ANNUAL REPORT 2017

Year ended March 31, 2017

SHIN NIPPON AIR TECHNOLOGIES CO., LTD.

Profile

Shin Nippon Air Technologies (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.

Shin Nippon Air Technologies Co., Ltd. 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 Shinjuku's city center (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 help its customers develop operations in 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

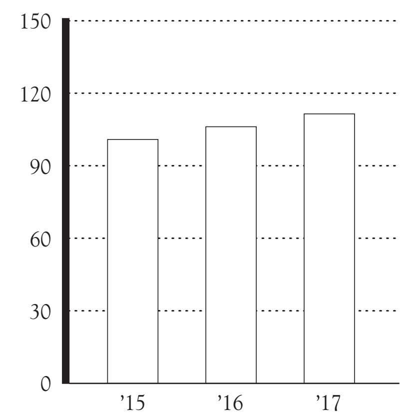
Financial Highlights

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

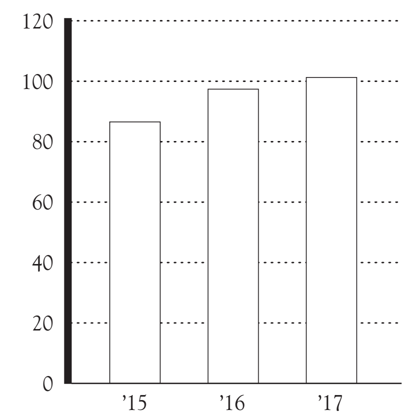
	Millions of Yen			Thousands of U.S. Dollars
	2015	2016	**2017**	**2017**
For the year:				
Orders received	¥100,840	¥106,139	**¥111,435**	**$ 994,957**
Revenues from construction	86,508	97,330	**101,202**	**903,589**
Operating income	2,143	3,405	**3,897**	**34,798**
Net income attributable to owners of the parent	1,443	2,356	**2,934**	**26,200**
At year-end:				
Total assets	¥ 83,652	¥ 91,622	**¥ 87,921**	**$ 785,006**
Current assets	52,349	65,112	**60,557**	**540,685**
Net property, plant and equipment	3,306	3,069	**3,507**	**31,308**
Current liabilities	41,157	50,228	**43,614**	**389,406**
Net shareholders' equity	38,067	37,396	**39,770**	**355,092**

Note: U.S. dollar amounts represent translations of Japanese yen amounts at the exchange rate on March 31, 2017 of ¥112 to US$1.

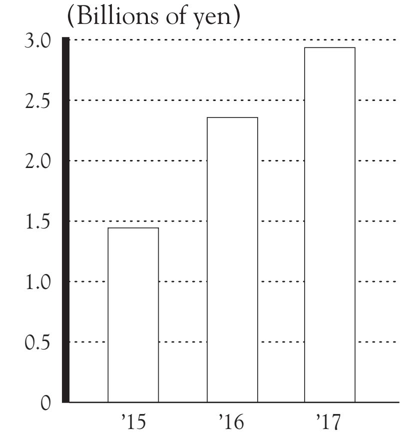
Orders Received
(Billions of yen)



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 2016 which ended on March 31, 2017, the Japanese economy remained on a moderate recovery path, and corporate performance was satisfactory. Although capital investment by manufactures was slow, construction investment by non-manufacturers relating to an expected increase in foreign visitors, large-scale urban redevelopment, and accommodation facilities, all had a positive impact. However, in view of the protracted weakness of personal consumption, the Japanese economy had yet to achieve the virtuous cycle envisaged by the government.

In the construction industry in which SNK and its subsidiaries (together the SNK Group or the Group) operate, expansion continued and this included the construction of facilities and infrastructure for the 2020 Tokyo Olympics and Paralympics, and urban redevelopment in Tokyo and surrounding areas. However sharp increases in the prices of material and equipment, the shortage of skilled workers and engineers, and resulting project delays also became apparent.

The SNK Group was in the third and final year of implementing its mid-term business plan, the Ultimate Value Plan 2016 which had started in fiscal 2014. This mid-term business plan had three objectives, namely: i) to earn the highest level of customer confidence; ii) to promote cutting-edge technologies and to ensure that such technologies are handed on to the next generation; and iii) to strengthen corporate governance and establish a more highly flexible organizational structure.

During the final year of the Plan, while closely monitoring the order-taking environment that was undergoing major change, the SNK Group promoted initiatives focusing on striking a balance between quality and quantity, namely profitability and volume, on which the Group had been working for some time. As a result, order received during the fiscal year increased 5.0% year on year to ¥111,435 million and revenues from construction increased 4.0% year on year to ¥101,202 million. The volume of ongoing construction projects at the end of the fiscal year increased significantly, with the result that the Group's revenues carried forward to the next fiscal year increased ¥11,425 million to ¥84,486 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 10.5% year on year to ¥10,900 million, operating income increased 14.4% to ¥3,897 million, ordinary income increased 13.9% to ¥4,217 million, and profit for shareholders of the parent company increased 24.6% year on year to ¥2,934 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 Tokyo Olympics and Paralympics and other private sector construction projects, as well as the tendency for manufacturers to relocate certain operations from abroad back to Japan. On the other hand, factors such as the shortage of skilled workers and engineers, and the curbing of long working hours are expected to remain major issues of concern over the medium to long term. The Group will continue to vigorously address these issues by securing human resources and by their appropriate allocation, bringing about improvements in productivity, and by other means.

In these circumstance, the SNK Group formulated a new mid-term business plan, 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 for ensuring safety and quality and improving productivity; and iii) to establish a highly transparent management foundation and 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 global environment and the realization of a sustainable global society while aiming to achieve sustainable growth towards the 2020s and the creation of further corporate value. With this policy, the SNK Group is determined to improve its financial performance.

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


Big Roof Takizawa (Iwate Prefecture)


Hachioji Plant No. 6 of
Tokyo Seimitsu Co., Ltd. (Tokyo)


Building No. 3, Center for iPS Cell Research and Application, Kyoto University (Kyoto Prefecture)


Loikaw General Hospital (Kayah State, Myanmar)

Development of "Mizudampa" Water Damper for General Buildings

SNK has developed a new water damper, "Mizudampa," in partnership with Nikkey Co., Ltd., a manufacturer of fire-prevention and smoke-exhaust equipment, and damper manufacturer Sankoh Product Co., Ltd..

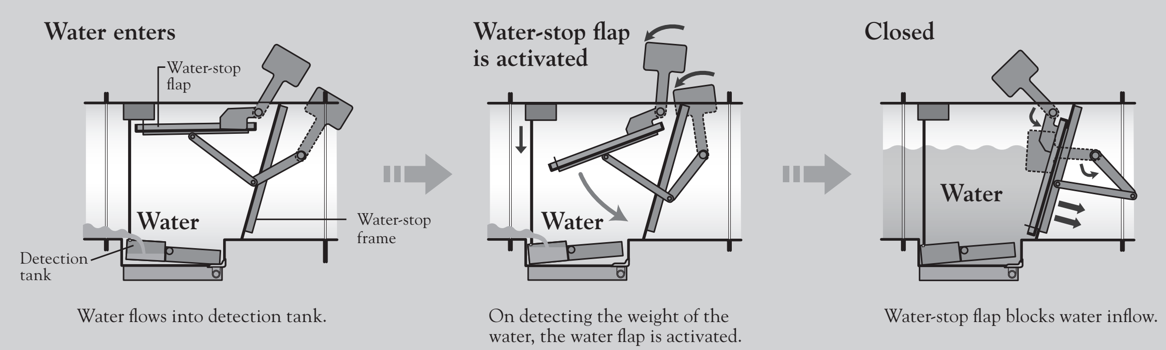
There has been an increase in the installation of flood countermeasures for buildings owing to the rising incidence of torrential rain and flooding in recent years. Measures to prevent water from entering buildings through ducts connected to air intakes or exhaust vents are necessary from the viewpoint of business continuity planning.

Based on the same principle as the "Jabba Shut," which was developed by SNK in 2013 with the main object of protecting power generators and other types of industrial plant from water damage in the event of a tsunami, the new product was developed for general buildings to prevent flooding in the event of torrential rain or other similar eventualities. The water damper is installed in an air intake or exhaust duct. If the water damper detects an inflow of water into the duct by means of its detection tank, it automatically triggers a mechanism to activate the water-stop flap, thereby blocking water from flowing further. Because of its mechanical design, which does not rely on electricity or hydraulics for detecting an inflow of water or activating the water-stop mechanism, the water damper will function even during a power outage. The water-stop frame, which is tilted at an angle to utilize the weight of the water-stop flap, ensures water-stopping performance even if the duct is not filled with water.

SNK will propose installation of this product for spaces and facilities that are subject to the risk of flooding, such as key underground facilities and power utility rooms, so as to contribute to maintaining the soundness of facilities and to ensure business continuity in the event of a disaster.


"Mizudampa" water damper

Mechanism of the water-stop flap for water inflow



Consolidated Balance Sheet

Shin Nippon Air Technologies Co., Ltd. and Subsidiaries
March 31, 2017

ASSETS	Millions of Yen 2017	Millions of Yen 2016	Thousands of U.S. Dollars (Note 1) 2017
CURRENT ASSETS:			
Cash and cash equivalents (Note 17)	¥ 7,450	¥ 7,813	$ 66,513
Short-term investments (Notes 4, 15 and 17)	878	802	7,839
Receivables (Note 17):			
Notes receivable – trade	1,141	562	10,185
Electronically-recorded monetary claims	1,700	2,995	15,180
Accounts receivable – trade	46,398	50,268	414,264
Allowance for doubtful accounts	(239)	(267)	(2,134)
Inventories (Note 5)	1,147	778	10,242
Deferred tax assets (Note 12)	1,476	1,386	13,175
Other current assets	606	775	5,421
Total current assets	60,557	65,112	540,685
PROPERTY AND EQUIPMENT:			
Land (Note 15)	921	584	8,221
Buildings and structures (Note 15)	6,972	6,460	62,244
Machinery, equipment, tools, furniture, and fixtures	1,064	1,047	9,505
Lease assets (Note 16)	83	79	739
Total property and equipment	9,040	8,169	80,709
Accumulated depreciation	(5,533)	(5,100)	(49,401)
Net property and equipment	3,507	3,069	31,308
INVESTMENTS AND OTHER ASSETS:			
Investment securities (Notes 4,15 and 17)	20,122	20,161	179,660
Rental deposits	924	933	8,252
Investments in insurance contracts	1,808	1,757	16,143
Deferred tax assets (Note 12)	121	82	1,079
Net defined benefit asset	78		700
Other assets	900	640	8,032
Allowance for doubtful accounts	(96)	(132)	(853)
Total investments and other assets	23,857	23,441	213,013
TOTAL	¥87,921	¥91,622	$785,006

See notes to consolidated financial statements.

LIABILITIES AND EQUITY	Millions of Yen 2017	Millions of Yen 2016	Thousands of U.S. Dollars (Note 1) 2017
CURRENT LIABILITIES:			
Short-term borrowings (Notes 7 and 17)	¥ 7,602	¥ 9,760	$ 67,879
Current maturities of long-term debt (Notes 7 and 17)	270	32	2,415
Payables (Note 17):			
Notes payable – trade	2,104	1,466	18,783
Accounts payable – trade	26,196	32,344	233,890
Income taxes payable (Notes 12 and 17)	534	1,353	4,766
Advances received on construction work in progress (Note 8)	1,099	1,433	9,817
Accrued expenses	3,058	2,489	27,303
Allowance for loss on construction contracts	1,036	960	9,254
Other current liabilities	1,715	390	15,299
Total current liabilities	43,614	50,228	389,406
LONG-TERM LIABILITIES:			
Long-term debt (Notes 7 and 17)	825	456	7,362
Liability for employees' retirement benefits (Note 9)	897	775	8,011
Deferred tax liabilities (Note 12)	2,709	2,723	24,190
Provision for loss on litigation	95		848
Other long-term liabilities (Note 16)	11	44	97
Total long-term liabilities	4,537	3,998	40,508
EQUITY (Notes 10 and 18):			
Common stock – authorized, 84,252,100 shares; issued, 25,282,225 shares in 2017 and 2016	5,159	5,159	46,059
Capital surplus	6,888	6,888	61,497
Retained earnings	21,286	18,964	190,055
Stock acquisition rights (Note 11)	59		531
Treasury stock – at cost, 778,535 shares and 777,264 shares in 2017 and 2016, respectively	(854)	(853)	(7,626)
Accumulated other comprehensive income:			
Net unrealized gain on available-for-sale securities	6,960	6,708	62,136
Foreign currency translation adjustments	316	461	2,827
Defined retirement benefit plans	(44)	68	(387)
Total	7,232	7,238	64,576
Total equity	39,770	37,396	355,092
TOTAL	¥87,921	¥91,622	$785,006

Consolidated Statement of Income

Shin Nippon Air Technologies Co., Ltd. and Subsidiaries
Year Ended March 31, 2017

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2017	2016	2017
REVENUES FROM CONSTRUCTION	¥101,202	¥97,330	$903,589
COSTS OF CONSTRUCTION CONTRACTS (Note 8)	90,302	87,469	806,270
Gross profit	10,900	9,861	97,319
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Notes 9 and 14)	7,003	6,456	62,521
Operating income	3,897	3,405	34,798
OTHER INCOME (EXPENSES):			
Interest and dividend income	331	353	2,959
Interest expense	(35)	(37)	(311)
Loss on valuation of investment securities			(4)
Foreign exchange loss – net	(32)	(47)	(283)
Gain on sales of investment securities (Note 4)	1	139	12
Impairment losses (Note 6)		(29)	
Insurance profit		11	
Other – net	46	(24)	400
Other income – net	311	366	2,773
INCOME BEFORE INCOME TAXES	4,208	3,771	37,571
INCOME TAXES (Note 12):			
Current	1,255	1,611	11,205
Deferred	19	(196)	166
Total income taxes	1,274	1,415	11,371
NET INCOME	2,934	2,356	26,200
NET INCOME ATTRIBUTABLE TO OWNERS OF THE PARENT	¥ 2,934	¥ 2,356	$ 26,200

	Yen		U.S. Dollars
	2017	2016	2017
PER SHARE OF COMMON STOCK (Note 2.t):			
Basic net income	¥119.76	¥95.47	$1.07
Diluted net income	119.57		1.07
Cash dividends applicable to the year	40.00	25.00	0.36

	Thousands of Shares	
Weighted-average number of shares	24,503	24,675

See notes to consolidated financial statements.

Consolidated Statement of Comprehensive Income

Shin Nippon Air Technologies Co., Ltd. and Subsidiaries
Year Ended March 31, 2017

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2017	2016	2017
NET INCOME	¥2,934	¥ 2,356	$26,200
OTHER COMPREHENSIVE (LOSS) INCOME (Note 18):			
Net unrealized gain (loss) on available-for-sale securities	252	(1,396)	2,242
Foreign currency translation adjustments	(145)	(148)	(1,293)
Defined retirement benefit plans	(112)	(34)	(996)
Total other comprehensive loss	(5)	(1,578)	(47)
COMPREHENSIVE INCOME	¥2,929	¥ 777	$26,153
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO—			
Owners of the parent	¥2,929	¥ 777	$26,153

See notes to consolidated financial statements.

Consolidated Statement of Changes in Equity

Shin Nippon Air Technologies Co., Ltd. and Subsidiaries
Year Ended March 31, 2017

	Thousands	Millions of Yen					Accumulated Other Comprehensive Income			
	Number of Shares of Common Stock Issued	Common Stock	Capital Surplus	Retained Earnings	Stock Acquisition Rights	Treasury Stock	Net Unrealized Gain on Available-for-Sale Securities	Foreign Currency Translation Adjustments	Defined Retirement Benefit Plans	Total Equity
BALANCE, APRIL 1, 2015	25,282	¥5,159	¥6,888	¥17,231		¥ (26)	¥ 8,104	¥609	¥ 102	¥38,067
Net income attributable to owners of the parent				2,356						2,356
Cash dividends, ¥25 per share				(624)						(624)
Net unrealized gain on available-for-sale securities							(1,395)			(1,395)
Purchase of treasury stock (735,420 shares)						(827)				(827)
Foreign currency translation adjustments								(148)		(148)
Defined retirement benefit plans									(34)	(34)
BALANCE, MARCH 31, 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	¥21,286	¥59	¥(854)	¥ 6,960	¥316	¥ (44)	¥39,770

	Thousands of U.S. Dollars (Note 1)					Accumulated Other Comprehensive Income			
	Common Stock	Capital Surplus	Retained Earnings	Stock Acquisition Rights	Treasury Stock	Net Unrealized Gain on Available-for-Sale Securities	Foreign Currency Translation Adjustments	Defined Retirement Benefit Plans	Total Equity
BALANCE, MARCH 31, 2016	$46,059	$61,499	$169,324		$(7,612)	$59,894	$4,120	$ 609	$333,893
Net income attributable to owners of the parent			26,200						26,200
Cash dividends, $0.36 per share			(5,469)						(5,469)
Net unrealized gain on available-for-sale securities						2,242			2,242
Purchase of treasury stock (23,271 shares)					(14)				(14)
Disposal of treasury stock (22,000 shares)		(2)							(2)
Foreign currency translation adjustments							(1,293)		(1,293)
Defined retirement benefit plans								(996)	(996)
Stock acquisition rights				$531					531
BALANCE, MARCH 31, 2017	$46,059	$61,497	$190,055	$531	$(7,626)	$62,136	$2,827	$(387)	$355,092

See notes to consolidated financial statements.

Consolidated Statement of Cash Flows

Shin Nippon Air Technologies Co., Ltd. and Subsidiaries
Year Ended March 31, 2017

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2017	2016	2017
OPERATING ACTIVITIES:			
Income before income taxes	¥ 4,208	¥ 3,771	$ 37,571
Adjustments for:			
Income taxes – paid	(2,130)	(530)	(19,022)
Depreciation and amortization	339	357	3,026
Amortization of goodwill	76		682
Impairment losses		29	
Loss on devaluation of investment securities		96	4
Gain on sales of investment securities	(1)	(139)	(12)
Changes in assets and liabilities:			
Decrease (increase) in receivables – trade	5,725	(12,393)	51,119
Decrease in inventories	18	52	164
(Decrease) increase in payables – trade	(6,481)	1,360	(57,867)
(Decrease) increase in advances received on construction work in progress	(420)	552	(3,749)
Decrease in allowance for doubtful accounts	(70)	(136)	(622)
Decrease in liability for employees' retirement benefits	(118)	(75)	(1,057)
Increase (decrease) in allowance for losses on construction contracts	77	(85)	684
Other – net	1,729	1,278	15,432
Net cash provided by (used in) operating activities	2,952	(5,862)	26,353
INVESTING ACTIVITIES:			
Decrease in time deposits	19	8	168
Increase in time deposits		(200)	
Purchases of property and equipment	(83)	(126)	(740)
Purchases of intangible fixed assets	(95)	(76)	(853)
Purchases of short-term investments and investment securities	(286)	(3)	(2,557)
Proceeds from sales and redemptions of short-term investments and investment securities	904	1,826	8,075
Purchase of shares of subsidiaries resulting in change in scope of consolidation	(240)		(2,143)
Decrease in loan receivables – net	44	16	396
(Increase) decrease in other assets	(187)	50	(1,670)
Net cash provided by investing activities	76	1,495	676
FORWARD	¥ 3,028	¥ (4,367)	$ 27,029

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2017	2016	2017
FORWARD	¥ 3,028	¥(4,367)	$ 27,029
FINANCING ACTIVITIES:			
(Decrease) increase in short-term borrowings – net	(2,394)	5,950	(21,389)
Proceeds from long-term debt	700	400	6,250
Repayment of long-term debt	(885)	(45)	(7,897)
Dividends paid	(613)	(624)	(5,470)
Repayment of lease obligations	(38)	(37)	(337)
Purchases of treasury stock	(2)	(826)	(14)
Proceeds from sales of treasury shares	25		227
Net cash (used in) provided by financing activities	(3,207)	4,818	(28,630)
FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS	(184)	(147)	(1,644)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(363)	305	(3,245)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	7,813	7,507	69,758
CASH AND CASH EQUIVALENTS, END OF YEAR	¥ 7,450	¥ 7,813	$ 66,513
NONCASH INVESTING AND FINANCING ACTIVITIES:			
Finance lease assets and debt	¥9	¥11	$80

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Shin Nippon Air Technologies Co., Ltd. and Subsidiaries
Year Ended March 31, 2017

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 2016 consolidated financial statements to conform to the classifications used in 2017.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which 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 ¥112 to US$1, the approximate rate of exchange at March 31, 2017. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. ***Consolidation*** – The consolidated financial statements as of March 31, 2017, include the accounts of the Company and 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.

NIPPO ENGINEERING CO., LTD. became a consolidated subsidiary of the Company due to the purchase of its shares at October 31, 2016.

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*** – In May 2006, the Accounting Standards Board of Japan (the "ASBJ") issued ASBJ Practical Issues Task Force ("PITF") No. 18, "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements," which was subsequently revised in February 2010 and March 2015 to reflect revisions of the relevant Japanese GAAP or accounting standards in other jurisdictions. PITF No. 18 prescribes that the accounting policies and procedures applied to a parent company and its subsidiaries for similar transactions and events under similar circumstances should in principle be unified for the preparation of the consolidated financial statements. However, financial statements prepared by foreign subsidiaries in accordance with either 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, 2016, 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 leased 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 would be 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 at 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 Group has a funded defined benefit pension plans, unfunded retirement benefit plans and defined contribution pension plan substantially covering all of its employees. The Group accounts for the liability for employees' retirement benefits based on the defined benefit obligations and plan assets at the consolidated balance sheet date.

Effective April 1, 2000, the Company adopted a new accounting standard for retirement benefits and accounted 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.

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

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

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

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

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

m. ***Stock Options –*** Compensation expense for employee stock options which were granted on or after May 1, 2006, are 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 Stock Options." 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. ***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.

o. ***Construction Contracts –*** Revenues and related costs are recognized using the percentage-of-completion method if the outcome of a construction contract can be estimated reliably. If the outcome of a construction contract cannot be reliably estimated, the completed-contract method is applied.

In December 2007, the ASBJ issued ASBJ Statement No. 15, "Accounting Standard for Construction Contracts", and ASBJ Guidance No. 18, "Guidance on Accounting Standard for Construction Contracts." Under this accounting standard, the construction revenue and construction costs should be recognized using 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 can be estimated reliably. If the outcome of a construction contract cannot be reliably estimated, the completed-contract method should be applied. When it is probable that the total construction costs will exceed total construction revenue, an estimated loss on the contract should be immediately recognized by providing for a loss on construction contracts.

The revenues recognized by way of the percentage-of-completion method for the years ended March 31, 2017 and 2016, were ¥84,665 million ($755,935 thousand) and ¥82,825 million, respectively.

p. ***Bonuses to Directors and Audit & Supervisory Board Members –*** Bonuses to directors and Audit & Supervisory Board members are accrued at year-end to which such bonuses are attributable.

q. ***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.

r. ***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" in accumulated other comprehensive income, which is a separate component of equity.

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

s. ***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 basis of assets and liabilities. Deferred taxes are measured by applying currently enacted income tax rates to the temporary differences.

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

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

u. ***Accounting Changes and Error Corrections –*** In December 2009, the ASBJ issued ASBJ Statement No. 24, "Accounting Standard for Accounting Changes and Error Corrections", and ASBJ Guidance No. 24, "Guidance on Accounting Standard for Accounting Changes and Error Corrections." Accounting treatments under this standard and guidance are as follows: (1) Changes in Accounting Policies – When a new accounting policy is applied following revision of an accounting standard, the new policy is applied retrospectively, unless the revised accounting standard includes specific transitional provisions, in which case the entity shall comply with the specific transitional provisions. (2) Changes in Presentation – When the presentation of 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.

(Additional Information)

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

3. ACCOUNTING CHANGE

Pursuant to an amendment to the Corporate Tax Act, the Company adopted ASBJ PITF No. 32, "Practical Solution on a change in depreciation method due to Tax Reform 2016" and changed the depreciation method for building improvements and structures acquired on or after April 1, 2016, from the declining-balance method to the straight-line method. As a result, the impact of this change on the consolidated financial statements for the fiscal year ended March 31, 2017, was immaterial.

4. SHORT-TERM INVESTMENTS AND INVESTMENT SECURITIES

Short-term investments and investment securities as of March 31, 2017 and 2016, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Current:			
Time deposits which mature beyond three months from acquisition	¥ 377	¥ 398	$ 3,366
Debt securities	501	404	4,473
Total	¥ 878	¥ 802	$ 7,839
Noncurrent:			
Equity securities	¥19,423	¥18,405	$173,419
Debt securities	699	1,756	6,241
Total	¥20,122	¥20,161	$179,660

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

	Millions of Yen			
March 31, 2017	Cost	Unrealized Gains	Unrealized Losses	Fair Value
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

	Millions of Yen			
March 31, 2016	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as available for sale:				
Equity securities	¥ 8,065	¥9,661	¥134	¥17,592
Debt securities	2,209	10	59	2,160
Total	¥10,274	¥9,671	¥193	¥19,752

	Thousands of U.S. Dollars			
March 31, 2017	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as available for sale:				
Equity securities	$75,966	$90,199		$166,165
Debt securities	11,629	7	$921	10,715
Total	$87,595	$90,206	$921	$176,880

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

	Millions of Yen		
March 31, 2017	Proceeds	Realized Gains	Realized Losses
Available-for-sale – Equity securities	¥4	¥1	
Total	¥4	¥1	
March 31, 2016			
Available-for-sale – Equity securities	¥303	¥139	
Total	¥303	¥139	

	Thousands of U.S. Dollars		
March 31, 2017	Proceeds	Realized Gains	Realized Losses
Available-for-sale – Equity securities	$40	$12	
Total	$40	$12	

5. INVENTORIES

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

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Construction work in progress	¥1,096	¥722	$ 9,788
Materials and supplies	51	56	454
Total	¥1,147	¥778	$10,242

6. LONG-LIVED ASSETS

No impairment loss was recognized in 2017.

The Group recognized loss on impairment for the year ended March 31, 2016, for the following assets:

March 31, 2016

Location	Purpose of Use	Type of Assets	Millions of Yen
Hachimantai City in Iwate Prefecture	Rental asset	Land	¥29

For purposes of evaluating and measuring impairment, assets are grouped by business purpose of use by each branch. Assets used as rental properties and idle properties are individually evaluated.

The carrying amount of the rental asset was written-down to their recoverable amounts due to the significant decline in market value.

The recoverable amount of a certain asset was measured at the anticipated net selling price at disposition. The Group used the actuary reports to calculate the reasonable net selling price at disposition.

7. SHORT-TERM BORROWINGS AND LONG-TERM DEBT

Short-term borrowings represent borrowings under bank overdraft agreements and notes due within one year, bearing interest ranging from 0.20% to 2.370% at March 31, 2017, and from 0.270% to 1.475% at March 31, 2016.

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

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Unsecured loans from banks, maturing serially through 2018, with an interest rate of 0.63% for 2017 and 2016	¥ 777	¥400	$ 6,938
Obligations under finance leases	86	89	768
Less current portion	(270)	(32)	(2,415)
Total long-term debt, less current portion	¥ 593	¥457	$ 5,291

Annual maturities of long-term debt, excluding finance leases (see Note 16), at March 31, 2017, were as follows:

Year Ending March 31	Millions of Yen	Thousands of U.S. Dollars
2018	¥632	$5,643
2019	145	1,295
Total	¥777	$6,938

8. 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.

9. 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.

Years Ended March 31, 2017 and 2016

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

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Balance at beginning of year	¥3,392	¥3,399	$30,284
Current service cost	243	237	2,169
Interest cost	24	24	217
Actuarial losses (gains)	125	(19)	1,113
Benefits paid	(273)	(250)	(2,436)
Balance at end of year	¥3,511	¥3,391	$31,347

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

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Balance at beginning of year	¥2,789	¥2,781	$24,899
Expected return on plan assets	70	70	622
Actuarial losses	(35)	(61)	(311)
Contributions from the employer	187	185	1,673
Benefits paid	(173)	(187)	(1,544)
Balance at end of year	¥2,838	¥2,788	$25,339

Notes to Consolidated Financial Statements

(3) A reconciliation between the liability recorded in the consolidated balance sheet and the balances of defined benefit obligation and plan assets as of March 31, 2017 and 2016, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Defined benefit obligation	¥ 3,511	¥ 3,392	$ 31,347
Plan assets	(2,838)	(2,789)	(25,339)
Total	673	603	6,008
Net liability arising from defined benefit obligation	¥ 673	¥ 603	$ 6,008

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Liability for employees' retirement benefits	¥673	¥603	$6,008
Net liability arising from defined benefit obligation	¥673	¥603	$6,008

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

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Service cost	¥243	¥237	$2,169
Interest cost	24	24	217
Expected return on plan assets	(70)	(70)	(622)
Amortization of prior service cost	4	4	32
Recognized actuarial gains	(5)	(14)	(43)
Net periodic benefit costs	¥196	¥181	$1,753

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

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Prior service cost	¥ 4	¥ 4	$ 32
Actuarial gains	(164)	(57)	(1,467)
Total	¥(160)	¥(53)	$(1,435)

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

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Unrecognized prior service cost	¥ (4)	¥ (7)	$ (32)
Unrecognized actuarial (losses) gains	(59)	105	(525)
Total	¥(63)	¥ 98	$(557)

(7) Plan assets

a. *Components of plan assets*

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

	2017	2016
Debt investments	41%	11%
Equity investments	16	18
Cash and cash equivalents	29	58
Others	14	13
Total	100%	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, 2017 and 2016, were set forth as follows:

	2017	2016
Discount rate	0.2%	0.7%
Expected rate of return on plan assets	2.5	2.5
Future salary increase rate	5.8	5.8

(9) The changes in liability for retirement benefits, which have been calculated by a simplified method for the years ended March 31, 2017 and 2016, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Balance at beginning of year	¥171	¥179	$1,535
Net periodic benefit costs	42	21	367
Benefits paid	(5)	(29)	(48)
Increase in net defined benefit asset from newly consolidated subsidiary	(62)		(551)
Balance at end of year	¥146	¥171	$1,303

(10) Defined contribution pension plan
The main contributions to the defined contribution plans of the Group for the years ended March 31, 2017 and 2016, were ¥112 million ($1,003 thousand) and ¥112 million, respectively.

(11) The Group participates in a multiemployer plan for which the Group 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 ¥232 million ($2,070 thousand) and ¥220 million for the years ended March 31, 2017 and 2016, respectively.
(a) The funded status of the multiemployer plan as of March 31, 2016 and 2015, was as follows:
1. The contribution ratio of the Group in the multiemployer plan

	Millions of Yen March 31	
	2016	2015
Plan assets	¥ 40,402	¥ 41,830
Sum of actuarial liabilities of pension plan and minimum actuarial reserve	(51,358)	(53,355)
Net balance	¥(10,956)	¥(11,525)

2. Kanagawa Prefecture Electric Welfare Pension Fund

	Millions of Yen March 31	
	2016	2015
Plan assets	¥ 38,820	
Sum of actuarial liabilities of pension plan and minimum actuarial reserve	(49,398)	
Net balance	¥(10,578)	

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 ($107,403 thousand), and general reserve of ¥1,074 million ($9,586 thousand) 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 ($51,134 thousand), deficiency carried forward of ¥5,871 million ($52,420 thousand), and the others of ¥1,019 million ($9,098 thousand) as of March 31, 2016, which are being amortized over 16 years.

March 31, 2015
The net balance in (a) above is the prior service liability of ¥12,693 million, one-year surplus of ¥738 million and general reserve of ¥429 million as of March 31, 2015, which are being amortized over 16 years.
(b) The contribution ratio of the Group in the multiemployer plan and kanagawa Prefecture Electric Welfare Pention Fund for the years ended March 31, 2016 and 2015, were as follows:

	2016	2015
The contribution ratio of the Group in the multiemployer plan	18.5%	18.4%
Kanagawa Prefecture Electric Welfare Pension Fund	1.1	

10. 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.

11. STOCK OPTION

The stock options outstanding as of March 31, 2017, 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

The stock option activity is as follows:

	1st 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
Exercise price	¥1 ($0.01)
Average stock price at exercise	
Fair value price at grant date	¥960 ($8.57)

The Assumptions Used to Measure Fair Value of 1st Stock Option

Estimate method:	Black-Scholes option pricing model
Volatility of stock price:	27.382%
Estimated remaining outstanding period:	2.9 years
Estimated dividend:	¥25 per share
Interest rate with risk free:	(0.202)%

12. INCOME TAXES

The Company and its domestic subsidiaries are subject to Japanese national and local income taxes, which, in the aggregate, resulted in normal effective statutory tax rates of approximately 30.9% and 33.1% for the years ended March 31, 2017 and 2016, respectively.

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

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	**2017**
Deferred tax assets:			
Allowance for doubtful accounts	**¥ 99**	¥ 122	**$ 882**
Employee accrued bonuses	**800**	608	**7,140**
Liability for employees' retirement benefits	**270**	275	**2,414**
Loss on devaluation of golf club memberships	**81**	82	**720**
Loss on devaluation of investment securities	**106**	107	**950**
Loss on devaluation of land	**189**	189	**1,686**
Allowance for loss on construction contracts	**313**	296	**2,795**
Other	**518**	477	**4,627**
Valuation allowance	**(418)**	(431)	**(3,733)**
Total	**1,958**	1,725	**17,481**
Deferred tax liabilities:			
Unrealized gains on available-for-sale securities	**(2,975)**	(2,864)	**(26,563)**
Other	**(102)**	(117)	**(912)**
Total	**(3,077)**	(2,981)	**(27,475)**
Net deferred tax liabilities	**¥(1,119)**	¥(1,256)	**$ (9,994)**

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, 2017, with the corresponding figures for 2016 is as follows:

	2017	2016
Normal effective statutory tax rate	**30.9%**	33.1%
Expenses not deductible permanently for income tax purposes	**2.6**	2.3
Income not taxable permanently for income tax purposes	**(0.3)**	(0.4)
Inhabitant tax	**1.5**	1.7
Difference in statutory tax rates of overseas subsidiaries	**(1.5)**	(1.3)
Valuation allowance	**(1.0)**	(0.2)
Change of effective tax rate by tax reform		1.7
Other – net	**(1.9)**	0.6
Actual effective tax rate	**30.3%**	37.5%

13. BUSINESS COMBINATION

(1) Outline of the business combination

Name of acquired company	NIPPO ENGINEERING CO., LTD.
Business outline	Industrial facilities facility construction project
Major reasons for the business combination	The Group is a comprehensive engineering company that provides a wide range of services for factories, such as electricity, hygiene, automatic equipment, disaster prevention, etc., with air conditioning as the core. Since its founding in 1951, NIPPO ENGINEERING CO., LTD. is a company with strengths in the construction of electrical equipment and factory facilities, mainly for major automobile companies and major food manufacturers. By acquiring the shares of NIPPO ENGINEERING CO., LTD., the Group can offer new services that take advantage of the strengths of both companies, and can fully expect synergies from sharing technical capabilities.
Day of the business combination	October 31, 2016
Legal form of business combination	Acquisition of shares with consideration for cash
Company name after combination	No change
Ratio of voting rights acquired	100.0%
Basis for determining the acquirer	This is because the Company acquired shares in consideration for cash.

(2) The period for which the operations of the acquired company are included in the consolidated financial statements
From November 1, 2016 to March 31, 2017

(3) Acquisition cost of the acquired company

	Millions of Yen	Thousands of U.S. Dollars
Consideration for acquisition – Cash	¥678	$6,055
Acquisition cost	678	6,055

(4) Details of contingent acquisition consideration described in the business combination agreement and their future accounting treatment policies in the subsequent period
Based on the transfer agreement, the acquisition cost may fluctuate due to the occurrence of certain events in the subsequent period. If an additional payment of acquisition cost occurs, the initial acquisition cost is revised, recognizing the revised cost as if it had been paid at the time of acquisition. The amount of goodwill incurred and its amortization are revised.

(5) Major acquisition-related cost
Advisory fees, etc. ¥38 million ($339 thousand)

(6) Amount of goodwill incurred, reason for the goodwill incurred, and the method and period of amortization
(a) *Amount of goodwill incurred*
¥183 million ($1,636 thousand)
The above amounts are provisionally calculated amounts.
(b) *Reason for the goodwill incurred*
Goodwill is incurred from expected excess earnings power in the future arising from further business development.
(c) *Method and period of amortization*
Straight-line basis over one year

(7) The assets acquired and liabilities assumed at the acquisition date are as follows:

	Millions of Yen	Thousands of U.S. Dollars
Current assets	¥2,159	$19,276
Fixed assets	999	8,916
Total assets	¥3,158	$28,192
Current liabilities	¥1,908	$17,038
Long-term liabilities	754	6,735
Total liabilities	¥2,662	$23,773

(8) Pro forma information (unaudited)
If this business combination had been completed as of April 1, 2016, the beginning of the current fiscal year, the effects on the consolidated statement of income for the year ended March 31, 2017, would be as follows:

	Millions of Yen	Thousands of U.S. Dollars
Sales	¥3,924	$35,034
Operating income	184	1,641
Income before income taxes	315	2,815
Net income attributable to owners of the parent	207	1,850

Calculation method of approximate amount
We estimated the approximate impact by the difference between the sales and profit and loss information of the acquiree, calculated assuming that the business combination was completed as of the beginning of the fiscal year, and sales and profit and loss information of the acquiree included in the consolidated statement of income of the acquirer.
Please note that the information contained in this note has not been audited.

14. RESEARCH AND DEVELOPMENT COSTS

Research and development costs charged to income were ¥396 million ($3,540 thousand) and ¥338 million for the years ended March 31, 2017 and 2016, respectively.

15. ASSETS PLEDGED

At March 31, 2017, assets pledged as collateral were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	**2017**
A time deposit	**¥ 27**	¥27	**$ 241**
Building/structures	**98**		**875**
Land	**347**		**3,096**
Investment securities	**319**		**2,850**

16. 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	
	2017		2017	
	Finance Leases	Operating Leases	Finance Leases	Operating Leases
Due within one year	¥38	¥ 455	$343	$4,061
Due after one year	48	579	425	5,171
Total	¥86	¥1,034	$768	$9,232

The minimum rental commitments under noncancelable operating leases as of March 31, 2017 and 2016, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Due within one year	¥ 455	¥212	$4,061
Due after one year	579	92	5,171
Total	¥1,034	¥304	$9,232

17. 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 borrowings 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)

Foreign currency trade receivables and payables are exposed to market risk resulting from fluctuations in foreign currency exchange rates. Foreign currency exchange rate risk is hedged principally by borrowings in foreign currency (impact loans) for more than 50% of the position of receivables denominated in foreign currencies, net of payables in foreign currencies.

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, 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 borrowings	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

	Millions of Yen		
March 31, 2016	Carrying Amount	Fair Value	Unrealized Gain/Loss
Cash and cash equivalents and short-term investments	¥ 8,211	¥ 8,211	
Receivables	50,782	50,782	
Electronically-recorded monetary claims	2,995	2,995	
Marketable securities	404	404	
Investment securities	19,348	19,348	
Total	¥81,740	¥81,740	
Payables	¥33,810	¥33,810	
Short-term borrowings	9,760	9,760	
Income taxes payable	1,353	1,353	
Long-term debt and current maturities of long-term debt, excluding finance lease	400	403	¥3
Total	¥45,323	¥45,326	¥3

March 31, 2017	Thousands of U.S. Dollars Carrying Amount	Fair Value	Unrealized Gain/Loss
Cash and cash equivalents and short-term investments	$ 69,879	$ 69,879	
Receivables	421,113	421,113	
Electronically-recorded monetary claims	15,180	15,180	
Marketable securities	4,473	4,473	
Investment securities	172,406	172,406	
Total	$683,051	$683,051	
Payables	$252,673	$252,673	
Short-term borrowings	67,879	67,879	
Income taxes payable	4,766	4,766	
Long-term debt and current maturities of long-term debt, excluding finance lease	9,009	9,027	$18
Total	$334,327	$334,345	$18

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 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 4.

Payables, Short-Term Borrowings, and Income Taxes Payable
The carrying values of payables, short-term borrowings, 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, 2017.

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

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Investments in equity instruments that do not have a quoted market price in an active market	¥812	¥812	$7,254
Total	¥812	¥812	$7,254

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

	Millions of Yen			
March 31, 2017	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	¥ 7,827			
Receivables	47,165			
Electronically-recorded monetary claims	1,700			
Marketable securities – Available-for-sale securities with contractual maturities	500			
Investment securities – Available-for-sale securities with contractual maturities		¥300		¥500
Total	¥57,192	¥300		¥500

	Thousands of U.S. Dollars			
March 31, 2017	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	$ 69,879			
Receivables	421,113			
Electronically-recorded monetary claims	15,180			
Marketable securities – Available-for-sale securities with contractual maturities	4,464			
Investment securities – Available-for-sale securities with contractual maturities		$2,679		$4,464
Total	$510,636	$2,679		$4,464

Please see Note 7 for annual maturities of long-term debt and Note 16 for obligations under finance leases.

18. OTHER COMPREHENSIVE (LOSS) INCOME

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

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Net unrealized gain (loss) on available-for-sale securities:			
Gain (loss) arising during the year	¥ 330	¥(2,136)	$ 2,946
Reclassification adjustments to profit	(1)	(139)	(12)
Amount before income tax effect	329	(2,275)	2,934
Income tax effect	(77)	879	(692)
Total	¥ 252	¥(1,396)	$ 2,242
Foreign currency translation adjustments – Loss arising during the year	¥(145)	¥ (148)	$(1,293)
Total	¥(145)	¥ (148)	$(1,293)
Defined retirement benefit plans:			
Loss arising during the year	¥(159)	¥ (42)	$(1,424)
Reclassification adjustments to profit	(2)	(11)	(11)
Amount before income tax effect	(161)	(53)	(1,435)
Income tax effect	49	19	439
Total	¥(112)	¥ (34)	$ (996)
Total other comprehensive loss	¥ (5)	¥(1,578)	$ (47)

19. 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.

20. SUBSEQUENT EVENT

Appropriations of Retained Earnings

The following appropriation of retained earnings at March 31, 2017, was approved at the Company's shareholders' meeting held on June 23, 2017:

	Millions of Yen	Thousands of U.S. Dollars
Year-end cash dividends, ¥30.0 ($0.268) per share	¥735	$6,563

* * * * * *

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, 2017, 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, 2017, and the consolidated results of their operations and their cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

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 23, 2017

Member of
Deloitte Touche Tohmatsu Limited

Board of Directors

(As of June 23, 2017)

President
Hiroshi Natsui*

Senior Managing Director
Takeshi Usami

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
Toru Ikio
Morio Kusuda

Audit & Supervisory Board Member
Takakazu Tsuruno
Tatsumi Jounoo

* Representative Director

Corporate Data

(As of March 31, 2017)

Date of Establishment
October 1, 1969

Paid-in Capital
¥5,159 millions

Number of Shares Outstanding
25,282,225 shares

Number of Shareholders
5,173

Number of Employees
1,033

Stock Exchange Listing
Tokyo Stock Exchange, 1st Section

Transfer Agent of Common Stock
Sumitomo Mitsui Trust Bank, Limited

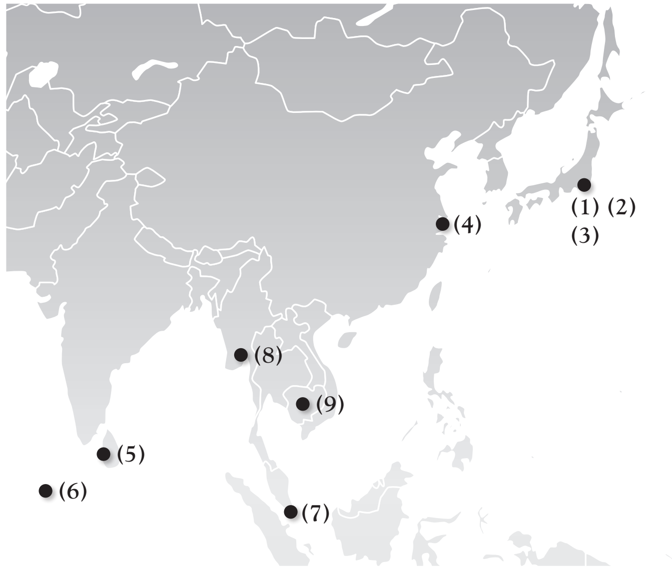
By Type of Shareholder

Financial institutions	21.38%
Individuals & Others	27.40%
Foreign Shareholders	8.36%
Other domestic companies	42.86%

By Number of Shares Held

500,000 shares or more	49.01%
100,000 – 499,999 shares	30.77%
10,000 – 99,999 shares	8.27%
1,000 – 9,999 shares	9.00%
Fewer than 1,000 shares	2.95%

Network



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