ANNUAL REPORT 2018

Year ended March 31, 2018

SHIN NIPPON AIR TECHNOLOGIES CO., LTD.

Profile

Shin Nippon Air Technologies Co., Ltd. (SNK or the Company) is a leading Japanese engineering company and applies its proprietary engineering systems to control not only air, water and heat, but also all other aspects of air conditioning, electrical and sanitary facilities. The Company offers comprehensive engineering solutions based on air conditioning, which range from the creation of a better human environment for offices, shopping centers, hospitals, hotels, museums, etc., and the creation of industrial facilities, such as clean rooms, and constant temperature and humidity rooms for semiconductor plants, pharmaceutical plants, R&D centers and similar facilities, to the construction of district heating & cooling systems.

SNK was incorporated in 1969 to take over the air conditioning construction activities of Toyo Carrier Engineering Co., Ltd., a company which had been established in 1930 as a joint venture between the Mitsui Group and Carrier Corporation of USA, an early pioneer in the field of air conditioning systems. The Company and its predecessor have an outstanding record of achievements, including providing air conditioning systems for Japan's first nuclear reactor at the Japan Atomic Energy Research Institute (1957) and for Japan's first skyscraper, the Kasumigaseki Building (1968); the construction of a district heating and cooling system for the Shinjuku New City (1971) and air conditioning for the Johyoh fast breeder reactor in Ibaraki Prefecture (1974).

Since entering overseas markets in 1973, SNK has executed projects in 36 countries for the provision of air conditioning and electrical facilities, as well as for firefighting, water supply, and sewage treatment and sanitary facilities; and has developed into a comprehensive engineering and construction company.

The Company currently has three overseas subsidiaries, based in Shanghai, Sri Lanka and Singapore, which assist its customers in developing their operations throughout Asia through provision of engineering and construction of facilities.

In recent years, SNK has been placing great emphasis on making proposals for engineering solutions in the energy saving and environmental fields. The Company's solutions have earned it a high reputation in Japan and in those countries throughout the world where it carries on business.

Contents

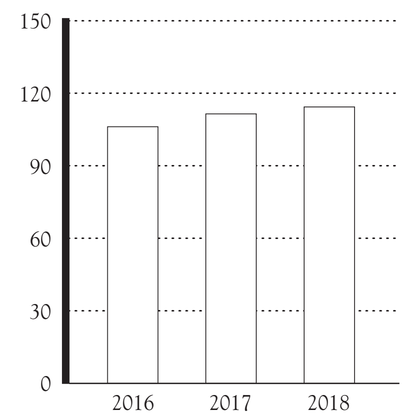
Financial Highlights

Shin Nippon Air Technologies Co., Ltd.
Years ended March 31

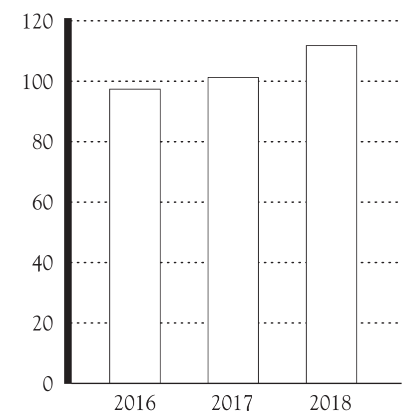
	Millions of Yen			Thousands of U.S. Dollars
	2016	2017	**2018**	**2018**
For the year:				
Orders received	¥106,139	¥111,435	**¥114,320**	**$1,078,491**
Revenues from construction	97,330	101,202	**111,742**	**1,054,171**
Operating income	3,405	3,897	**4,274**	**40,323**
Net income attributable to owners of the parent	2,356	2,934	**3,449**	**32,538**
At year-end:				
Total assets	¥ 91,622	¥ 87,921	**¥ 99,566**	**$ 939,306**
Current assets	65,112	60,557	**72,423**	**683,239**
Net property, plant and equipment	3,069	3,507	**3,722**	**35,115**
Current liabilities	50,228	43,614	**52,327**	**493,656**
Net shareholders' equity	37,396	39,770	**43,019**	**405,843**

Note: U.S. dollar amounts represent translations of Japanese yen amounts at the exchange rate on March 31, 2018 of ¥106 to US$1.

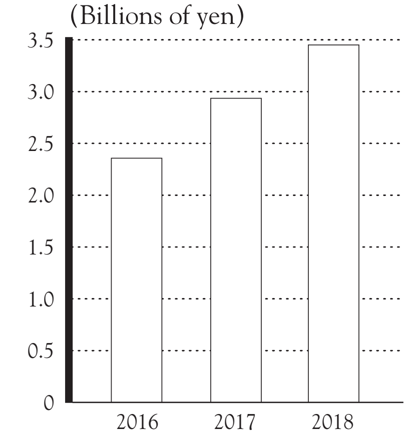
Orders Received
(Billions of yen)



Revenues from Construction
(Billions of yen)



Net Income attributable to owners of the parent
(Billions of yen)



Message from the President

Review of Operations

1) Business Operations and Results

During the fiscal year 2017 which ended on March 31, 2018, the Japanese economy experienced a continued recovery in exports and production amid a moderate recovery in overseas economies. The corporate earnings of Japanese companies were the highest ever, and both the labor market and personal incomes improved. In the manufacturing industry, private-sector capital investment increased in the electric machinery and transportation machinery sectors thanks to the emergence of the internet of things; and to the greater utilization of big data, environmental measures for automobiles, and progress in driver-assistance systems. On the other hand, consumer prices remained flat, indicating that certain issues will need to be addressed before the Japanese economy is able to extricate itself from deflation.

In the construction industry in which SNK and its subsidiaries (together the SNK Group or the Group) operate, expansion is continuing due to an increase in capital investment in real estate against the backdrop of the 2020 Tokyo Olympic and Paralympic Games, and urban redevelopment. On the other hand, the shortage of skilled workers and engineers remains a structural issue throughout the industry. Moreover, initiatives associated with workstyle reform, including the need to reduce long working hours, remain urgent issues for the construction industry. Furthermore, it is necessary to implement measures to respond to technological innovation and thereby to enhance productivity by utilizing innovative technologies, such as artificial intelligence and the internet of things.

Against the above background, the SNK Group launched a new mid-term business plan, the SNK Value Innovation 2020, which covers the three years from fiscal 2017 commencing on April 1, 2017. Its objectives are: i) to develop and promote a growth strategy for enhancing customer loyalty; ii) to integrate design and construction technologies and information technologies to ensure safety and quality and to improve productivity; and iii) to establish a highly transparent management structure and thereby to achieve sound utilization of management resources in accordance with the needs of society. The basic policy of the Group will continue to be to respond to the needs of customers and society as an environmental solutions company contributing to the protection of the

grobal environment and the realization of a sustainable global society while aiming to achieve sustainable growth in the period up to the 2020s and the creation of further corporate value. The SNK Group operated its business in accordance with this policy in the first year of the mid-term business plan.

As a result, the Group's orders received during the fiscal year increased 2.6% year on year to ¥114,320 million and revenues from construction increased 10.4% year on year to ¥111,742 million. The volume of ongoing construction projects at the end of the fiscal year increased, with the result that revenues carried forward to the next fiscal year increased ¥2,577 million to ¥87,064 million.

With regard to overall profit, thanks to the robust order-taking environment and the increase in revenues from construction, and as a result of the Group-wide efforts to generate profit, the Group's gross profit increased 9.7% year on year to ¥11,956 million, operating income increased 9.7% to ¥4,274 million, ordinary income increased 10.1% to ¥4,644 million, and net profit attributable to parent company shareholders increased 17.5% year on year to ¥3,449 million.

2) Issues to be Addressed

Construction investment is expected to gain momentum in view of the increase in the volume of infrastructure projects related to the 2020 Tokyo Olympic and Paralympic Games, private-sector capital investment, an increase in building construction projects, as well as the tendency for manufacturers to relocate certain operations from abroad back to Japan. On the other hand, the shortage of skilled workers and engineers and long working hours have emerged as structural issues for the construction industry. The Group will continue to vigorously implement initiatives related to workstyle reform, including securing of human resources and their appropriate allocation, bringing about improvements in productivity.

For each of the objectives of the SNK Value Innovation 2020 mid-term business plan, SNK is implementing the initiatives described below to enhance its financial performance. Regarding i) the development and promotion of a growth strategy for enhancing customer loyalty, SNK is working to develop multifaceted one-stop solutions and to enter business fields related to alternative energy. For ii) the integration of design and construction technologies and information technologies for ensuring safety and quality and improving productivity, SNK is promoting use of technologies related to artificial intelligence and the internet of things, and implementing initiatives to enhance the productivity of construction processes and the saving of energy. For iii) the establishment of a highly transparent management structure and achievement of sound utilization of management resources in accordance with the needs of society, SNK will continue its initiatives to enhance corporate governance, ensure compliance, promote CSR activities, curb long working hours, and diversify workstyles.

In these endeavors, Shin Nippon Air Technologies Co., Ltd. would, as always, greatly appreciate the continued support of its shareholders.

Major construction projects recently completed

TOKYO MIDTOWN HIBIYA (Tokyo)

New Engineering Building for KASAI KOGYO (Kanagawa Prefecture)

New building for Hiroshima Television (Hiroshima Prefecture)

Shangri-La Hotel, Colombo (Sri Lanka)

Topics

Completion of Refurbishment of New Laboratory of Research & Development Center

Refurbishment of the labs of SNK's Research & Development Center began in fiscal 2016 and was completed in March 2018. SNK invested ¥500 million in this project and constructed and upgraded the SUPER CLEAN LAB., the DATA CENTER LAB., the MICROBIOLOGY CHEMICAL LAB., the DRY ROOM, the INDOOR ENVIRONMENTAL TEST LAB., an area for seismic experiments, and other facilities.

Objectives of the refurbishment of the laboratories are as follows:

1) Develop an experimental environment for the three key R&D themes for future business development:
   - Theme 1: High added value—Pursuit of value through environmental improvement, functional enhancement, and core technologies for zero energy buildings (ZEB*)
   - Theme 2: Labor saving and higher efficiency—Ingenuity using new construction methods, design techniques, and monitoring/detection/analytical methods
   - Theme 3: Introduction of advanced technologies—Pursuit of environmentally and people friendly air conditioning, such as carbon-free, wearable, and personalized air conditioning
2) Develop an experimental environment with high versatility and high applicability to resolve customers' issues
3) Make R&D facilities, including new labs, as well as existing showrooms and presentation rooms, more accessible to visitors and enable them to experience SNK's technologies there

As well as offering superior energy-saving and environmental performance, the new labs are easy to upgrade and are equipped with sophisticated communication facilities. SNK will take full advantage of these facilities and continue the development of technologies adaptive to changes in the social environment and customer needs so as to contribute to society and enhance corporate value through its business activities.

Outline of main laboratories

- SUPER CLEAN LAB.: Many different tests can be performed in this highly clean facility. It is also used in the development of SNK's fine particle visualization technology.
- DATA CENTER LAB.: This lab is for verification of air-conditioning solutions for data centers and for developing proposals featuring such technology. Demonstration of various air-conditioning systems can be performed in this lab.
- MICROBIOLOGY CHEMICAL LAB.: Analysis, evaluation, and demonstration of various chemical substances, micro-organisms, and odor countermeasures can be performed in this highly clean facility.
- DRY ROOM: Various analysis and evaluation can be performed in an environment with a dew point of -70oC.
- INDOOR ENVIRONMENTAL TEST LAB.: Demonstration of air conditioning and lighting based on ecophysiology can be performed to realize a cutting-edge office environment.


SUPER CLEAN LAB.


DC LAB.

*ZEB: Refers to a building whose annual net primary energy consumption is zero or virtually zero.

SNK Project Receives Sixth SHASE Renewal Award

SNK received the Sixth Renewal Award from the Society of Heating, Air-Conditioning and Sanitary Engineers of Japan (SHASE) for the air-conditioning system refurbishment project of Tokyo Bunka Kaikan for which SNK was the contractor. This is the third time that SNK has received the SHASE Renewal Award, which honors refurbishment projects that are outstanding in terms of the recovery of functions and performance improvement.

Tokyo Bunka Kaikan, designed by Kunio Maekawa*[1] and opened in 1961, is a concert hall renowned worldwide for its superb acoustics and that has hosted numerous performances of opera, ballet, and classic music featuring the world's foremost artists.

The commended refurbishment project not only enhanced the comfort of both audience and artists but also improved the environment for musical instruments by ensuring a stable indoor temperature and humidity. The main factor contributing to this improvement is the introduction of reheat control*[2] to optimize indoor humidity control and air-conditioning airflow distribution. The comfortable environment in the hall is confirmed by actual measurement and CFD*[3] analysis of the air-conditioning airflow distribution.

Based on the lessons learned from the Great East Japan Earthquake of 2011, the best mix of electricity and gas is adopted as the heat source to enable a flexible response to the energy supply situation. Energy saving and load leveling technologies are introduced, including utilization of heat storage tanks, use of inverters to reduce the power required to transport air, adoption of total heat exchangers, and control of the amount of external air inflow.

Although the introduction of reheat control to improve the indoor environment resulted in a 31% increase in consumption of cold water and steam, use of energy-saving technology achieved a slight decrease in annual primary energy consumption compared with that before the refurbishment. Even though an electricity-driven heat pump module chiller was newly introduced, peak electric power load equivalent to or below that before the refurbishment was achieved thanks to the load leveling technology. Improvement of the indoor environment is a factor that increases energy consumption; however, in the Tokyo Bunka Kaikan refurbishment project, SNK realized greater comfort with energy consumption equivalent to that before the refurbishment.

Going forward, in the design and construction of various facilities, SNK intends to utilize the experience gained through this project and the detailed operational data obtained after the project's completion.


Tokyo Bunka Kaikan after the refurbishment (Main Hall)

Notes: 1. Kunio Maekawa: A leading Japanese architect in the post-war era who advocated modernist aesthetics.
2. Reheat control: With reheat control, humidity can be reduced, while maintaining a constant temperature of the indoor environment.
3. CFD: Abbreviation of computational fluid dynamics, which is used for thermal fluid simulation.

Consolidated Balance Sheet

Shin Nippon Air Technologies Co., Ltd. and Subsidiaries
March 31, 2018

ASSETS	Millions of Yen 2018	Millions of Yen 2017	Thousands of U.S. Dollars (Note 1) 2018
CURRENT ASSETS:			
Cash and cash equivalents (Note 14)	¥ 9,543	¥ 7,450	$ 90,032
Short-term investments (Notes 3, 12 and 14)	485	878	4,577
Receivables (Note 14):			
Notes receivable – trade	1,635	1,141	15,423
Electronically-recorded monetary claims	2,875	1,700	27,123
Accounts receivable – trade	53,713	46,398	506,731
Allowance for doubtful accounts	(291)	(239)	(2,744)
Inventories (Note 4)	1,196	1,147	11,278
Deferred tax assets (Note 10)	1,485	1,476	14,012
Other current assets	1,782	606	16,807
Total current assets	72,423	60,557	683,239
PROPERTY AND EQUIPMENT:			
Land (Note 12)	917	921	8,653
Buildings and structures (Note 12)	7,255	6,972	68,445
Machinery, equipment, tools, furniture, and fixtures	1,169	1,064	11,021
Lease assets (Note 13)	83	83	784
Total property and equipment	9,424	9,040	88,903
Accumulated depreciation	(5,702)	(5,533)	(53,788)
Net property and equipment	3,722	3,507	35,115
INVESTMENTS AND OTHER ASSETS:			
Investment securities (Notes 3, 12 and 14)	21,359	20,122	201,504
Rental deposits	926	924	8,739
Investments in insurance contracts	179	1,808	1,685
Deferred tax assets (Note 10)	112	121	1,058
Net defined benefit asset	87	78	817
Other assets	846	900	7,977
Allowance for doubtful accounts	(88)	(96)	(828)
Total investments and other assets	23,421	23,857	220,952
TOTAL	¥99,566	¥87,921	$939,306

See notes to consolidated financial statements.

LIABILITIES AND EQUITY	Millions of Yen 2018	Millions of Yen 2017	Thousands of U.S. Dollars (Note 1) 2018
CURRENT LIABILITIES:			
Short-term bank loans (Notes 5 and 14)	¥ 9,062	¥ 7,602	$ 85,495
Current maturities of long-term debt (Notes 5, 13 and 14)	798	270	7,530
Payables (Note 14):			
Notes payable – trade	3,123	2,104	29,465
Accounts payable – trade	31,453	26,196	296,727
Income taxes payable (Notes 10 and 14)	929	534	8,761
Advances received on construction work in progress (Note 6)	2,316	1,099	21,853
Accrued expenses	3,075	3,058	29,010
Allowance for loss on construction contracts	719	1,036	6,780
Other current liabilities	852	1,715	8,035
Total current liabilities	52,327	43,614	493,656
LONG-TERM LIABILITIES:			
Long-term debt (Notes 5, 13 and 14)	439	825	4,140
Liability for employees' retirement benefits (Note 7)	246	897	2,324
Deferred tax liabilities (Note 10)	3,219	2,709	30,367
Provision for loss on litigation		95	
Other long-term liabilities	316	11	2,976
Total long-term liabilities	4,220	4,537	39,807
EQUITY (Notes 8 and 15):			
Common stock – authorized, 84,252,100 shares; issued, 25,282,225 shares in 2018 and 2017	5,159	5,159	48,666
Capital surplus	6,888	6,888	64,979
Stock acquisition rights (Note 9)	134	59	1,266
Retained earnings	23,755	21,286	224,104
Treasury stock – at cost, 923,055 shares and 778,535 shares in 2018 and 2017, respectively	(1,086)	(854)	(10,245)
Accumulated other comprehensive income:			
Net unrealized gain on available-for-sale securities	7,787	6,960	73,463
Foreign currency translation adjustments	382	316	3,610
Defined retirement benefit plans		(44)	
Total	8,169	7,232	77,073
Total equity	43,019	39,770	405,843
TOTAL	¥99,566	¥87,921	$939,306

Consolidated Statement of Income

Shin Nippon Air Technologies Co., Ltd. and Subsidiaries
Year Ended March 31, 2018

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2018	2017	2018
REVENUES FROM CONSTRUCTION	¥111,742	¥101,202	$1,054,171
COSTS OF CONSTRUCTION CONTRACTS (Note 6)	99,785	90,302	941,371
Gross profit	11,957	10,900	112,800
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Note 11)	7,683	7,003	72,477
Operating income	4,274	3,897	40,323
OTHER INCOME (EXPENSES):			
Interest and dividend income	353	331	3,328
Interest expense	(39)	(35)	(370)
Loss on sales of investment securities (Note 3)	(1)		(8)
Reversal of provision for loss on litigation	64		599
Foreign exchange gain (loss) – net	9	(32)	89
Gain on sales of investment securities (Note 3)	290	1	2,734
Gain on abolishment of retirement benefit plan	60		562
Other – net	45	46	432
Other income – net	781	311	7,366
INCOME BEFORE INCOME TAXES	5,055	4,208	47,689
INCOME TAXES (Note 10):			
Current	1,490	1,255	14,059
Deferred	116	19	1,092
Total income taxes	1,606	1,274	15,151
NET INCOME	3,449	2,934	32,538
NET INCOME ATTRIBUTABLE TO OWNERS OF THE PARENT	¥ 3,449	¥ 2,934	$ 32,538

	Yen		U.S. Dollars
	2018	2017	2018
PER SHARE OF COMMON STOCK (Note 2.t):			
Basic net income	¥140.84	¥119.76	$1.33
Diluted net income	140.24	119.57	1.32
Cash dividends applicable to the year	45.00	40.00	0.42

	Thousands of Shares	
Weighted-average number of shares	24,489	24,503

See notes to consolidated financial statements.

Consolidated Statement of Comprehensive Income

Shin Nippon Air Technologies Co., Ltd. and Subsidiaries
Year Ended March 31, 2018

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2018	2017	2018
NET INCOME	¥3,449	¥2,934	$32,538
OTHER COMPREHENSIVE INCOME (LOSS) (Note 15):			
Net unrealized gain on available-for-sale securities	827	252	7,810
Foreign currency translation adjustments	66	(145)	623
Defined retirement benefit plans	44	(112)	409
Total other comprehensive income (loss)	937	(5)	8,842
COMPREHENSIVE INCOME	¥4,386	¥2,929	$41,380
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO—			
Owners of the parent	¥4,386	¥2,929	$41,380

See notes to consolidated financial statements.

Consolidated Statement of Changes in Equity

Shin Nippon Air Technologies Co., Ltd. and Subsidiaries
Year Ended March 31, 2018

	Thousands	Millions of Yen								
							Accumulated Other Comprehensive Income			
	Number of Shares of Common Stock Issued	Common Stock	Capital Surplus	Stock Acquisition Rights	Retained Earnings	Treasury Stock	Net Unrealized Gain on Available-for-Sale Securities	Foreign Currency Translation Adjustments	Defined Retirement Benefit Plans	Total Equity
BALANCE, APRIL 1, 2016	25,282	¥5,159	¥6,888		¥18,964	¥ (853)	¥6,708	¥ 461	¥ 68	¥37,395
Net income attributable to owners of the parent					2,934					2,934
Cash dividends, ¥40 per share					(612)					(612)
Net unrealized gain on available-for-sale securities							252			252
Purchase of treasury stock (23,271 shares)						(1)				(1)
Disposal of treasury stock (22,000 shares)										
Foreign currency translation adjustments								(145)		(145)
Defined retirement benefit plans									(112)	(112)
Stock acquisition rights				¥ 59						59
BALANCE, MARCH 31, 2017	25,282	5,159	6,888	59	21,286	(854)	6,960	316	(44)	39,770
Net income attributable to owners of the parent					3,449					3,449
Cash dividends, ¥45 per share					(980)					(980)
Net unrealized gain on available-for-sale securities							827			827
Purchase of treasury stock (144,520 shares)						(232)				(232)
Foreign currency translation adjustments								66		66
Defined retirement benefit plans									44	44
Stock acquisition rights				75						75
BALANCE, MARCH 31, 2018	25,282	¥5,159	¥6,888	¥134	¥23,755	¥(1,086)	¥7,787	¥ 382		¥43,019

	Thousands of U.S. Dollars (Note 1)								
						Accumulated Other Comprehensive Income			
	Common Stock	Capital Surplus	Stock Acquisition Rights	Retained Earnings	Treasury Stock	Net Unrealized Gain on Available-for-Sale Securities	Foreign Currency Translation Adjustments	Defined Retirement Benefit Plans	Total Equity
BALANCE, MARCH 31, 2017	$48,666	$64,979	$ 561	$200,813	$ (8,057)	$65,654	$2,987	$(409)	$375,194
Net income attributable to owners of the parent				32,538					32,538
Cash dividends, $0.42 per share				(9,247)					(9,247)
Net unrealized gain on available-for-sale securities						7,809			7,809
Purchase of treasury stock (144,520 shares)					(2,188)				(2,188)
Foreign currency translation adjustments							623		623
Defined retirement benefit plans								409	409
Stock acquisition rights			705						705
BALANCE, MARCH 31, 2018	$48,666	$64,979	$1,266	$224,104	$(10,245)	$73,463	$3,610		$405,843

See notes to consolidated financial statements.

Consolidated Statement of Cash Flows

Shin Nippon Air Technologies Co., Ltd. and Subsidiaries
Year Ended March 31, 2018

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2018	2017	2018
OPERATING ACTIVITIES:			
Income before income taxes	¥ 5,055	¥ 4,208	$ 47,689
Adjustments for:			
Income taxes – paid	(1,149)	(2,130)	(10,841)
Depreciation and amortization	406	339	3,830
Amortization of goodwill	280	76	2,643
Gain on sales of investment securities	(289)	(1)	(2,726)
Changes in assets and liabilities:			
(Increase) decrease in receivables – trade	(9,013)	5,725	(85,030)
(Increase) decrease in inventories	(44)	18	(411)
Increase (decrease) in payables – trade	6,243	(6,481)	58,897
Increase (decrease) in advances received on construction work in progress	1,214	(420)	11,455
Increase (decrease) in allowance for doubtful accounts	44	(70)	413
Decrease in liability for employees' retirement benefits	(595)	(118)	(5,611)
(Decrease) increase in allowance for losses on construction contracts	(318)	77	(2,998)
Other – net	(1,667)	1,729	(15,735)
Net cash provided by operating activities	167	2,952	1,575
INVESTING ACTIVITIES:			
Decrease in time deposits	300	19	2,830
Increase in time deposits	(104)		(977)
Purchases of property and equipment	(606)	(83)	(5,720)
Purchases of intangible fixed assets	(271)	(95)	(2,553)
Purchases of short-term investments and investment securities	(498)	(286)	(4,695)
Proceeds from sales and redemptions of short-term investments and investment securities	956	904	9,023
Purchase of shares of subsidiaries resulting in change in scope of consolidation		(240)	
Decrease in loan receivables – net	16	44	148
Proceeds from cancellation of insurance contracts	1,734		16,361
Increase in other assets	(38)	(187)	(368)
Net cash provided by investing activities	1,489	76	14,049
FORWARD	¥ 1,656	¥ 3,028	$ 15,624

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2018	2017	2018
FORWARD	¥1,656	¥ 3,028	$15,624
FINANCING ACTIVITIES:			
Increase (decrease) in short-term bank loans – net	1,477	(2,394)	13,943
Proceeds from long-term debt	400	700	3,774
Repayment of long-term debt	(232)	(885)	(2,189)
Dividends paid	(980)	(613)	(9,247)
Repayment of lease obligations	(40)	(38)	(381)
Purchases of treasury stock	(232)	(2)	(2,188)
Proceeds from sales of treasury shares		25	
Net cash provided by (used in) financing activities	393	(3,207)	3,712
FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS	44	(184)	418
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	2,093	(363)	19,754
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	7,450	7,813	70,278
CASH AND CASH EQUIVALENTS, END OF YEAR	¥9,543	¥ 7,450	$90,032
NONCASH INVESTING AND FINANCING ACTIVITIES:			
Finance lease assets and debt	¥13	¥9	$123

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Shin Nippon Air Technologies Co., Ltd. and Subsidiaries
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.

In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in Japan in order to present them in a form that 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 Shin Nippon Air Technologies Co., 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 all of its subsidiaries (together, the "Group"). The Company has seven consolidated subsidiaries: SNK SERVICE CO., LTD. in Japan; NIPPO ENGINEERING CO., LTD. in Japan; SHIN NIPPON AIR TECHNOLOGIES (SHANGHAI) CO., LTD. in China; SHIN NIPPON LANKA (Private) LIMITED in Sri Lanka; SNK (ASIA PACIFIC) PTE. LTD. in Singapore; SNK INDUSTRIAL TRADING (SHANGHAI) CO., LTD.; and SNK ENGINEERING TECHNOLOGY (SHANGHAI) CO., LTD. in China.

Under the control concept, those companies in which the Company, directly or indirectly, is able to exercise control over operations are fully consolidated.

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 eliminated.

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 International Financial Reporting Standards or generally accepted accounting principles in the United States of America (Financial Accounting Standards Board Accounting Standards Codification) 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 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 of accounting.

c. ***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. The acquirer recognizes any bargain purchase gain in profit or loss immediately on the acquisition date after reassessing and confirming that all of the assets acquired and all of the liabilities assumed have been identified after a review of the procedures used in the purchase price allocation. 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.

d. ***Cash Equivalents*** – Cash equivalents are short-term investments that are readily convertible into cash and that are exposed to insignificant risk of changes in value. Cash equivalents include time deposits and certificates of deposit, which mature or become due within three months of the date of acquisition.

e. ***Inventories*** – Construction work in progress is stated at cost, determined using the specific identification method.

f. ***Short-Term Investments and Investment Securities –*** Marketable and investment securities are classified as available-for-sale securities and are reported at fair value, with unrealized gains and losses, net of applicable taxes, reported as a separate component of equity.

Nonmarketable available-for-sale securities are stated at cost determined using the moving-average method.

For other-than-temporary declines in fair value, available-for-sale securities are reduced to net realizable value by a charge to income.

g. ***Property and Equipment –*** Property and equipment are carried at cost. Depreciation of property and equipment of the Company and its domestic subsidiaries is computed substantially using the declining-balance method. The straight-line method is principally applied to the Company and its domestic subsidiaries for buildings acquired after April 1, 1998, and structures acquired after April 1, 2017, and property and equipment of its foreign subsidiaries.

The range of useful lives is principally from 3 to 50 years for buildings and structures and from 2 to 20 years for machinery, equipment, tools, furniture, and fixtures. The useful lives for lease assets are the terms of the respective leases.

h. ***Amortization of Goodwill –*** Cost in excess of the net assets of subsidiaries acquired is amortized on a straight-line basis over 20 years.

i. ***Long-Lived Assets –*** The Group reviews its long-lived assets for impairment whenever events or changes in circumstances indicate 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 price at disposition.

j. ***Research and Development Costs –*** Research and development costs are charged to income as incurred.

k. ***Allowance for Doubtful Accounts –*** The allowance for doubtful accounts is stated at amounts considered to be appropriate based on the Group's past credit loss experience and an evaluation of potential losses in the receivables outstanding.

l. ***Retirement Benefits and Pension Plan –*** The Company has a defined contribution pension plan and consolidated subsidiaries have unfunded retirement benefit plans. The Company shifted from a defined benefit pension plan to a risk-sharing type corporate pension classified as defined contribution pension plan in January 2018.

The Group accounts for the liability for retirement benefits 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 straight-line basis. Actuarial gains and losses are amortized on a straight-line basis over 10 years within the average remaining service period. Prior service costs are amortized on a straight-line basis over 10 years within the average remaining service period.

m. ***Stock Options –*** Compensation expense for employee stock options, which were granted on and after May 1, 2006, is recognized based on the fair value at the date of grant and over the vesting period as consideration for receiving goods or services in accordance with ASBJ Statement No. 8, "Accounting Standard for Share-based Payment." Stock options granted to nonemployees are accounted for based on the fair value of either the stock option or the goods or services received. In the consolidated balance sheet, the stock option is presented as a stock acquisition right as a separate component of equity until exercised.

n. ***Leases –*** Finance lease transactions are capitalized to recognize lease assets and lease obligations in the balance sheet.

o. ***Allowance for Losses on Construction Contracts –*** The Group provides an allowance for losses on construction contracts, which are probable and estimable at the consolidated balance sheet date.

p. ***Construction Contracts –*** Construction revenues 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 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 is 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.

The revenues recognized by way of the percentage-of-completion method for the years ended March 31, 2018 and 2017, were ¥95,186 million ($897,981 thousand) and ¥84,665 million, respectively.

q. ***Bonuses to Directors –*** Bonuses to directors are accrued at year-end to which such bonuses are attributable.

r. ***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 income to the extent that they are not hedged by forward exchange contracts.

s. ***Foreign Currency Financial Statements –*** The consolidated balance sheet accounts of the 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. Differences arising from such translation are shown as "Foreign currency translation adjustments" under accumulated other comprehensive income in a separate component of equity.

Revenue and expense accounts of the foreign subsidiaries are translated into Japanese yen at the average exchange rate.

Notes to Consolidated Financial Statements

t. ***Income Taxes –*** The provision for income taxes is computed based on the pretax income included in the consolidated statement of income. 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 income tax rates to the temporary differences.

u. ***Per Share Information –*** Basic net income per share is computed by dividing net income attributable to common shareholders by the weighted-average number of common shares outstanding for the period.

Diluted net income per share reflects the potential dilution that could occur if securities were exercised or converted into common stock. Diluted net income per share of common stock assumes full conversion of the outstanding convertible notes and bonds at the beginning of the year with an applicable adjustment for related interest expense, net of tax, and full exercise of outstanding warrants.

Cash dividends per share presented in the accompanying consolidated statement of income are dividends applicable to the respective fiscal years, including dividends to be paid after the end of the year.

v. ***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 consolidated financial statements is changed, prior-period consolidated 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.

w. ***New Accounting Pronouncements***

Tax Effect Accounting – On February 16, 2018, the ASBJ issued ASBJ Statement No. 28, "Partial Amendments to Accounting Standard for Tax Effect Accounting," and ASBJ Guidance No. 26, "Implementation Guidance on Accounting Standard for Deferred Tax Assets," accounting treatments are required as follows: (1) Changes in handling future taxable amount in individual financial statements. (2) Clarification of handling on recoverability of deferred tax assets in companies which is categorized as (type 1).

The accounting standard and guidance are effective for annual periods beginning on or after April 1, 2018.

The Group is in the process of determining the period from when the Company will apply the accounting standard and guidance.

Accounting Standard for Revenue Recognition – On March 30, 2018, the ASBJ issued ASBJ Statement No. 29, "Accounting Standard for Revenue Recognition," and ASBJ Guidance No. 30, "Implementation Guidance on Accounting Standard for Revenue Recognition." The core principle of the standard and guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. An entity should recognize revenue in accordance with that core principle by applying the following steps:

Step 1: Identify the contract(s) with a customer
Step 2: Identify the performance obligations in the contract
Step 3: Determine the transaction price
Step 4: Allocate the transaction price to the performance obligations in the contract
Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation

The accounting standard and guidance are effective for annual periods beginning on or after April 1, 2021.

The Group is in the process of determining the period from when the Company will apply the accounting standard and guidance.

(Additional Information)

In January 2018, the Group shifted retirement benefit plan to risk-sharing corporate pension that is classified as a defined contribution plan as stipulated in Article 4 of the Accounting Standard for Retirement Benefits, and practical handling of accounting treatment etc. (PITF No. 33, December 16, 2016) has been applied. As a result, extraordinary income of ¥60 million ($562 thousand) was recorded as "Gain on abolishment of retirement benefit plan."

3. SHORT-TERM INVESTMENTS AND INVESTMENT SECURITIES

Short-term investments and investment securities as of March 31, 2018 and 2017, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Current:			
Time deposits which mature beyond three months from acquisition	¥ 185	¥ 377	$ 1,743
Debt securities	300	501	2,834
Total	¥ 485	¥ 878	$ 4,577
Noncurrent:			
Equity securities	¥20,893	¥19,423	$197,109
Debt securities	466	699	4,395
Total	¥21,359	¥20,122	$201,504

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

	Millions of Yen			
March 31, 2018	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as available for sale:				
Equity securities	¥8,839	¥11,243		¥20,082
Debt securities	800		¥34	766
Total	¥9,639	¥11,243	¥34	¥20,848
March 31, 2017				
Securities classified as available for sale:				
Equity securities	¥8,508	¥10,102		¥18,610
Debt securities	1,302	1	¥103	1,200
Total	¥9,810	¥10,103	¥103	¥19,810

	Thousands of U.S. Dollars			
March 31, 2018	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as available for sale:				
Equity securities	$83,389	$106,062		$189,452
Debt securities	7,550	1	$322	7,229
Total	$90,939	$106,063	$322	$196,681

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

	Millions of Yen		
March 31, 2018	Proceeds	Realized Gains	Realized Losses
Available-for-sale – Equity securities	¥456	¥290	¥1
Total	¥456	¥290	¥1
March 31, 2017			
Available-for-sale – Equity securities	¥4	¥1	
Total	¥4	¥1	

	Thousands of U.S. Dollars		
March 31, 2018	Proceeds	Realized Gains	Realized Losses
Available-for-sale – Equity securities	$4,305	$2,734	$8
Total	$4,305	$2,734	$8

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
Construction work in progress	¥1,139	¥1,096	$10,743
Materials and supplies	57	51	535
Total	¥1,196	¥1,147	$11,278

5. SHORT-TERM BANK LOANS AND LONG-TERM DEBT

Short-term bank loans represent borrowings under bank overdraft agreements and notes due within one year, bearing interest ranging from 0.175% to 2.109% at March 31, 2018, and from 0.20% to 2.370% at March 31, 2017.

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
Unsecured loans from banks, maturing serially through 2020, with an interest rate of 0.79% for 2018 and 2017	¥1,177	¥1,009	$11,104
Obligations under finance leases	60	86	566
Less current portion	(798)	(270)	(7,530)
Long-term debt, less current portion	¥ 439	¥ 825	$ 4,140

Annual maturities of long-term debt, excluding finance leases (see Note 13), at March 31, 2018, were as follows:

Year Ending March 31	Millions of Yen	Thousands of U.S. Dollars
2019	¥281	$2,651
2020	128	1,208
Total	¥409	$3,859

6. ADVANCES RECEIVED ON CONSTRUCTION WORK IN PROGRESS

The Group normally receives payments from customers on a progressive basis in accordance with the terms of the respective construction contracts.

7. RETIREMENT AND PENSION PLANS

The Group has severance payment plans to employees.

Under most circumstances, employees terminating their employment are entitled to retirement benefits determined based on the rate of pay at the time of termination, years of service and certain other factors. Employees are entitled to larger payments if the termination is involuntary, by retirement at the mandatory retirement age, or caused by death.

(1) 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	¥ 3,511	¥3,392	$ 33,122
Current service cost	192	243	1,813
Interest cost	7	24	62
Actuarial losses		125	
Benefits paid	(183)	(273)	(1,724)
Effect of transition to risk-sharing type corporate pension	(3,527)		(33,273)
Balance at end of year		¥3,511	

(2) 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	¥ 2,838	¥2,789	$ 26,774
Expected return on plan assets	53	70	502
Actuarial gains (losses)	24	(35)	225
Contributions from the employer	141	187	1,331
Benefits paid	(133)	(173)	(1,257)
Effect of transition to risk-sharing type corporate pension	(2,923)		(27,575)
Balance at end of year		¥2,838	

(3) Reconciliation between the liability 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
Defined benefit obligation		¥ 3,511	
Plan assets		(2,838)	
Total		673	
Net liability arising from defined benefit obligation		¥ 673	

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Liability for employees' retirement benefits		¥673	
Net liability arising from defined benefit obligation		¥673	

(4) 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	¥192	¥243	$1,813
Interest cost	7	24	62
Expected return on plan assets	(53)	(70)	(502)
Amortization of prior service cost	3	4	25
Recognized actuarial losses (gains)	10	(5)	95
Net periodic benefit costs	¥159	¥196	$1,493

(5) 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, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Prior service cost	¥ 4	¥ 4	$ 34
Actuarial losses (gains)	59	(164)	555
Total	¥63	¥(160)	$589

(6) 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, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Unrecognized prior service cost		¥ (4)	
Unrecognized actuarial losses		(59)	
Total		¥(63)	

(7) Plan assets

a. *Components of plan assets*

Plan assets as of March 31, 2018 and 2017, consisted of the following:

	2018	2017
Debt investments		41%
Equity investments		16
Cash and cash equivalents		29
Others		14
Total		100%

b. *Method of determining the expected rate of return on plan assets*

The expected rate of return on plan assets is determined considering the long-term rates of return which are expected currently and in the future from the various components of the plan assets.

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

	2018	2017
Discount rate		0.2%
Expected rate of return on plan assets		2.5
Future salary increase rate		5.8

(9) The changes in liability for retirement benefits, which have been calculated by a simplified method 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	¥146	¥171	$1,377
Net periodic benefit costs	26	42	247
Benefits paid	(12)	(5)	(117)
Increase in net defined benefit asset from newly consolidated subsidiary		(62)	
Balance at end of year	¥160	¥146	$1,507

(10) Reconciliation between the liability recorded in the consolidated balance sheet and the balances of defined benefit obligation and plan assets which have been calculated by a simplified method 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	¥ 197	¥ 180	$ 1,863
Plan assets	(284)	(258)	(2,680)
Total	(87)	(78)	(817)
Unfunded defined benefit obligation	247	224	2,324
Net liability for defined benefit obligation	¥ 160	¥ 146	$ 1,507

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Liability for retirement benefits	¥247	¥224	$2,324
Asset for retirement benefits	(87)	78	(817)
Net liability for defined benefit obligation	¥160	¥146	$1,507

(11) Periodic benefit cost which has been calculated by a simplified method 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	¥26	¥41	$245

(12) Defined contribution pension plan
The main contributions to the defined contribution plans of the Group for the years ended March 31, 2018 and 2017, were ¥226 million ($2,135 thousand) and ¥112 million, respectively.

(13) The Group participates in a multiemployer plan for which it cannot reasonably calculate the amount of plan assets corresponding to the contributions made by the Company. Therefore, they are accounted for using the same method as a defined contribution plan.

The contributions to such multiemployer plan, which are accounted for using the same method as a defined contribution plan, were ¥242 million ($2,288 thousand) and ¥232 million for the years ended March 31, 2018 and 2017, respectively.

(a) The funded status of the multiemployer plan as of March 31, 2017 and 2016, was as follows:

1. The contribution ratio of the Group in the multiemployer plan

	Millions of Yen March 31	
	2017	2016
Plan assets	¥ 9,039	¥ 40,402
Sum of actuarial liabilities of pension plan and minimum actuarial reserve	(17,011)	(51,358)
Net balance	¥ (7,972)	¥(10,956)

2. Kanagawa Prefecture Electric Welfare Pension Fund

	Millions of Yen March 31	
	2017	2016
Plan assets		¥ 38,820
Sum of actuarial liabilities of pension plan and minimum actuarial reserve		(49,398)
Net balance		¥(10,578)

March 31, 2017

1. The contribution ratio of the Group in the multiemployer plan
The net balance in (a) above is the prior service liability of ¥9,468 million ($89,321 thousand), and general reserve of ¥1,496 million ($14,111 thousand) as of March 31, 2017, which are being amortized over 12 years.
2. Kanagawa Prefecture Electric Welfare Pension Fund
The Group had joined the Kanagawa Prefecture Electric Welfare Pension Fund, but it was dissolved on March 30, 2018, with approval from the Minister of Health, Labor and Welfare.
Further, as it has already been dissolved in this consolidated fiscal year, its description has been omitted.

March 31, 2016

1. The contribution ratio of the Group in the multiemployer plan
The net balance in (a) above is the prior service liability of ¥12,029 million, and general reserve of ¥1,074 million as of March 31, 2016, which are being amortized over 15 years.
2. Kanagawa Prefecture Electric Welfare Pension Fund
The net balance in (a) above is the prior service liability of ¥5,727 million, deficiency carried forward of ¥5,871 million, and the others of ¥1,019 million as of March 31, 2016, which are being amortized over 16 years.

(b) The contribution ratio of the Group in the multiemployer plan and Kanagawa Prefecture Electric Welfare Pension Fund for the years ended March 31, 2017 and 2016, were as follows:

	2017	2016
The contribution ratio of the Group in the multiemployer plan	18.5%	18.5%
Kanagawa Prefecture Electric Welfare Pension Fund		1.1

8. 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:

a. ***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 does not meet all the above criteria.

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.

b. ***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.

c. ***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.

Notes to Consolidated Financial Statements

9. STOCK OPTION

The stock options outstanding as of March 31, 2018, are as follows:

Stock Options	Persons Granted	Number of Options Granted	Date of Grant	Exercise Price	Exercise Period
1st Stock Option	9 directors 15 executive officers and employees	70,400 shares	2016.8.22	¥1 ($0.01)	From August 23, 2016 to August 22, 2046
2nd Stock Option	8 directors 17 executive officers and employees	52,000 shares	2017.7.10	¥1 ($0.01)	From July 11, 2017 to July 10, 2047

The stock option activity is as follows:

	1st Stock Option	2nd Stock Option
	(Shares)	
Year Ended March 31, 2017		
Non-vested		
April 1, 2016 – Outstanding		
Granted	70,400	
Canceled		
Vested	(61,900)	
March 31, 2017 – Outstanding	8,500	
Vested		
April 1, 2016 – Outstanding		
Vested	61,900	
Exercised		
Canceled		
March 31, 2017 – Outstanding	61,900	
Year Ended March 31, 2018		
Non-vested		
March 31, 2017 – Outstanding	8,500	
Granted		52,000
Canceled		
Vested	(8,500)	(46,600)
March 31, 2018 – Outstanding		5,400
Vested		
March 31, 2017 – Outstanding	61,900	
Vested	8,500	46,600
Exercised		
Canceled		
March 31, 2018 – Outstanding	70,400	46,600
Exercise price	¥1 ($0.01)	¥1 ($0.01)
Average stock price at exercise		
Fair value price at grant date	¥960 ($8.57)	¥1,429 ($13.48)

The Assumptions Used to Measure Fair Value of 2nd Stock Option

Estimate method:	Black-Scholes option pricing model
Volatility of stock price:	27.497%
Estimated remaining outstanding period:	3.5 years
Estimated dividend:	¥40 per share
Interest rate with risk free:	(0.060)%

10. 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 30.9% for the years ended March 31, 2018 and 2017.

The tax effects of significant temporary differences, which 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:			
Allowance for doubtful accounts	¥ 114	¥ 99	$ 1,075
Employee accrued bonuses	776	800	7,320
Liability for employees' retirement benefits	70	270	665
Loss on devaluation of golf club memberships	53	81	499
Loss on devaluation of investment securities	93	106	875
Loss on devaluation of land	189	189	1,781
Allowance for loss on construction contracts	220	313	2,075
Risk-sharing corporate pension	145		1,372
Other	632	518	5,963
Valuation allowance	(418)	(418)	(3,943)
Total	1,874	1,958	17,682
Deferred tax liabilities:			
Unrealized gains on available-for-sale securities	(3,356)	(2,975)	(31,660)
Other	(140)	(102)	(1,319)
Total	(3,496)	(3,077)	(32,979)
Net deferred tax liabilities	¥(1,622)	¥(1,119)	$(15,297)

A reconciliation between the normal effective statutory tax rates and the actual effective tax rates reflected in the accompanying consolidated statement of income for the year ended March 31, 2018, with the corresponding figures for 2017 is as follows:

	2018	2017
Normal effective statutory tax rate	30.9%	30.9%
Expenses not deductible permanently for income tax purposes	1.8	2.6
Income not taxable permanently for income tax purposes	(0.4)	(0.3)
Inhabitant tax	1.3	1.5
Difference in statutory tax rates of overseas subsidiaries	0.2	(1.5)
Valuation allowance	(0.6)	(1.0)
Other – net	(1.4)	(1.9)
Actual effective tax rate	31.8%	30.3%

Notes to Consolidated Financial Statements

11. RESEARCH AND DEVELOPMENT COSTS

Research and development costs charged to income were ¥374 million ($3,530 thousand) and ¥396 million for the years ended March 31, 2018 and 2017, respectively.

12. ASSETS PLEDGED

At March 31, 2018, assets pledged as collateral were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
A time deposit	¥27	¥ 27	$255
Building/structures		98	
Land		347	
Investment securities		319	

13. LEASES

The Group leases certain cars, software, and other assets.

Obligations under finance leases and future minimum payments under noncancelable operating leases were as follows:

	Millions of Yen		Thousands of U.S. Dollars	
	2018		2018	
	Finance Leases	Operating Leases	Finance Leases	Operating Leases
Due within one year	¥30	¥475	$285	$4,481
Due after one year	30	227	281	2,137
Total	¥60	¥702	$566	$6,618

The minimum rental commitments under noncancelable operating leases as of March 31, 2018 and 2017, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Due within one year	¥475	¥ 455	$4,481
Due after one year	227	579	2,137
Total	¥702	¥1,034	$6,618

14. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

(1) Group Policy for Financial Instruments

The Group purchases or issues financial instruments in order to finance its operations and to manage its surplus cash efficiently according to the Group policy of safe and secure asset management. Mainly short-term bank loans are used to fund its operations considering the cash flow projections. Derivatives, if any, are used only for hedging currency, interest rate, and other risks and not for speculation.

(2) Nature and Extent of Risks Arising from Financial Instruments

Receivables, such as trade notes, electronically-recorded monetary claims and trade accounts, are exposed to customer credit risk.

Short-term investments in securities and investment securities are used mainly for relations with the client and utilization of surplus funds. Such short-term investments are exposed to the risk of market price fluctuations.

Payment terms of payables, such as trade notes and trade accounts are mainly less than one year.

Short-term bank loans are used mainly for funding the Group's operations. Such borrowings are exposed to market risks from changes in variable interest rates.

(3) Risk Management for Financial Instruments

Credit risk (risk of default of contract) 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 on the basis of internal policies, which include performing credit checks when receiving orders and monitoring of payment terms and balances of major customers by each business administration department to identify the default risk of customers at an early stage.

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

Investment securities are managed by purchasing mainly high-grade bonds and securities from reliable financial institutions according to internal policies and monitoring the market values and financial position of issuers on a quarterly basis at management meetings.

Liquidity risk management

Liquidity risk comprises the risk that the Group cannot meet its contractual obligations in full on their maturity dates. The Group manages its liquidity risk by holding adequate volumes of liquid assets, along with adequate financial planning by the corporate treasury department. The Group has established credit lines with banks to respond flexibly to demands for funding.

(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.

(a) Fair value of financial instruments

	Millions of Yen		
March 31, 2018	Carrying Amount	Fair Value	Unrealized Gain/Loss
Cash and cash equivalents and short-term investments	¥ 9,728	¥ 9,728	
Receivables	54,621	54,621	
Electronically-recorded monetary claims	2,875	2,875	
Marketable securities	300	300	
Investment securities	20,548	20,548	
Total	¥88,072	¥88,072	
Payables	¥34,576	¥34,576	
Short-term bank loans	9,062	9,062	
Income taxes payable	929	929	
Long-term debt and current maturities of long-term debt, excluding finance lease	1,177	1,178	¥1
Total	¥45,744	¥45,745	¥1

Notes to Consolidated Financial Statements

	Millions of Yen		
March 31, 2017	Carrying Amount	Fair Value	Unrealized Gain/Loss
Cash and cash equivalents and short-term investments	¥ 7,827	¥ 7,827	
Receivables	47,165	47,165	
Electronically-recorded monetary claims	1,700	1,700	
Marketable securities	501	501	
Investment securities	19,309	19,309	
Total	¥76,502	¥76,502	
Payables	¥28,299	¥28,299	
Short-term bank loans	7,602	7,602	
Income taxes payable	534	534	
Long-term debt and current maturities of long-term debt, excluding finance lease	1,009	1,011	¥2
Total	¥37,444	¥37,446	¥2

	Thousands of U.S. Dollars		
March 31, 2018	Carrying Amount	Fair Value	Unrealized Gain/Loss
Cash and cash equivalents and short-term investments	$ 91,775	$ 91,775	
Receivables	515,293	515,293	
Electronically-recorded monetary claims	27,123	27,123	
Marketable securities	2,834	2,834	
Investment securities	193,847	193,847	
Total	$830,872	$830,872	
Payables	$326,192	$326,192	
Short-term bank loans	85,495	85,495	
Income taxes payable	8,761	8,761	
Long-term debt and current maturities of long-term debt, excluding finance lease	11,104	11,110	$6
Total	$431,552	$431,558	$6

Cash and Cash Equivalents, Receivables and Electronically-Recorded Monetary Claims

The carrying values of cash and cash equivalents, receivables and electronically-recorded monetary claims approximate fair value because of their short maturities.

Short-Term Investments, Marketable Securities and Investment Securities

The fair values of short-term investments, marketable securities and investment securities are measured at the quoted market price of the stock exchange for equity instruments, and at the quoted price obtained from the financial institutions for certain debt instruments. Information on the fair value of short-term investments, marketable securities and investment securities by classification is included in Note 3.

Payables, Short-Term Bank Loans, and Income Taxes Payable

The carrying values of payables, short-term bank loans, and income taxes payable approximate fair value because of their short maturities.

Long-Term Debt

The fair values of long-term debt are determined by discounting the cash flows related to the debt at the Group's assumed corporate borrowing rate.

Derivatives

The Group had no derivative contracts at March 31, 2018.

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

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Investments in equity instruments that do not have a quoted market price in an active market	¥812	¥812	$7,657
Total	¥812	¥812	$7,657

(5) *Maturity Analysis for Financial Assets and Securities with Contractual Maturities*

	Millions of Yen			
March 31, 2018	Due in 1 Year or Less	Due after 1 Year through 5 Years	Due after 5 Years through 10 Years	Due after 10 Years
Cash and cash equivalents	¥ 9,728			
Receivables	54,621			
Electronically-recorded monetary claims	2,875			
Marketable securities – Available-for-sale securities with contractual maturities	300			
Investment securities – Available-for-sale securities with contractual maturities				¥500
Total	¥67,524			¥500

	Thousands of U.S. Dollars			
March 31, 2018	Due in 1 Year or Less	Due after 1 Year through 5 Years	Due after 5 Years through 10 Years	Due after 10 Years
Cash and cash equivalents	$ 91,775			
Receivables	515,293			
Electronically-recorded monetary claims	27,123			
Marketable securities – Available-for-sale securities with contractual maturities	2,830			
Investment securities – Available-for-sale securities with contractual maturities				$4,717
Total	$637,021			$4,717

Please see Note 5 for annual maturities of long-term debt and Note 13 for obligations under finance leases.

15. 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
Net unrealized gain on available-for-sale securities:			
Gain arising during the year	¥1,497	¥ 330	$14,123
Reclassification adjustments to profit	(288)	(1)	(2,720)
Amount before income tax effect	1,209	329	11,403
Income tax effect	(382)	(77)	(3,593)
Total	¥ 827	¥ 252	$ 7,810
Foreign currency translation adjustments – Loss arising during the year	¥ 66	¥(145)	$ 623
Total	¥ 66	¥(145)	$ 623
Defined retirement benefit plans:			
Loss arising during the year		¥(159)	
Reclassification adjustments to profit	¥ 63	(2)	$ 589
Amount before income tax effect	63	(161)	589
Income tax effect	(19)	49	(180)
Total	¥ 44	¥(112)	$ 409
Total other comprehensive income (loss)	¥ 937	¥ (5)	$ 8,842

16. NET INCOME PER SHARE

Reconciliation of the Differences between Basic and Diluted Net Income per Share ("EPS")

Reconciliation of the differences between basic and diluted EPS for the years ended March 31, 2018 and 2017, is as follows:

	Millions of Yen	Thousands of Shares	Yen	U.S. Dollars
Year Ended March 31, 2018	Net Income Attributable to Owners of the Parent	Weighted-Average Shares	EPS	
Basic EPS – Net income available to common shareholders	¥3,449	24,489	¥140.84	$1.33
Effect of dilutive securities – Warrants		105		
Diluted EPS – Net income for computation	¥3,449	24,594	¥140.24	$1.32

	Millions of Yen	Thousands of Shares	Yen
Year Ended March 31, 2017	Net Income Attributable to Owners of the Parent	Weighted-Average Shares	EPS
Basic EPS – Net income available to common shareholders	¥2,934	24,502	¥119.76
Effect of dilutive securities – Warrants		38	
Diluted EPS – Net income for computation	¥2,934	24,540	¥119.57

17. 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.

Segment information about sales, profit (loss), assets, liabilities, and other items is not presented because the Group has only one reportable segment, the equipment construction segment.

18. SUBSEQUENT EVENT

Appropriations of Retained Earnings

The following appropriation of retained earnings at March 31, 2018, was approved at the Company's shareholders' meeting held on June 22, 2018:

	Millions of Yen	Thousands of U.S. Dollars
Year-end cash dividends, ¥35.0 ($0.330) per share	¥853	$8,043

* * * * * *

Deloitte.

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of Shin Nippon Air Technologies Co., Ltd.:

We have audited the accompanying consolidated balance sheet of Shin Nippon Air Technologies Co., Ltd. and its subsidiaries as of March 31, 2018, and the related consolidated statements of income, comprehensive income, changes in equity, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Shin Nippon Air Technologies Co., Ltd. and its 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.

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 22, 2018

Member of
Deloitte Touche Tohmatsu Limited

Board of Directors

(As of June 22, 2018)

President
Hiroshi Natsui*

Managing Director
Satoshi Fuchino
Keiichi Akamatsu
Yoshimitsu Omiya

Directors
Satoshi Shimomoto
Kiyoshi Endo
Isao Yamada

Outside Director
Shigeki Morinobu
Yasushi Mizuno

Standing Audit & Supervisory Board Member
Morio Kusuda
Shuichi Nomizu

Audit & Supervisory Board Member
Takakazu Tsuruno
Tatsumi Jounoo

* Representative Director

Corporate Data

(As of March 31, 2018)

Date of Establishment
October 1, 1969

Paid-in Capital
¥5,159 millions

Number of Shares Outstanding
25,282,225 shares

Number of Shareholders
5,446

Number of Employees
1,061

Stock Exchange Listing
Tokyo Stock Exchange, 1st Section

Transfer Agent of Common Stock
Sumitomo Mitsui Trust Bank, Limited

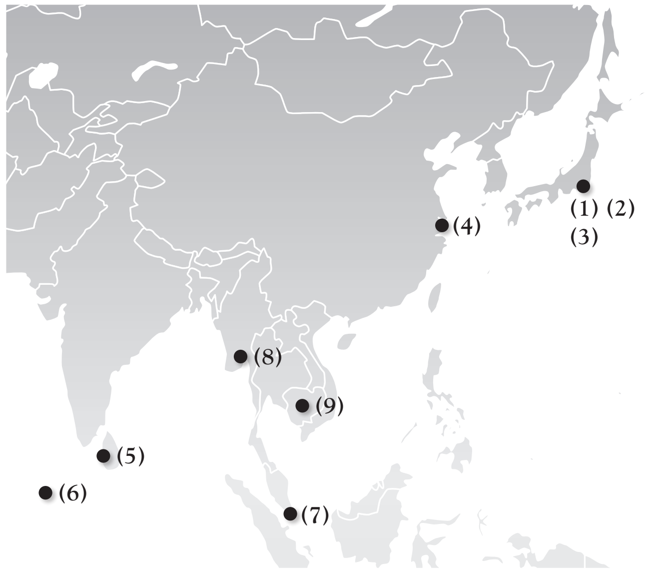
By Type of Shareholder

Financial institutions	21.94%
Individuals & Others	28.22%
Foreign Shareholders	6.78%
Other domestic companies	43.06%

By Number of Shares Held

500,000 shares or more	48.18%
100,000 – 499,999 shares	31.41%
10,000 – 99,999 shares	8.59%
1,000 – 9,999 shares	8.50%
Fewer than 1,000 shares	3.32%

Network



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