thousands of U.S. Dollars (Note 1)
LIABILITIES AND EQUITY		2018		2017	2018
CURRENT LIABILITIES:					
Short-term borrowings (Notes 7, 14 and 17)	¥	-	¥	1,595	$ -
Current portion of long-term debt (Notes 7, 9 14 and 17)		287		5,000	2,708
Current portion of lease obligations (Notes 11 and 14)		748		825	7,057
Notes and accounts payable (Notes 6 and 14)		24,845		23,003	234,387
Accrued expenses (Note 17)		5,003		9,708	47,198
Advances received		3,467		10,191	32,703
Income taxes payable (Note 14)		132		565	1,248
Allowance for work in process on construction contracts		36		430	340
Provision for loss on orders received (Note 2.n)		6,128		16,606	57,813
Other current liabilities (Note 13)		1,408		2,456	13,278
Total current liabilities		42,054		70,379	396,732
LONG-TERM LIABILITIES:					
Long-term debt (Notes 7, 9 14 and 17)		55,400		19,174	522,638
Liability for employees' retirement benefits (Note 8)		273		259	2,572
Lease obligations (Notes 11 and 14)		1,725		1,764	16,271
Allowance for PCB disposal expenses		457		461	4,311
Provision for compensation for health damage from asbestos		99		92	934
Deferred tax liabilities (Note 13)		6,233		8,680	58,807
Other long-term liabilities		218		276	2,063
Total long-term liabilities		64,405		30,706	607,596
COMMITMENTS AND CONTINGENT LIABILITIES (Notes 10 and 15)					
EQUITY (Note 12):					
Common stock, authorized, 328,000,000 shares; issued, 146,750,129 shares in 2018 and 2017		11,811		11,811	111,422
Capital surplus		12,045		12,045	113,643
Retained earnings		(11,659)		(3,157)	(109,994)
Treasury stock, at cost, 2,406,621 shares in 2018 and 2,402,654 shares in 2017		(516)		(515)	(4,868)
Accumulated other comprehensive income:					
Unrealized gain on available-for-sale securities		7,708		6,905	72,717
Deferred (loss) gain on derivatives under hedge accounting		(8)		5	(72)
Foreign currency translation adjustments		(2,191)		(2,068)	(20,665)
Defined retirement benefit plans		3,661		2,993	34,533
Total accumulated other comprehensive income		9,170		7,835	86,513
Noncontrolling interests		103		90	968
Total equity		20,954		28,109	197,684
TOTAL	¥	127,413	¥	129,194	$ 1,202,012

(Concluded)

Note: Effective October 1, 2018, the Company will implement a 1-for-10 reverse stock split of common stock.
The numbers of authorized or issued shares are not retroactively adjusted. The numbers of authorized and issued common stock after the reverse stock split are disclosed in Note 19 to the consolidated financial statements.
See notes to consolidated financial statements.

NIPPON SHARYO, LTD. and Consolidated Subsidiaries
Consolidated Statement of Operations
Year Ended March 31, 2018

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2018	2017	2018
NET SALES (Note 17)	¥ 95,311	¥ 101,094	$ 899,158
COST OF SALES (Notes 2.i, 2.m and 2.u)	80,897	98,501	763,181
Gross profit	14,414	2,593	135,977
SELLING, GENERAL, AND ADMINISTRATIVE EXPENSES (Note 2.u)	7,148	7,697	67,429
Operating income (loss)	7,266	(5,104)	68,548
OTHER (EXPENSES) INCOME			
Interest and dividend income (Note 17)	311	265	2,936
Interest expense (Note 17)	(212)	(178)	(1,999)
Equity in earnings of associated companies	81	150	767
Gain on sales of investment securities, net (Note 5)	54	23	507
Loss on impairment of property, plant and equipment (Note 16)	(34)	(2)	(324)
Gain on sales and disposals of property, plant and equipment, net	8,950	603	84,432
Loss on early repayment of long-term debt	(1,077)	-	(10,156)
Loss on payment for settlement (Note 2.n)	(26,445)	-	(249,481)
Other – net	(134)	(291)	(1,269)
Other (expenses) income – net	(18,506)	570	(174,587)
LOSS BEFORE INCOME TAXES	(11,240)	(4,534)	(106,039)
INCOME TAXES (Note 13):			
Current	105	450	994
Deferred	(3,089)	130	(29,150)
Total income taxes	(2,984)	580	(28,156)
NET LOSS	(8,256)	(5,114)	(77,883)
NET INCOME ATTRIBUTABLE TO NONCONTROLLING INTERESTS	15	10	146
NET LOSS ATTRIBUTABLE TO OWNERS OF THE PARENT	¥ (8,271)	¥ (5,124)	$ (78,029)

	Yen		U.S. Dollars
PER SHARE OF COMMON STOCK (Note 2.v):			
Basic net loss	¥ (57.30)	¥ (35.50)	$ (0.54)
Cash dividends applicable to the year	-	-	-

Note: Effective October 1, 2018, the Company will implement a 1-for-10 reverse stock split of common stock. Per share of common stock is not retroactively adjusted. Per share information if the reverse stock split had been effected at the beginning of the fiscal year ended March 31, 2017 is disclosed in the Note 19 to the consolidated financial statements.

See notes to consolidated financial statements.

NIPPON SHARYO, LTD. and Consolidated Subsidiaries
Consolidated Statement of Comprehensive Income
Year Ended March 31, 2018

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2018	2017	2018
NET LOSS	¥ (8,256)	¥ (5,114)	$ (77,883)
OTHER COMPREHENSIVE INCOME (LOSS) (Note 18):			
Unrealized gain (loss) on available-for-sale securities	777	(124)	7,338
Deferred (loss) gain on derivatives under hedge accounting	(5)	2	(46)
Foreign currency translation adjustments	(105)	202	(989)
Defined retirement benefit plans	668	(248)	6,297
Share of other comprehensive income in associated companies	36	12	336
Total other comprehensive income (loss)	1,371	(156)	12,936
COMPREHENSIVE LOSS	¥ (6,885)	¥ (5,270)	$ (64,947)
TOTAL COMPREHENSIVE (LOSS) INCOME ATTRIBUTABLE TO:			
Owners of the parent	¥ (6,900)	¥ (5,280)	$ (65,092)
Noncontrolling interests	15	10	145

See notes to consolidated financial statements.

NIPPON SHARYO, LTD. and Consolidated Subsidiaries
Consolidated Statement of Changes in Equity
Year Ended March 31, 2018

		Millions of Yen			
	Number of shares of common stock outstanding	Common stock	Capital surplus	Retained earnings	Treasury stock
BALANCE, APRIL 1, 2016	144,354,105	¥ 11,811	¥ 12,045	¥ 1,967	¥ (513)
Net loss attributable to owners of the parent	-	-	-	(5,124)	-
Increase in treasury stock, net	(6,630)	-	-	-	(2)
Net changes in the year	-	-	-	-	-
BALANCE, MARCH 31, 2017	144,347,475	11,811	12,045	(3,157)	(515)
Net loss attributable to owners of the parent	-	-	-	(8,271)	-
Increase in treasury stock, net	(3,967)	-	0	-	(1)
Change of scope of equity method	-	-	-	(231)	-
Net changes in the year	-	-	-	-	-
BALANCE, MARCH 31, 2018	144,343,508	¥ 11,811	¥ 12,045	¥ (11,659)	¥ (516)

	Thousands of U.S. Dollars (Note 1)			
	Common stock	Capital surplus	Retained earnings	Treasury stock
BALANCE, MARCH 31, 2017	$ 111,422	$ 113,642	$ (29,797)	$ (4,857)
Net loss attributable to owners of the parent	-	-	(78,029)	-
Increase in treasury stock, net	-	1	-	(11)
Change of scope of equity method	-	-	(2,168)	-
Net changes in the year	-	-	-	-
BALANCE, MARCH 31, 2018	$ 111,422	$ 113,643	$ (109,994)	$ (4,868)

Effective October 1, 2018, the Company will implement a 1-for-10 reverse stock split of common stock.
The number of shares of common stock outstanding is not retroactively adjusted. The numbers of authorized and issued common stock after the reverse stock split are disclosed in Note 19 to the consolidated financial statements.

See notes to consolidated financial statements.

Millions of Yen													
Accumulated other comprehensive income													
Unrealized gain on available-for-sale securities		Deferred gain (loss) on derivatives under hedge accounting		Foreign currency translation adjustments		Defined retirement benefit plans		Total accumulated other comprehensive income		Noncontrolling interests		Total equity	
¥	7,013	¥	(2)	¥	(2,261)	¥	3,241	¥	7,991	¥	83	¥	33,384
	-		-		-		-		-		-		(5,124)
	-		-		-		-		-		-		(2)
	(108)		7		193		(248)		(156)		7		(149)
	6,905		5		(2,068)		2,993		7,835		90		28,109
	-		-		-		-		-		-		(8,271)
	-		-		-		-		-		-		(1)
	-		5		(42)		-		(37)		-		(268)
	803		(18)		(81)		668		1,372		13		1,385
¥	7,708	¥	(8)	¥	(2,191)	¥	3,661	¥	9,170	¥	103	¥	20,954

Thousands of U.S. Dollars (Note 1)													
Accumulated other comprehensive income													
Unrealized gain on available-for-sale securities		Deferred gain (loss) on derivatives under hedge accounting		Foreign currency translation adjustments		Defined retirement benefit plans		Total accumulated other comprehensive income		Noncontrolling interests		Total equity	
$	65,144	$	51	$	(19,519)	$	28,236	$	73,912	$	852	$	265,174
	-		-		-		-		-		-		(78,029)
	-		-		-		-		-		-		(10)
	-		51		(386)		-		(335)		-		(2,503)
	7,573		(174)		(760)		6,297		12,936		116		13,052
$	72,717	$	(72)	$	(20,665)	$	34,533	$	86,513	$	968	$	197,684

NIPPON SHARYO, LTD. and Consolidated Subsidiaries
Consolidated Statement of Cash Flows
Year Ended March 31, 2018

	Millions of Yen		Thousands of U.S. Dollars(Note 1)
	2018	2017	2018
OPERATING ACTIVITIES:			
Loss before income taxes	¥ (11,240)	¥ (4,534)	$ (106,039)
Adjustments for:			
Income taxes-(paid) refund	(750)	423	(7,071)
Loss on early repayment of long-term debt	1,077	-	10,156
Loss on payment for settlement	26,445	-	249,481
Depreciation	2,728	2,730	25,737
Loss on impairment of property, plant and equipment	34	2	324
Gain on sales and disposals of property, plant and equipment	(9,067)	(623)	(85,536)
Gain on sales of investment securities	(54)	(23)	(507)
Changes in assets and liabilities:			
Decrease (increase) in trade notes and accounts receivable	3,367	(10,685)	31,760
Decrease in inventories	3,248	9,064	30,639
Increase in trade notes and accounts payable	1,146	659	10,811
(Decrease) increase in allowance for work in process on onstruction contracts	(394)	314	(3,720)
(Decrease) increase in provision for loss on orders received	(10,159)	3,638	(95,835)
Increase (decrease) in provision for compensation for health damage from asbestos	7	(42)	66
Decrease in advances received	(1,208)	(4,547)	(11,399)
Increase in liability for employees' retirement benefits	14	17	131
Other-net	(4,308)	1,269	(40,642)
Sub-total	886	(2,338)	8,356
Payments for loss on early repayment of long-term debt	(1,077)	-	(10,156)
Settlement paid	(37,001)	-	(349,068)
Net cash used in operating activities	(37,192)	(2,338)	(350,868)
INVESTING ACTIVITIES:			
Purchases of property, plant and equipment	(1,001)	(1,077)	(9,441)
Proceeds from sales of property, plant and equipment	12,827	898	121,010
Purchases of investment securities	(3)	(4)	(32)
Proceeds from sales of investment securities	100	34	945
Other-net	(130)	(405)	(1,225)
Net cash provided by (used in) investing activities	11,793	(554)	111,257
FINANCING ACTIVITIES:			
Net (decrease) increase in short-term borrowings	(1,595)	1,268	(15,048)
Proceeds from long-term debt	56,000	-	528,302
Repayments of long-term debt	(24,487)	-	(231,009)
Dividends paid	(3)	(0)	(28)
Other-net	(84)	(93)	(795)
Net cash provided by financing activities	29,831	1,175	281,422
FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS	(308)	183	(2,905)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	4,124	(1,534)	38,906
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	11,713	13,247	110,503
CASH AND CASH EQUIVALENTS, END OF YEAR	¥ 15,837	¥ 11,713	$ 149,409

(Concluded)

See notes to consolidated financial statements.

NIPPON SHARYO, LTD. and Consolidated Subsidiaries
Notes to Consolidated Financial Statements
Year Ended March 31, 2018

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 2017 consolidated financial statements to conform to the classifications used in 2018.

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 ¥106 to $1, the approximate rate of exchange at March 31, 2018. 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, 2018, 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, 2018 and 2017, was as follows:

	2018	2017
Consolidated subsidiaries	6	6
Unconsolidated subsidiary stated at cost	1	1
Associated companies accounted for by the equity method	2	3
Associated company stated at cost	1	1

During the year ended March 31, 2018, Taiwan Rolling Stock Co., Ltd was excluded from the scope of equity method accounting due to a decrease in equity ownership by the Company as a result of a capital increase of Taiwan Rolling Stock Co., Ltd.

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

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

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

c. Unification of accounting policies applied to associated companies for the equity method
ASBJ Statement No. 16, "Accounting Standard for Equity Method of Accounting for Investments," requires adjustments to be made to conform the associate's accounting policies for

similar transactions and events under similar circumstances to those of the parent company when the associate's financial statements are used in applying the equity method, unless it is impracticable to determine adjustments.

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

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

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

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

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

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

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

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

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

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

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

i. Inventories
Inventories are stated at the lower of cost, determined principally by the specific identification method for merchandise, finished goods and work in process and by the moving-average method for semi-finished goods, raw materials, and supplies, or net selling value, which is defined as the selling price, less additional estimated manufacturing costs and estimated direct selling expenses. The replacement cost may be used in place of the net selling value, if appropriate. (Reversal of write-downs) and write-downs of inventories in the amounts of ¥(10,135) million ($(95,612) thousand) and ¥3,684 million for the years ended March 31, 2018 and 2017, respectively, were included in cost of sales.

j. Property, plant and equipment
Property, plant and equipment, including significant renewals and additions, are stated at cost and are depreciated principally by the straight-line method for buildings and building improvements and structures acquired on or after April 1, 2016, and by the declining-balance method for other property at rates based on the estimated useful lives of the assets.

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

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

The Company has transferred its factory assets of Toyokawa

Plant, Kinuura Plant, and Narumi Plant to CJR on April 20, 2017. The transfer was not treated as a buying and selling transaction since the relevant factory assets were transferred to CJR and the Company continues to utilize these factory assets as before based on a lease agreement concluded between the Company and CJR. The relevant factory assets were therefore still recorded under property, plant and equipment of the Company in the carrying amount of ¥11,975 million ($112,975 thousand) as land and of ¥4,022 million ($37,947 thousand) as buildings (net) as of March 31, 2018. As the relevant transactions do not fall under a finance lease transaction, the total transfer price was recorded as long-term debt (including the current portion) in the carrying amount of ¥20,687 million ($195,158 thousand) as of March 31, 2018.

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. (Reversal of provision) and provisions for work in process on construction contracts in the amounts of ¥(394) million ($(3,720) thousand) and ¥314 million for the years ended March 31, 2018 and 2017, respectively, were included in cost of sales.

n. Provision for loss on orders received

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

With regard to the order received for a large railway rolling stock project in the U.S.A. for the years ended March 31, 2017 and 2018, were as follows:

For the year ended March 31, 2017

The order received amounting to ¥38,661 million for a large railway rolling stock project in the U.S.A., a loss of ¥22,777 million was reasonably estimated as of March 31, 2017, of which an amount of ¥10,404 million was recognized as provision for loss on orders received after offsetting with the inventories associated with the respective project in the amount of ¥12,373 million.

For the year ended March 31 2018

Due to the difficulty in the schedule execution as announced to the customer in December 2016, the Company reached an agreement during the year ended March 31, 2018 that manufacturing the rolling stock of the respective project will be taken over by an alternative manufacturer to minimize the impact to the parties. Following this agreement, the Company negotiated with the contractor of the respective project, Sumitomo Corporation Group, and concluded a final settlement agreement on November 6, 2017 that the Company and NIPPON SHARYO MANUFACTURING, LLC make payment to Sumitomo Corporation Group in the total amount of $328,942 thousand as settlement money upon resolution by the Board of Directors of the Company on the same date. Payment of the settlement money was completed during the year ended March 31, 2018.

Based on the aforementioned development, the Company recognized loss on payment for settlement in the consolidated statement of operation of ¥26,445 million ($249,481 thousand) for the year ended March 31, 2018. Also, the Company reversed the amount of ¥3,156 million ($29,776 thousand) of the provision for loss on orders received for the respective project in the year ended March 31, 2018. As the result of this reversal, the provision for loss on orders received for the respective project amounted to ¥1,802 million ($17,002 thousand) as of March 31, 2018.

o. Retirement and pension plans

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

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

p. Allowance for Polychlorinated Biphenyl (PCB) disposal expenses

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

q. Provision for compensation for health damage from asbestos

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

r. Income taxes

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

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 ¥1,261 million ($11,895 thousand) and ¥1,579 million for the years ended March 31, 2018 and 2017, respectively, and are included in general and administrative expenses and manufacturing costs in the accompanying consolidated statement of operations.

v. Per share information
Basic net loss per share is computed by dividing net loss attributable to common shareholders by the weighted-average number of shares of common stock outstanding during the respective year. Weighted-average number of shares of common stock for the years ended March 31, 2018 and 2017, were 144,345 thousand shares and 144,351 thousand shares, respectively. Diluted net loss per share for the years ended March 31, 2018 and 2017, 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.
Effective October 1, 2018, the Company will implement a 1-for-10 reverse stock split of common stock. Per share of common stock is not retroactively adjusted. Per share information if the reverse stock split had been effected at the beginning of the fiscal year ended March 31, 2017 is disclosed in the Note 19 to the consolidated financial statements.

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

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

y. New Accounting Pronouncement
Accounting Standard for Revenue Recognition, etc.
- Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, issued on March 30, 2018)
- Implementation Guidance on Accounting Standard for Revenue Recognition (ASBJ Guidance No. 30, issued on March 30, 2018)

(a) Overview
The International Accounting Standards Board ("IASB") and the Financial Accounting Standards Board ("FASB") have jointly developed a comprehensive accounting standard for revenue recognition and issued it as converged guidance on recognizing revenue in contracts with customers in May 2014 as IFRS 15 (IASB) and Topic 606 (FASB), respectively. To respond to both IFRS 15 and Topic 606 effective from the fiscal years beginning on or after January 1, 2018 and December 15, 2017, respectively, ASBJ has developed a comprehensive accounting standard for revenue recognition and issued it with the respective implementation guidance.
In developing the accounting standard for revenue recognition, ASBJ basically integrated the core principle of IFRS 15 from a comparability point of view of the financial statements, which is one of the benefits of ensuring consistency with IFRS 15. ASBJ, on the other side, considered additional alternative treatments where current practices under Japanese GAAP are to be reflected as far as such treatments would not significantly impair international comparability.

(b) Effective date
The above standard and guidance are scheduled to be applied from the beginning of the fiscal year ending March 31, 2022.

(c) Effects of application of the standards
The effects of the application of the above standard and guidance on the consolidated financial statements are currently being assessed.

3. NOTES AND ACCOUNTS RECEIVABLE

Notes and accounts receivable as of March 31, 2018 and 2017, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Trade notes receivable	¥ 4,848	¥ 7,057	$ 45,740
- Unconsolidated subsidiary and associated companies	198	154	1,864
Trade accounts receivable	16,793	18,445	158,427
- CJR, unconsolidated subsidiary and associated companies	6,051	5,634	57,084
Other	640	76	6,034
Less allowance for doubtful accounts	(4)	(5)	(38)
Total	¥ 28,526	¥ 31,361	$ 269,111

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, 2018 and 2017, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Merchandise	¥ 258	¥ 161	$ 2,432
Finished goods	1,642	1,645	15,493
Work in process and semi-finished goods	23,450	26,288	221,224
Raw materials	1,355	2,003	12,782
Total	¥ 26,705	¥ 30,097	$ 251,931

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, 2018 and 2017, allowance for work in process on construction contracts of none and ¥2 million, respectively, was provided and included in work in process and semi-finished goods above.

5. INVESTMENT SECURITIES

Investment securities as of March 31, 2018 and 2017, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Equity securities	¥ 18,632	¥ 16,765	$ 175,771
Total	¥ 18,632	¥ 16,765	$ 175,771

The costs and aggregate fair values of investment securities as of March 31, 2018 and 2017, were as follows:

	Millions of Yen			
	2018			
	Cost	Gross unrealized gains	Gross unrealized losses	Fair and carrying value
Securities classified as available-for-sale:				
Equity securities	¥ 6,059	¥ 10,965	¥ -	¥ 17,024
Total	¥ 6,059	¥ 10,965	¥ -	¥ 17,024

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

	Thousands of U.S. Dollars			
	2018			
	Cost	Gross unrealized gains	Gross unrealized losses	Fair and carrying value
Securities classified as available-for-sale:				
Equity securities	$ 57,164	$ 103,438	$ -	$ 160,602
Total	$ 57,164	$ 103,438	$ -	$ 160,602

The information of available-for-sale securities which were sold for the years ended March 31, 2018 and 2017, was as follows:

	Millions of Yen		
	2018		
	Proceeds	Realized gains	Realized losses
Available-for-sale:			
Equity securities	¥ 100	¥ 54	¥ -
Total	¥ 100	¥ 54	¥ -

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

	Thousands of U.S. Dollars		
	2018		
	Proceeds	Realized gains	Realized losses
Available-for-sale:			
Equity securities	$ 945	$ 507	$ -
Total	$ 945	$ 507	$ -

No impairment losses were recognized on available-for-sale equity securities for the years ended March 31, 2018 and 2017.

6. NOTES AND ACCOUNTS PAYABLE

Notes and accounts payable as of March 31, 2018 and 2017, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Trade notes payable	¥ 1,208	¥ 1,534	$ 11,393
Electronically recorded obligations-operating	10,667	10,190	100,626
-Unconsolidated subsidiary and associated companies	17	24	164
Trade accounts payable	10,323	9,364	97,387
-Unconsolidated subsidiary and associated companies	50	27	473
Other	2,580	1,864	24,344
Total	¥ 24,845	¥ 23,003	$ 234,387

7. SHORT-TERM BORROWINGS AND LONG-TERM DEBT

Short-term borrowings as of March 31, 2018 and 2017, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
CMS with average interest rate of 0.43%	¥ -	¥ 1,595	$ -
Total	¥ -	¥ 1,595	$ -

Long-term debt as of March 31, 2018 and 2017, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Secured bank loans due through 2022 with average interest rate of 0.72%	-	¥ 24,174	-
Loans from CJR due through 2027 (Note) with average interest rate of 0.61%	¥ 55,687	-	$ 525,346
Less current portion	(287)	(5,000)	(2,708)
Total	¥ 55,400	¥ 19,174	$ 522,638

Note: Long-term debt due recorded for the factory assets transferred to CJR in the year ended March 31, 2018 in the amount of ¥20,400 million ($192,450 thousand) was not reflected.

The aggregate annual maturities of long-term debt as of March 31, 2018, were as follows:

Years ending March 31	Millions of Yen	Thousands of U.S. Dollars
2019	-	-
2020	-	-
2021	-	-
2022	¥ 2,900	$ 27,358
2023	2,900	27,358
2024 and thereafter	29,200	275,473
Total	¥ 35,000	$ 330,189

Note: Long-term debt due recorded for the factory assets transferred to CJR in the year ended March 31, 2018 in the amount of ¥20,687 million ($195,158 thousand) was not reflected.

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, 2018 and 2017, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Balance at beginning of year	¥ 13,445	¥ 13,807	$ 126,842
Current service cost	724	721	6,834
Interest cost	119	122	1,120
Actuarial gains	(42)	(240)	(394)
Benefits paid	(838)	(964)	(7,906)
Prior service cost	(49)	-	(465)
Balance at end of year	¥ 13,359	¥ 13,446	$ 126,031

(b) The changes in plan assets for the years ended March 31, 2018 and 2017, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Balance at beginning of year	¥ 17,269	¥ 17,547	$ 162,914
Expected return on plan assets	232	227	2,189
Actuarial gains (losses)	1,305	(375)	12,308
Contribution from the employer	383	387	3,609
Benefits paid	(479)	(517)	(4,514)
Balance at end of year	¥ 18,710	¥ 17,269	$ 176,506

(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, 2018 and 2017, was as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Funded defined benefit obligation	¥ 13,086	¥ 13,187	$ 123,459
Plan assets	(18,709)	(17,269)	(176,506)
Total	(5,623)	(4,082)	(53,047)
Unfunded defined benefit obligation	273	259	2,572
Net asset arising from defined benefit obligation	¥ (5,350)	¥ (3,823)	$ (50,475)
Asset for employees' retirement benefits	¥ (5,623)	¥ (4,082)	$ (53,047)
Liability for employees' retirement benefits	273	259	2,572
Net asset arising from defined benefit obligation	¥ (5,350)	¥ (3,823)	$ (50,475)

(d) The components of net periodic benefit costs for the years ended March 31, 2018 and 2017, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Service cost *(Note)*	¥ 728	¥ 726	$ 6,874
Interest cost	118	122	1,120
Expected return on plan assets	(232)	(227)	(2,189)
Recognized actuarial gains	(426)	(216)	(4,023)
Amortization of prior service cost	(5)	(4)	(52)
Net periodic benefit costs	¥ 183	¥ 401	$ 1,730

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, 2018 and 2017

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Prior service cost	¥ (44)	¥ 4	$ (413)
Actuarial (gains) losses	(920)	352	(8,680)
Total	¥ (964)	¥ 356	$ (9,093)

(f) Amounts recognized in accumulated other comprehensive income (before income tax effect) in respect of defined retirement benefit plans as of March 31, 2018 and 2017

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Unrecognized prior service cost	¥ (79)	¥ (35)	$ (743)
Unrecognized actuarial gains	(5,173)	(4,253)	(48,802)
Total	¥ (5,252)	¥ (4,288)	$ (49,545)

(g) Plan assets

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

	2018	2017
Debt investments	14%	13%
Equity investments	78%	78%
Cash and deposits	3%	3%
Other	5%	6%
Total	100%	100%

Note: The employees' retirement benefit trusts for the contributory pension plans accounted for 18% and 17% of total plan assets for the years ended March 31, 2018 and 2017, respectively.

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

(h) Assumptions used for the years ended March 31, 2018 and 2017, were set forth as follows:

	2018	2017
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 ¥133 million ($1,253 thousand) and ¥128 million for the years ended March 31, 2018 and 2017, respectively.

9. ASSETS PLEDGED AS COLLATERAL

(1) Assets pledged as collateral for long-term debt from banks (including current portion) in the amount of ¥24,174 million as of March 31, 2017, were as follows:

	Millions of Yen
	2017
Land	¥ 11,975
(thereof: factory foundation mortgages)	(11,975)
Buildings and structures	3,915
(thereof: factory foundation mortgages)	(3,915)
Investment securities	11,740
(thereof: factory foundation mortgages)	(-)
Total	¥ 27,630
(thereof: factory foundation mortgages)	(15,890)

In the year ended March 31, 2018, the above collateral as of March 31, 2017 was released as the respective long-term debt (including the current portion) was early redeemed in full in the amount of ¥24,174 million.

(2) Assets pledged as collateral for long-term debt from CJR in the amount of ¥35,000 million ($330,189 thousand) for the payment of settlement money related to a large railway rolling stock project in the U.S.A. as of March 31, 2018 were as follows:

	Millions of Yen	Thousands of U.S. Dollars
	2018	2018
Buildings and structures	¥ 277	$ 2,611
Land	15	141
Investment securities	12,338	116,395
Total	¥ 12,630	$ 119,147

(3) Other assets pledged as collateral as of March 31, 2018 and 2017, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Other current assets *(Note 1)*	¥ 56	¥ 58	$ 533
Other assets under Investments and Other Assets *(Note 2)*	10	10	94
Investment securities *(Note 3)*	4,487	-	42,327
Total	¥ 4,553	¥ 68	$ 42,954

Notes 1: Deposit required by insurance contracts
2: Guarantee deposit required by the Building Lots and Buildings Transaction Business Law
3: Deposit for letter of credit

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 enters 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, 2018 and 2017, amounted to ¥389 million ($3,666 thousand) and ¥512 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, 2018, were as follows:

Years ending March 31	Millions of Yen	Thousands of U.S. Dollars
2019	¥ 748	$ 7,057
2020	536	5,053
2021	485	4,577
2022	532	5,020
2023	140	1,322
2024 and thereafter	32	299
Total	¥ 2,473	$ 23,328

A consolidated subsidiary subleases machinery.

Investments in leases and lease obligations, which include an interest portion, resulting from sublease transactions as of March 31, 2018 and 2017, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Investments in leases:			
Due within one year	¥ 154	¥ 170	$ 1,455
Due after one year	327	337	3,083
Total	¥ 481	¥ 507	$ 4,538

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Lease obligations:			
Due within one year	¥ 170	¥ 177	$ 1,599
Due after one year	375	380	3,539
Total	¥ 545	¥ 557	$ 5,138

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 30.5% for the years ended March 31, 2018 and 2017.

The tax effects of significant temporary differences and tax loss carryforwards that resulted in deferred tax assets and liabilities as of March 31, 2018 and 2017, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Deferred tax assets:			
Tax loss carryforwards	¥ 3,642	¥ 4,918	$ 34,357
Liability for employees' retirement benefits	2,528	2,535	23,848
Loss on write-downs of inventories	2,101	5,492	19,821
Provision for loss on orders received	1,682	2,029	15,872
Land and building of plants	1,487	-	14,030
Loss on impairment of fixed assets	1,218	1,748	11,490
Accrued bonuses to employees	446	452	4,205
Other	2,352	3,717	22,191
	15,456	20,891	145,814
Less valuation allowance	(15,320)	(20,730)	(144,526)
Total	¥ 136	¥ 161	$ 1,288
Deferred tax liabilities:			
Unrealized gain on available-for-sale securities	¥ (3,308)	¥ (2,955)	$ (31,211)
Deferred gain on sales of property	(22)	(1,201)	(210)
Revaluation of property	-	(2,059)	-
Other	(2,903)	(2,483)	(27,386)
Total	(6,233)	(8,698)	(58,807)
Net deferred tax liabilities	¥ (6,097)	¥ (8,537)	$ (57,519)

Deferred tax assets and liabilities as of March 31, 2018 and 2017, were recorded as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Deferred tax assets:			
Current	¥ 51	¥ 60	$ 484
Noncurrent	85	86	804
Deferred tax liabilities:			
Other under Current Liabilities	-	(3)	-
Noncurrent	(6,233)	(8,680)	(58,807)
Net deferred tax liabilities	¥ (6,097)	¥ (8,537)	$ (57,519)

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, 2018, with the corresponding figures for 2017, is as follows:

	2018	2017
Normal effective statutory tax rate	30.5 %	30.5 %
Increase (decrease) due to:		
Expenses not deductible for income tax purposes	(29.0)	(16.4)
Tax-exempt income	0.2	0.5
Changes in valuation allowance	15.6	(69.4)
Per capita inhabitant tax	(0.3)	(0.8)
Transfer price adjustments on consolidation	9.1	35.2
Lower income tax rates applicable to income in certain foreign countries	(0.7)	3.5
Other	1.2	4.1
Actual effective income tax rate	26.6 %	(12.8) %

14. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

(1) Group policy for financial instruments

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

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

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

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

Long-term debt recorded for the transfer price of the factory assets transferred to CJR is not exposed to market risks from changes in variable interest rates since the Company repays a constant lease fee including the interest portion based on the lease agreement. Long-term debt from CJR for the payment of settlement money related to a large railway rolling stock project in the U.S.A. is also not exposed to market risks from changes in variable interest rates due to the fixed interest rate. Lease obligations are primarily used for financing capital investments.

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		
	2018		
	Carrying amount	Fair value	Unrealized gain (loss)
Cash and cash equivalents	¥ 15,837	¥ 15,837	-
Notes and accounts receivable	28,526	28,526	-
Investment securities	17,024	17,024	-
Total	¥ 61,387	¥ 61,387	-
Notes and accounts payable	¥ 24,845	¥ 24,845	-
Income taxes payable	132	132	-
Long-term debt, including current portion	35,000	35,127	¥ (127)
Lease obligations, including current portion	2,473	2,454	19
Total	¥ 62,450	¥ 62,558	¥ (108)

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

	Thousands of U.S. Dollars		
	2018		
	Carrying amount	Fair value	Unrealized gain (loss)
Cash and cash equivalents	$ 149,409	$ 149,409	-
Notes and accounts receivable	269,111	269,111	-
Investment securities	160,602	160,602	-
Total	$ 579,122	$ 579,122	-
Notes and accounts payable	$ 234,387	$ 234,387	-
Income taxes payable	1,248	1,248	-
Long-term debt, including current portion	330,189	331,385	$ (1,196)
Lease obligations, including current portion	23,328	23,147	181
Total	$ 589,152	$ 590,167	$ (1,015)

Assets

Cash and cash equivalents, and notes and accounts receivable

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

Investment securities

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

Liabilities

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

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

Long-term debt and lease obligations

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

Derivative transactions

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

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

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Unlisted securities	¥ 1,608	¥ 876	$ 15,169
Investments in an unconsolidated subsidiary and associated companies	728	1,661	6,864
Long-term debt recorded for the transfer price of the factory assets transferred to CJR (including the current portion)	20,687	-	195,157

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

	Millions of Yen			
	2018			
	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	¥ 15,837	-	-	-
Notes and accounts receivable	27,844	¥ 664	¥ 18	-
Total	¥ 43,681	¥ 664	¥ 18	-

	Thousands of U.S. Dollars			
	2018			
	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	$ 149,409	-	-	-
Notes and accounts receivable	262,678	$ 6,260	$ 173	-
Total	$ 412,087	$ 6,260	$ 173	-

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, 2018 and 2017, were as follows:

		Millions of Yen					
		2017			2017		
	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	¥ 152	-	¥ (8)	¥ 8	-	¥ (0)
Interest rate:							
Interest rate currency swap contracts							
(USD floating rate receipt/JPY fixed-rate payment)	Long-term debt	–	–	–	¥ 16,072	¥ 13,572	*Note*
Interest rate swap contracts							
(floating rate receipt/fixed-rate payment)	Long-term debt	–	–	–	6,902	5,602	*Note*

		Thousands of U.S. Dollars		
		2018		
	Hedged item	Contract amount	Contract amount due after one year	Fair value
Currency:				
Forward foreign currency contracts				
Buying				
USD	Advance payments	$ 1,435	-	$ (72)

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. In the year ended March 31, 2018, the balance of long-term debt as of March 31, 2017 was early redeemed in full.

16. LOSS ON IMPAIRMENT OF PROPERTY, PLANT AND EQUIPMENT

The Group recognized impairment losses on the following asset groups.

For the year ended March 31, 2018:

			Millions of Yen	Thousands of U.S. Dollars
Asset group	Location	Account	2018	2018
Idle real estate	Nakatsugawa, Gifu	Buildings and structures, land, etc.	¥ 34	$ 324
		Total	¥ 34	$ 324

For the year ended March 31, 2017:

Asset group	Location	Account	Millions of Yen 2017
Idle real estate	Kani, Gifu	Land	¥ 2
		Total	¥ 2

The Group reviewed its long-lived assets for impairment as of March 31, 2018 and 2017.

For the years ended March 31, 2018 and 2017, the Group recognized an impairment loss for idle real estate by writing down the property to its net selling value (based on reasonably adjusted amount of property tax assessment value).

17. RELATED-PARTY DISCLOSURES

(1) Parent and major shareholders

CJR directly owned 51.2% of the total shares of the Company as of March 31, 2018 and 2017. The Company distributes transportation vehicles to CJR.

Transactions of the Company with CJR for the years ended March 31, 2018 and 2017, were as follows:

For the year ended March 31, 2018

	Millions of Yen	Thousands of U.S. Dollars
	2018	2018
Sales	¥ 24,001	$ 226,422
Borrowing of funds	56,000	528,302
Repayment of debt	313	2,955
Interest expense	193	1,818

Borrowing of funds, repayment of debt, and interest expense of ¥21,000 million ($198,113 thousand), ¥313 million ($2,955 thousand), and ¥122 million ($1,151 thousand), respectively, were recorded for the transfer of the factory assets transferred to CJR.

For the year ended March 31, 2017

	Millions of Yen
	2017
Sales	¥ 18,351

The balances due to or from CJR as of March 31, 2018 and 2017, were as follows:

As of March 31, 2018

	Millions of Yen	Thousands of U.S. Dollars
	2018	2018
Accounts receivable	¥ 5,947	$ 56,105
Current portion of long-term debt	287	2,708
Long-term debt	55,400	522,638
Accrued expenses	43	407

Current portion of long-term debt, long-term debt, and accrued expenses of ¥287 million ($2,708 thousand), ¥20,400 million ($192,450 thousand), and ¥42 million ($396 thousand), respectively, were the balances related to long-term debt for the transfer price of the factory assets transferred to CJR.

As of March 31, 2017

	Millions of Yen
	2017
Accounts receivable	¥ 5,544

(2) Fellow subsidiaries and subsidiaries of other affiliates

Transactions of the Company with the fellow subsidiaries for the years ended March 31, 2018 and 2017, were as follows:

For the year ended March 31, 2018

	Millions of Yen	Thousands of U.S. Dollars
	2018	2018
JR Central Financial Management Co., Ltd.		
Interest income	¥ 2	$ 17

For the year ended March 31, 2017

	Millions of Yen
	2017
Tokai Rolling Stock & Machinery Co., Ltd.	
Sales	¥ 2,922
JR Central Financial Management Co., Ltd.	
Interest expense	3

The balances due to or from the fellow subsidiaries as of March 31, 2018 and 2017, were as follows:

As of March 31, 2018

	Millions of Yen	Thousands of U.S. Dollars
	2018	2018
JR Central Financial Management Co., Ltd.		
Cash and cash equivalents	¥ 7,534	$ 71,076

As of March 31, 2017

	Millions of Yen
	2017
Tokai Rolling Stock & Machinery Co., Ltd.	
Notes and accounts receivable	¥ 1,786
JR Central Financial Management Co., Ltd.	
Short-term borrowings	1,595

18. OTHER COMPREHENSIVE INCOME (LOSS)

The components of other comprehensive income (loss) for the years ended March 31, 2018 and 2017, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Unrealized gain (loss) on available-for-sale securities:			
Gains (losses) arising during the year	¥ 1,131	¥ (172)	$ 10,671
Reclassification adjustments to profit or loss	(0)	(23)	(0)
Amount before income tax effect	1,131	(195)	10,671
Income tax effect	(354)	71	(3,333)
Total	¥ 777	¥ (124)	$ 7,338
Deferred (loss) gain on derivatives under hedge accounting:			
(Losses) gains arising during the year	¥ (5)	¥ 2	$ (46)
Income tax effect	-	-	-
Total	¥ (5)	¥ 2	$ (46)
Foreign currency translation adjustments:			
Adjustments arising during the year	¥ (105)	¥ 202	$ (989)
Total	¥ (105)	¥ 202	$ (989)
Defined retirement benefit plans:			
Adjustments arising during the year	¥ 1,396	¥ (136)	$ 13,168
Reclassification adjustments to profit or loss	(432)	(220)	(4,075)
Amount before income tax effect	964	(356)	9,093
Income tax effect	(296)	108	(2,796)
Total	¥ 668	¥ (248)	$ 6,297
Share of other comprehensive income in associated companies			
Gains arising during the year	¥ 36	¥ 6	$ 336
Income tax effect	-	6	-
Total	¥ 36	¥ 12	$ 336
Total other comprehensive income (loss)	¥ 1,371	¥ (156)	$ 12,936

19. SUBSEQUENT EVENTS

Reduction in Additional Paid-in Capital, Legal Reserve, and Appropriation of Retained Earnings

The Board of Directors of the Company resolved at a meeting held on May 18, 2018, to propose a reduction in additional paid-in capital and legal reserve, and an appropriation of retained earnings at the 189th Ordinary Shareholders' Meeting on June 28, 2018, where the proposal was approved and passed.

1. Purpose of reduction of additional paid-in capital, legal reserve, and appropriation of retained earnings

A reduction of additional paid-in capital, legal reserve, and an appropriation of retained earnings aimed to partially cover accumulated deficits carried forward as well as to consolidate shareholders' equity.

2. Reduction in additional paid-in capital and legal reserve

In accordance with the provisions of Article 448, Paragraph 1 of the Companies Act, the Company reduces the whole amount of additional paid-in capital and legal reserve, and transfers such amounts to other capital surplus and retained earnings carried forward, respectively.

(1) Items whose amount is to be reduced and the amounts thereof
Additional paid-in capital: Whole amount of ¥12,038,370,234 ($113,570 thousand)
Legal reserve: Whole amount of ¥2,474,794,981 ($23,347 thousand)

(2) Items whose amount is to be increased and the amounts thereof
Other capital surplus: ¥12,038,370,234 ($113,570 thousand)
Retained earnings carried forward: ¥ 2,474,794,981 ($23,347 thousand)

3. Appropriation of retained earnings

In accordance with the provisions of Article 452 of the Companies Act, upon the transfer of additional paid-in capital, the whole amount of other capital surplus, reserve for advanced depreciation of non-current assets and general reserve is transferred to retained earnings carried forward.

(1) Items whose amount is to be reduced and the amounts thereof

Other capital surplus:	Whole amount of ¥12,046,284,407 ($113,644 thousand)
Reserve for advanced depreciation of non-current assets:	Whole amount of ¥51,187,963 ($483 thousand)
General reserve:	Whole amount of ¥10,080,129,210 ($95,096 thousand)

(2) Item whose amount is to be increased and the amount thereof

Retained earnings carried forward: ¥22,177,601,580 ($209,223 thousand)

4. Schedule for reduction of additional paid-in capital, legal reserve, and appropriation of retained earnings

(1) Date of resolution at the meeting of the Board of Directors:	May 18, 2018
(2) Date of resolution at Ordinary Shareholders' Meeting:	June 28, 2018
(3) Effective date:	June 28, 2018

Since this case falls under the requirements of Article 449, Paragraph 1, proviso of the Companies Act, no procedures for objections of creditors is required.

Change in Share Unit and Reverse Stock Split

The Board of Directors of the Company resolved at a meeting held on May 18, 2018, to propose a reverse stock split at the 189th Ordinary Shareholders' Meeting on June 28, 2018, where the proposal was approved and passed, as well as to change the number of shares constituting one unit of the Company's shares ("Share Unit") and a partial amendment to the Company's articles of incorporation.

1. Purpose of the change in Share Unit

Japanese stock exchanges nationwide have announced the "Action Plan for Consolidating Trading Units," under which they aim to consolidate the trading units of common shares for all exchange-listed companies in Japan to 100 shares by October 1, 2018. As a company listed on the Tokyo Stock Exchange and Nagoya Stock Exchange, the Company respects the intention of this action, and will change the Share Unit, or the trading unit of the Company's shares, from 1,000 to 100.

2. Detail of the change in Share Unit

The Share Unit of the Company's common shares will change from 1,000 to 100, effective on October 1, 2018.

3. Purpose of the reverse stock split

In connection with the change of Share Unit from 1,000 to 100, the Company will effect a one-for-ten reverse stock split to adjust the price per Share Unit to an appropriate range.

4. Detail of the reverse stock split

(1) Class of shares subject to reverse stock split

Common shares

(2) Rate of the reverse stock split

Base on the shares owned by the shareholders recorded in the shareholder register as of September 30, 2018 (as of September 28, in effect), the Company will effect a one-for-ten reverse stock split on October 1, 2018.

(3) Number of shares to be reduced by the reverse stock split

Total number of the issued shares before the reverse stock split (as of March 31, 2018):	146,750,129 shares
Number of shares to be reduced by the reverse stock split:	132,075,117 shares
Total number of the issued shares after the reverse stock split:	14,675,012 shares

Note: The number of shares to be reduced by the reverse stock split and the total number of the issued shares after the reverse stock split are theoretical values calculated based on the total number of the issued shares before the reverse stock split and the reverse stock split ratio.

(4) Number of shares authorized to be issued on the effective date
The number of shares authorized to be issued will be reduced at the same rate as the reverse stock split
Total number of shares authorized to be issued before the reverse stock split: 328,000,000 shares
Total number of shares authorized to be issued after the reverse stock split: 32,800,000 shares

(5) Dealing with cases of fractions less than one share
When this reverse stock split generates fractions less than one share, the fractions shall be all disposed pursuant to the Companies Act, and the shareholders who own the fractions shall be paid for the disposition value proportional to the amount of the fractions.

5. Schedule of the change in Share Unit and the reverse stock split

(1) Date of resolution at the meeting of the Board of Directors: May 18, 2018
(2) Date of resolution at Ordinary Shareholders' Meeting: June 28, 2018
(3) Effective date: October 1, 2018 (scheduled)

Note: The trade unit of the Company's shares at the stock exchanges will be changed from 1,000 to 100 effective on September 26, 2018, Wednesday.

6. Effect on per share information

The following table shows per share information if the reverse stock split had been effected at the beginning of the fiscal year ended March 31, 2017:

	Yen		U.S. Dollars
	2018	2017	2018
Net assets per share	¥ 1,444.60	¥ 1,941.02	$ 13.63
Basic net loss per share	(573.01)	(355.01)	(5.41)

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. Effective April 1, 2017, the Group changed its operating segments from "Railway Rolling Stock," "Transportation Equipment and Steel Structure," and "Construction Equipment," to"Railway Rolling Stock," "Transportation Equipment and Steel Structure," "Construction Equipment," and "Engineering." The segment information for the year ended March 31, 2018, is also disclosed using the new operating segments.

"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.

"Engineering" consists of manufacture and sales of railway rolling stock inspection/maintenance systems, agricultural plants, and pulp and paper plants.

(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							
	2018							
	Reportable segment							
	Railway Rolling Stock	Transportation Equipment and Steel Structure	Construction Equipment	Engineering	Other	Total	Reconciliations	Consolidated
Net sales								
Sales to external customers	¥ 41,455	¥ 22,475	¥ 24,573	¥ 6,560	¥ 248	¥ 95,311	-	¥ 95,311
Intersegment sales or transfers	261	331	10	23	192	817	¥ (817)	-
Total	¥ 41,716	¥ 22,806	¥ 24,583	¥ 6,583	¥ 440	¥ 96,128	¥ (817)	¥ 95,311
Segment profit (loss)	¥ 1,413	¥ 1,991	¥ 5,270	¥ (75)	¥ (93)	¥ 8,506	¥ (1,240)	¥ 7,266
Segment assets	¥ 46,176	¥ 19,734	¥ 22,724	¥ 4,684	¥ 669	¥ 93,987	¥ 33,426	¥ 127,413
Other:								
Depreciation	¥ 1,340	¥ 319	¥ 760	¥ 14	¥ 2	¥ 2,435	¥ 293	¥ 2,728
Increase in property, plant and equipment and intangible assets	563	143	962	5	0	1,673	107	1,780

	Millions of Yen							
	2017							
	Reportable segment							
	Railway Rolling Stock	Transportation Equipment and Steel Structure	Construction Equipment	Engineering	Other	Total	Reconciliations	Consolidated
Net sales								
Sales to external customers	¥ 48,554	¥ 21,983	¥ 22,420	¥ 7,496	¥ 641	¥ 101,094	-	¥ 101,094
Intersegment sales or transfers	366	336	7	0	191	900	¥ (900)	-
Total	¥ 48,920	¥ 22,319	¥ 22,427	¥ 7,496	¥ 832	¥ 101,994	¥ (900)	¥ 101,094
Segment profit (loss)	¥ (9,837)	¥ 1,760	¥ 4,195	¥ 9	¥ 264	¥ (3,609)	¥ (1,495)	¥ (5,104)
Segment assets	¥ 57,786	¥ 19,971	¥ 23,105	¥ 3,990	¥ 720	¥ 105,572	¥ 23,622	¥ 129,194
Other:								
Depreciation	¥ 1,250	¥ 386	¥ 734	¥ 17	¥ 8	¥ 2,395	¥ 335	¥ 2,730
Increase in property, plant and equipment and intangible assets	747	82	1,400	2	0	2,231	131	2,362

	Thousands of U.S. Dollars							
	2018							
	Reportable segment							
	Railway Rolling Stock	Transportation Equipment and Steel Structure	Construction Equipment	Engineering	Other	Total	Reconciliations	Consolidated
Net sales								
Sales to external customers	$ 391,084	$ 212,028	$ 231,822	$ 61,886	$ 2,338	$ 899,158	-	$ 899,158
Intersegment sales or transfers	2,460	3,127	90	219	1,811	7,707	$ (7,707)	-
Total	$ 393,544	$ 215,155	$ 231,912	$ 62,105	$ 4,149	$ 906,865	$ (7,707)	$ 899,158
Segment profit (loss)	$ 13,328	$ 18,780	$ 49,721	$ (703)	$ (882)	$ 80,244	$ (11,696)	$ 68,548
Segment assets	$ 435,626	$ 186,173	$ 214,374	$ 44,189	$ 6,308	$ 886,670	$ 315,342	$ 1,202,012
Other:								
Depreciation	$ 12,644	$ 3,006	$ 7,170	$ 131	$ 18	$ 22,969	$ 2,768	$ 25,737
Increase in property, plant and equipment and intangible assets	5,310	1,351	9,077	45	3	15,786	1,010	16,796

Notes: 1. "Other" represents businesses that are not included in any reportable segment, which includes manufacture and sales of laser processing system, sales of railroad-related merchandise and real estate rental.

2. "Reconciliations" in segment profit (loss) include corporate expenses of ¥(1,294) million ($(12,211) thousand) and ¥(1,537) million for the years ended March 31, 2018 and 2017, respectively, elimination of intersegment transactions of ¥42 million ($392 thousand) for the year ended March 31, 2018 and adjustments in inventories of ¥31 million for the year ended March 31, 2017. 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 ¥29,889 million ($281,974 thousand) and ¥21,149 million, elimination of intersegment balances of ¥(136) million ($(1,282) thousand) and ¥(123) million, and adjustments in inventories of ¥(68) million ($(640) thousand) and ¥(81) million as of March 31, 2018 and 2017, respectively. Total corporate assets principally consist of investment securities and general management properties as of March 31, 2018 and 2017.

4. Segment profit (loss) is reconciled to operating income (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, 2018 and 2017, was as follows.

Information about net sales by geographical areas for the year ended March 31, 2018 is not disclosed since net sales to external customers in Japan exceeds 90% of consolidated net sales.

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

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

	Millions of Yen				
	2018				
	Japan	U.S.A.	Asia	Other	Total
Property, plant and equipment	¥ 24,306	¥ 4,258	¥ 0	¥ 0	¥ 28,564

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

	Thousands of U.S. Dollars				
	2018				
	Japan	U.S.A.	Asia	Other	Total
Property, plant and equipment	$ 229,304	$ 40,167	$ 2	$ 0	$ 269,473

(3) Information about major customers

	Net sales		
	Millions of Yen	Thousands of U.S. Dollars	Related segment
Name of major customer	2018	2018	
CJR	¥ 24,001	$ 226,423	Railway Rolling Stock, Transportation Equipment and Steel Structure

	Net sales	
	Millions of Yen	Related segment
Name of major customer	2017	
CJR	¥ 18,351	Railway Rolling Stock, Transportation Equipment and Steel Structure
Sumitomo Corporation of Americas	11,335	Railway Rolling Stock

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

	Millions of Yen							
	2018							
	Reportable segment							
	Railway Rolling Stock	Transportation Equipment and Steel Structure	Construction Equipment	Engineer-ing	Other	Total	Recon-ciliations	Consoli-dated
Impairment loss	¥ -	-	-	-	-	¥ -	34	¥ 34

	Millions of Yen							
	2017							
	Reportable segment							
	Railway Rolling Stock	Transportation Equipment and Steel Structure	Construction Equipment	Engineer-ing	Other	Total	Recon-ciliations	Consoli-dated
Impairment loss	¥ -	-	-	-	-	¥ -	2	¥ 2

	Thousands of U.S. Dollars							
	2018							
	Reportable segment							
	Railway Rolling Stock	Transportation Equipment and Steel Structure	Construction Equipment	Engineer-ing	Other	Total	Recon-ciliations	Consoli-dated
Impairment loss	$ -	-	-	-	-	$ -	324	$ 324

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

* * * * * *

Corporate Information

Corporate Profile

Company Name: NIPPON SHARYO, LTD.

Capital Stock

Common Stock:Authorized	328,000,000 shares
Common Stock:Issued	146,750,129 shares
Number of Shareholders	13,152 persons
	(March 31, 2018)

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.

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
Engineering	Agricultural Plants, Grain Complex, Seed Processing Plants, Railway Rolling Stock Inspection/Maintenance System, Pulp and Paper Plants

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NARUMI PLANT
(Construction equipment)

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KINUURA PLANT
(Steel structure)

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