ANNUAL REPORT 2013

Year ended March 31, 2013

SHIN NIPPON AIR TECHNOLOGIES CO., LTD.

Profile

Shin Nippon Air Technologies (SNK) 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 centered on air conditioning, ranging 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.

The predecessor of Shin Nippon Air Technologies Co., Ltd. was Toyo Carrier Engineering Co., Ltd., which was 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. SNK was incorporated and took over the air conditioning construction activities of Toyo Carrier Engineering in 1969. The Company has 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

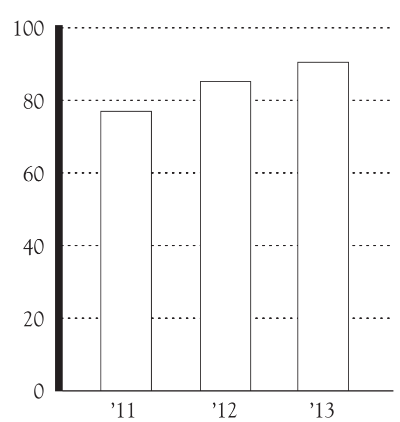
Financial Highlights

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

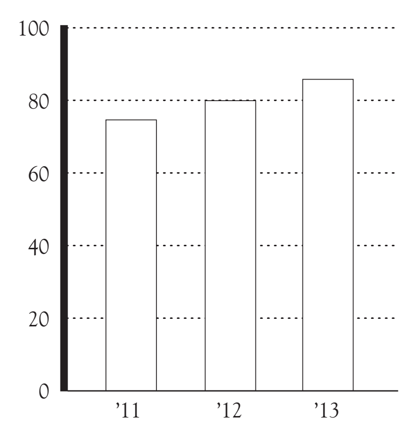
	Millions of Yen			Thousands of U.S. Dollars
	2011	2012	**2013**	**2013**
For the year:				
Orders received	¥ 76,955	¥ 85,125	**¥ 90,591**	**$ 963,734**
Revenues from construction	74,331	79,640	**85,553**	**910,138**
Operating income	753	1,915	**2,230**	**23,723**
Net income	652	811	**1,322**	**14,063**
At year-end:				
Total assets	¥ 67,372	¥ 66,927	**¥ 80,369**	**$ 854,989**
Current assets	47,772	48,513	**56,858**	**604,872**
Net property, plant and equipment	3,359	3,136	**2,989**	**31,797**
Current liabilities	37,997	37,988	**46,979**	**499,776**
Net shareholders' equity	27,184	27,385	**31,112**	**330,978**

Note: U.S. dollar amounts represent translations of Japanese yen amounts at the exchange rate on March 31, 2013 of ¥94 to US$1.

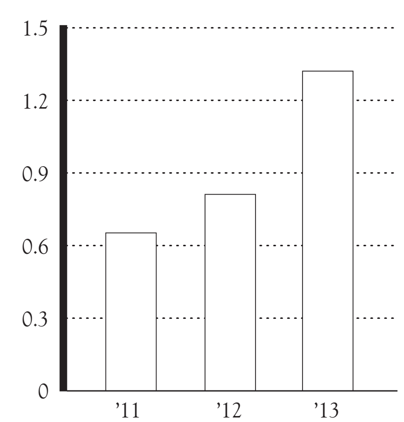
Orders Received
(Billions of yen)



Revenues from Construction
(Billions of yen)



Net Income
(Billions of yen)



Message from the President

Review of Operations

1) Business Operations and Results

During the fiscal year ended March 31, 2013, there were indications that a moderate recovery of the Japanese economy was afoot, assisted by demand associated with reconstruction in the aftermath of the Great East Japan Earthquake of March 2011. However, due in part to negative factors worldwide, such as the European sovereign debt crisis and the slowing of economic growth in the emerging economies, challenging conditions continued to prevail.

For the construction industry, the business environment for new orders remained challenging, reflecting exporters' weak performance arising from shrinking global demand and the negative impact of rising oil prices on new capital investment. In the second half of the fiscal year, following the Japanese government's announcement of a policy of bold monetary easing, the yen weakened and share prices rose sharply, resulting in an upturn in business sentiment and consumer confidence. Nevertheless, it is likely to be some time before the impact of these positive developments on the real economy becomes evident.

In the above circumstances, SNK and its subsidiaries (the SNK Group), adhered to its time-tested philosophy of contributing to society while enhancing corporate value. In the second year of its three-year business plan, the Group addressed the following three key issues: 1) promotion of a group-wide initiative to respond to customer needs; 2) enhancement of the ability to promote business in core and specialty fields and vigorous investment in new growth fields; and 3) optimum utilization of its resources and pursuit of exemplary corporate governance.

Amid intensifying competition, the SNK Group placed emphasis on strategic order taking, endeavoring to strike a balance between profitability on one hand and availing of opportunities for

business growth on the other hand. As a result, orders received increased by 6.4% year on year to ¥90,591 million; and revenues from completed construction rose by 7.4% to ¥85,553 million.

With regard to profits, the SNK Group made a concerted effort to maximize profit by reducing the costs of construction projects and cutting administrative costs and office expenditure. As a result, the gross profit on completed construction contracts increased by 8.8% year on year to ¥8,056 million; operating income rose by 16.4% to ¥2,230 million, and ordinary income increased by 16.5% to ¥2,457 million.

Extraordinary income was ¥8 million and extraordinary expenses were ¥60 million. As a result, net income soared 63.0% year on year to ¥1,322 million.

2) Issues to be Addressed

Although it is expected that companies will become more willing to engage in capital investment, a note of caution is called for in view of the prospect of increased prices for raw materials and energy, and their effect on the Japanese economy. Therefore, for the construction industry, the business environment in Japan for new orders is expected to remain difficult. Thus, more than ever, in endeavoring to secure orders it will be essential to strike a balance between profitability and opportunities for business growth.

In these circumstances, the SNK Group will make a concerted effort to accomplish the current three-year business plan in its final year. While working to improve financial performance, we remain resolved to continue our contribution to society and to enhance corporate value.

I would greatly appreciate the continued support of our shareholders.

K. Takahashi

Examples of recent construction projects undertaken

QVC Square

Construction period: February 2011 to September 2012

Located in Makuhari Shintoshin, Chiba City, QVC Square (7 floors above ground, one floor below ground, total floor area: 37,488m^2) is a building complex comprising the head office of QVC Japan Inc., which specializes in televised home shopping and internet shopping , broadcasting facilities, and retail stores. Unlike typical head office buildings, the interior and exterior of QVC Square are distinctively stylish and give a nuance different from surrounding office buildings.

As the studio is the main facility of this building, strict criteria were established for noise and vibration needed to create the ideal environment for filming. Also, the Great East Japan Earthquake occurred shortly after the commencement of construction of the project. Despite concerns about possible delay in completion, SNK was able to hand over the building to the customer as scheduled.

Seki Plant of THE FEATHER Safety Razor Co., Ltd.

Construction period: February 2012 to September 2012

THE FEATHER Safety Razor Co., Ltd. has its roots in Seki City, Gifu Prefecture, a city long associated with the manufacture of high-quality knives and cutting tools. Coinciding with the 80th anniversary of its establishment, FEATHER Safety Razor constructed a new plant in Seki to increase its production capacity. The plant has three floors above ground with a total floor area of 12,017 m^2. Principal products of the new plant are razors for general consumers, for hair dressing and beauty application, and for industrial application.

SNK was responsible for the air-conditioning system; the sanitary, water supply and sewage systems; the firefighting system and the utilities system. The heat source facilities for air conditioning consist of a centrifugal chiller and air-cooled chillers. The pressurized water supply system is installed with a water reservoir tank. The combined drainage system is installed for sewage. The indoor and outdoor fire hydrant system is installed for firefighting. Several energy-saving systems have been introduced, such as diffusion-type air outlets and an outdoor air cooling system. In addition, the heat from production furnaces is used for heating, and well water for industrial use is supplied to cooling coils in the air conditioning equipment.

Nihonbashi Astellas Mitsui Building

Construction period: February 2011 to January 2013

The Nihonbashi Astellas Mitsui Building (Chuo-ku, Tokyo) is located at the intersection of Showa Dori and Edo Sakura Dori, streets whose association with the pharmaceutical industry goes back to the Edo period. This building complex comprising offices and retail stores has 17 floors above ground and two floors below ground, with a total floor area of 27,466 m^2.

The building is excellent in terms of business continuity as it is equipped with a system that estimates the extent of structural damage in the event of an earthquake and an emergency power generator that can run for 72 hours. The building is also advanced in terms of environmental friendliness, as its special features are energy-saving air conditioning systems and LED lighting, thereby minimizing the building's CO_2 emissions.

SNK was responsible for installation of the air conditioning facilities. The Perimeterless Air Conditioning System and Cool Biz-ready air conditioning equipment, as well as an ice thermal storage tank that takes advantage of night time electricity, all contribute to the realization of an environmentally friendly, energy-saving building.

Topics

Development of Energy Quest, a system for optimized control of heat sources
—Energy Quest dramatically reduces the energy the consumption of heat source facilities—

SNK has developed Energy Quest (trademark registration pending), a system for optimized control of heat sources which is a smart facility engineering tool that addresses issues such as energy saving, power saving, and reduction of CO_2 emissions.

Energy Quest automatically optimizes operation of heat sources equipment to satisfy diverse environmental issues. By exploiting the capabilities of heat sources facilities to maximum effect, it eliminates wasted energy that occurs in conventional operation. Energy Quest can improve energy efficiency by a maximum of over 30% and offers operation modes of heat sources equipment according to the user's needs. In addition to energy saving operation, operation designed to reduce electricity consumption or to reduce CO_2 emissions is also possible.

SNK intends to commercialize Energy Quest in fiscal year ending March 31, 2014, and to develop the market step by step.

Overview of Energy Quest

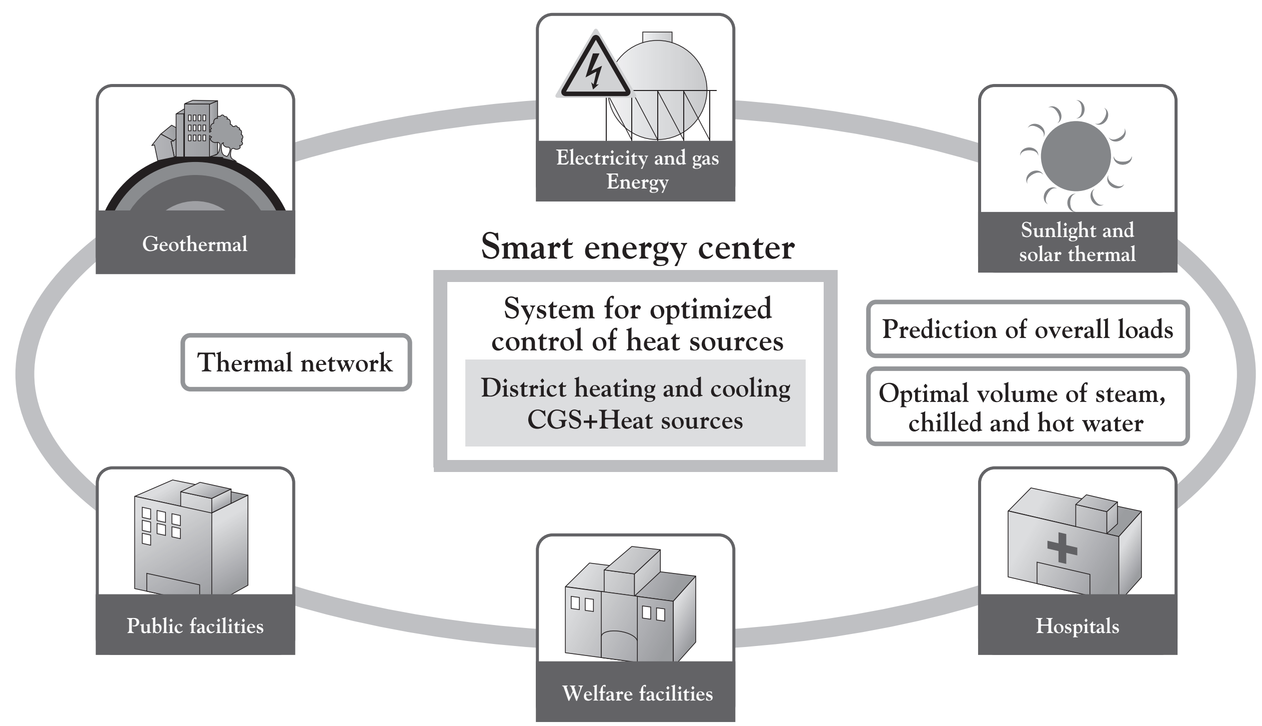
■ Can be selected from several operation modes
Energy Quest allows a user to select from several modes for optimized operation of heat sources equipment, according to the user's needs, such as reduced electricity consumption, reduced CO_2 emissions as well as energy saving.

■ Total optimization of heat sources facilities
Energy Quest computes the most efficient order of operation, the number of units to be operated and load factors, for optimized control of the heat sources facilities according to user's needs, by taking the changing loads and characteristics of individual items of equipment into consideration.

■ Compatibility with various types of heat sources equipment
Energy Quest automatically optimizes control of a system that combines the various types and ranges of heat sources equipment, such as centrifugal chillers, gas-fired absorption chillers (including those with exhaust heat recovery functions), and thermal storage tanks.

■ Optimized operation through control based on predicted load and actual load functions
Energy Quest predicts thermal loads in advance, simulates operation based on such prediction, and corrects the prediction control in accordance with the actual load so as to realize optimized operation.

■ Compatibility with various pump systems
Energy Quest achieves optimized and stable control of water flow rate and pressure of the primary pump with variable water volume system, by being equipped with P-Q master, SNK's patented technology for variable speed control system for pumps. This technology received the 50th Award for Technical Paper, from The Society of Heating, Air-conditioning and Sanitary Engineers of Japan.



Consolidated Balance Sheet

Shin Nippon Air Technologies Co., Ltd. and Subsidiaries
March 31, 2013

ASSETS	Millions of Yen 2013	Millions of Yen 2012	Thousands of U.S. Dollars (Note 1) 2013
CURRENT ASSETS:			
Cash and cash equivalents (Note 15)	¥ 5,791	¥ 5,715	$ 61,606
Short-term investments (Notes 3, 13 and 15)	494	190	5,255
Receivables (Notes 12 and 15):			
Notes receivable—trade	1,147	1,424	12,202
Accounts receivable—trade	46,572	38,069	495,447
Allowance for doubtful accounts	(241)	(199)	(2,564)
Inventories (Note 4)	738	1,051	7,851
Deferred tax assets (Note 10)	1,414	1,757	15,043
Other current assets	944	506	10,043
Total current assets	56,859	48,513	604,883
PROPERTY AND EQUIPMENT:			
Land	607	614	6,457
Buildings and structures	6,125	6,136	65,160
Machinery, equipment, tools, furniture and fixtures	1,005	968	10,692
Lease assets	91	96	968
Construction in progress	1		11
Total property and equipment	7,829	7,814	83,288
Accumulated depreciation	(4,839)	(4,676)	(51,479)
Net property and equipment	2,990	3,138	31,809
INVESTMENTS AND OTHER ASSETS:			
Investment securities (Notes 3 and 15)	17,443	11,936	185,564
Lease and other deposits	1,082	1,105	11,511
Investments in insurance contracts	1,221	1,220	12,989
Deferred tax assets (Note 10)	57	299	606
Other assets	944	933	10,042
Allowance for doubtful accounts	(226)	(216)	(2,404)
Total investments and other assets	20,521	15,277	218,308
TOTAL	¥80,370	¥66,928	$855,000

See notes to consolidated financial statements.

LIABILITIES AND EQUITY	Millions of Yen 2013	Millions of Yen 2012	Thousands of U.S. Dollars (Note 1) 2013
CURRENT LIABILITIES:			
Short-term borrowings (Notes 6 and 15)	¥ 4,285	¥ 800	$ 45,585
Current maturities of long-term debt (Notes 6 and 15)	391	410	4,160
Payables (Note 15):			
Notes payable—trade	1,831	1,241	19,479
Accounts payable—trade (Note 13)	35,270	28,501	375,213
Income taxes payable (Notes 10 and 15)	145	951	1,543
Advances received on construction work in progress (Note 7)	997	859	10,606
Accrued expenses	1,749	1,573	18,606
Allowance for loss on construction contracts	1,722	2,394	18,319
Other current liabilities	589	1,259	6,266
Total current liabilities	46,979	37,988	499,777
LONG-TERM LIABILITIES:			
Long-term debt (Notes 6 and 15)	160	522	1,702
Deferred tax liabilities (Note 10)	1,338		14,234
Liability for employees' retirement benefits (Note 8)	744	993	7,915
Other liabilities (Note 14)	36	39	383
Total long-term liabilities	2,278	1,554	24,234
EQUITY (Notes 9 and 19):			
Common stock—authorized, 84,252,100 shares; issued, 25,282,225 shares in 2013 and 2012	5,159	5,159	54,883
Capital surplus	6,888	6,888	73,277
Retained earnings	15,751	14,870	167,563
Treasury stock—at cost, 38,323 shares and 36,470 shares in 2013 and 2012, respectively	(24)	(23)	(255)
Accumulated other comprehensive income:			
Net unrealized gain on available-for-sale securities	3,315	646	35,266
Foreign currency translation adjustments	24	(154)	255
Total	3,339	492	35,521
Total equity	31,113	27,386	330,989
TOTAL	¥80,370	¥66,928	$855,000

Consolidated Statement of Income

Shin Nippon Air Technologies Co., Ltd. and Subsidiaries
Year Ended March 31, 2013

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2013	2012	2013
REVENUES FROM CONSTRUCTION (Note 12)	¥85,553	¥79,641	$910,138
COSTS OF CONSTRUCTION CONTRACTS (Note 8)	77,497	72,235	824,436
Gross profit	8,056	7,406	85,702
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Notes 8 and 11)	5,825	5,490	61,968
Operating income	2,231	1,916	23,734
OTHER INCOME (EXPENSES):			
Interest and dividend income	195	200	2,074
Interest expense	(21)	(24)	(223)
Foreign exchange gain (loss) – net	28	(62)	298
Insurance gain		34	
Gain on redemption of golf club membership		32	
Gain on sales of investment securities (Note 3)	9	34	96
Loss on devaluation of golf club membership	(11)		(117)
Loss on devaluation of investment securities (Note 3)	(43)	(67)	(457)
Gain on sale of property and equipment		11	
Impairment loss (Note 5)	(6)	(33)	(64)
Loss on cancellation of leasehold contracts		(21)	
Loss from a natural disaster		(70)	
Other – net	24	17	255
Other income – net	175	51	1,862
INCOME BEFORE INCOME TAXES AND MINORITY INTERESTS	2,406	1,967	25,596
INCOME TAXES (Note 10):			
Current	552	1,129	5,872
Deferred	531	27	5,650
Total income taxes	1,083	1,156	11,522
NET INCOME BEFORE MINORITY INTERESTS	1,323	811	14,074
NET INCOME	¥ 1,323	¥ 811	$ 14,074
	Yen		U.S. Dollars
PER SHARE OF COMMON STOCK (Note 2.r):			
Basic net income	¥52.39	¥32.14	$0.56
Cash dividends applicable to the year	20.00	17.50	0.21
	Thousands of Shares		
Weighted-average number of shares	25,245	25,245	

See notes to consolidated financial statements.

Consolidated Statement of Comprehensive Income

Shin Nippon Air Technologies Co., Ltd. and Subsidiaries
Year Ended March 31, 2013

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2013	2012	2013
NET INCOME BEFORE MINORITY INTERESTS	¥1,323	¥ 811	$14,074
OTHER COMPREHENSIVE INCOME (Note 17):			
Net unrealized gain (loss) on available-for-sale securities	2,669	(213)	28,394
Foreign currency translation adjustments	178	(18)	1,894
Total other comprehensive income (loss)	2,847	(231)	30,288
COMPREHENSIVE INCOME	¥4,170	¥ 580	$44,362
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO			
– Owners of the parent	¥4,170	¥ 580	$44,362

See notes to consolidated financial statements.

Consolidated Statement of Changes in Equity

Shin Nippon Air Technologies Co., Ltd. and Subsidiaries
Year Ended March 31, 2013

	Thousands	Millions of Yen						
						Accumulated Other Comprehensive Income		
	Issued Number of Shares of Common Stock	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Net Unrealized Gain (Loss) on Available-for-Sale Securities	Foreign Currency Translation Adjustments	Total Equity
BALANCE, APRIL 1, 2011	25,282	¥5,159	¥6,888	¥14,436	¥(22)	¥ 859	¥(136)	¥27,184
Net income				811				811
Cash dividends, ¥15.0 per share				(377)				(377)
Net unrealized loss on available-for-sale securities						(213)		(213)
Net increase in treasury stock (1,937 shares)					(1)			(1)
Net change in foreign currency translation adjustments							(18)	(18)
BALANCE, MARCH 31, 2012	25,282	5,159	6,888	14,870	(23)	646	(154)	27,386
Net income				1,323				1,323
Cash dividends, ¥17.5 per share				(442)				(442)
Net unrealized gain on available-for-sale securities						2,669		2,669
Net increase in treasury stock (1,853 shares)					(1)			(1)
Net change in foreign currency translation adjustments							178	178
BALANCE, MARCH 31, 2013	25,282	¥5,159	¥6,888	¥15,751	¥(24)	¥3,315	¥ 24	¥31,113

	Thousands of U.S. Dollars (Note 1)						
					Accumulated Other Comprehensive Income		
	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Net Unrealized Gain (Loss) on Available-for-Sale Securities	Foreign Currency Translation Adjustments	Total Equity
BALANCE, MARCH 31, 2012	$54,883	$73,277	$158,192	$(245)	$ 6,872	$(1,639)	$291,340
Net income			14,074				14,074
Cash dividends, $0.19 per share			(4,703)				(4,703)
Net unrealized gain on available-for-sale securities					28,394		28,394
Net increase in treasury stock (1,853 shares)				(10)			(10)
Net change in foreign currency translation adjustments						1,894	1,894
BALANCE, MARCH 31, 2013	$54,883	$73,277	$167,563	$(255)	$35,266	$ 255	$330,989

See notes to consolidated financial statements.

Consolidated Statement of Cash Flows

Shin Nippon Air Technologies Co., Ltd. and Subsidiaries
Year Ended March 31, 2013

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2013	2012	2013
OPERATING ACTIVITIES:			
Income before income taxes and minority interests	¥ 2,406	¥ 1,967	$ 25,596
Adjustments for:			
Income taxes – paid	(1,486)	(416)	(15,809)
Depreciation and amortization	322	374	3,426
Impairment loss	6	33	64
Loss from a natural disaster		70	
Gain on sales of property and equipment		(11)	
Loss on disposals of property and equipment		1	
Loss on cancellation of leasehold contracts		21	
Loss on devaluation of golf club membership	11		117
Loss on devaluation of investment securities	43	67	457
Gain on sales of investment securities	(9)	(34)	(96)
Changes in assets and liabilities:			
Increase in receivables – trade	(8,040)	(710)	(85,532)
Decrease (increase) in inventories	330	(53)	3,511
Increase in payables – trade	7,249	3,492	77,117
Increase (decrease) in advances received on construction work in progress	127	(611)	1,351
Increase (decrease) in allowance for doubtful accounts	51	(981)	543
Increase in allowance for bonuses to directors	10	5	106
Decrease in liability for employees' retirement benefits to employees	(250)	(225)	(2,660)
(Decrease) increase in allowance for losses on construction contracts	(672)	1,142	(7,149)
Other – net	(897)	2,359	(9,542)
Net cash (used in) provided by operating activities	(799)	6,490	(8,500)
FORWARD	(799)	6,490	(8,500)

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2013	2012	2013
FORWARD	(799)	6,490	(8,500)
INVESTING ACTIVITIES:			
Increase in time deposits	(3)		(32)
Purchases of property and equipment	(62)	(94)	(660)
Purchases of intangible fixed assets	(79)	(33)	(840)
Purchases of short-term investments and investment securities	(1,966)	(813)	(20,915)
Proceeds from sales and redemptions of short-term investments and investment securities	186	1,790	1,979
Decrease in loan receivables – net	32	45	340
Decrease in other assets	43	89	458
Net cash (used in) provided by investing activities	(1,849)	984	(19,670)
FINANCING ACTIVITIES:			
Increase (decrease) in short-term borrowings – net	3,476	(5,524)	36,979
Repayment of long-term debt – net	(360)	(360)	(3,830)
Dividends paid	(443)	(378)	(4,713)
Repayment of lease obligations	(54)	(53)	(575)
Purchases of treasury stock	(1)	(1)	(11)
Net cash provided by (used in) financing activities	2,618	(6,316)	27,850
FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS	106	(20)	1,128
NET INCREASE IN CASH AND CASH EQUIVALENTS	76	1,138	808
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	5,715	4,577	60,798
CASH AND CASH EQUIVALENTS, END OF YEAR	¥ 5,791	¥ 5,715	$ 61,606
NONCASH INVESTING AND FINANCING ACTIVITIES:			
Finance lease assets and debt	¥ 32	¥ 10	$ 340

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Shin Nippon Air Technologies Co., Ltd. and Subsidiaries
Year Ended March 31, 2013

1. BASIS OF PRESENTING 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 2012 consolidated financial statements to conform to the classifications used in 2013.

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 ¥94 to U.S.$1, the approximate rate of exchange at March 31, 2013. 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, 2013, include the accounts of the Company and all subsidiaries (together, the "Group"). The Company has four consolidated subsidiaries: SNK Service Co., Ltd. in Japan; Shin Nippon Air Technologies (Shanghai) Co., Ltd. in China; Shin Nippon Lanka (Private) Limited in Sri Lanka; and Shin Nippon Airtech (Singapore) Pte. Ltd. in Singapore.

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 ("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." 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 the accounting principles generally accepted in the United States of America tentatively may be used for the consolidation process, except for the following items which 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 on pensions that has been directly recorded in the equity; (c) expense capitalized development costs of research and development; (d) cancellation of fair value model accounting for property, plant and equipment and investment properties and incorporation of cost model accounting; and (e) exclusion of minority interests from net income, if contained in net income.

c. ***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.

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

e. ***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.

Investments in limited partnerships are recorded under the equity method and based on the latest consolidated financial statements available on the reporting date as prescribed by the partnership contracts.

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

f. ***Property and Equipment*** – Property and equipment are carried at cost. Depreciation of property and equipment of the Company and its domestic subsidiary, except for buildings, is computed substantially using the declining-balance method. The straight-line method is principally applied to buildings of the Company and its domestic subsidiary, and property and equipment of the 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.

g. ***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.

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

i. ***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.

j. ***Retirement Benefits and Pension Plan –*** The Group has a defined contribution pension plan, cash balance pension plan and unfunded retirement plans substantially covering all of its employees. The Group accounts for the liability for employees' retirement benefits based on the projected benefit obligations and plan assets at the balance sheet date.

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

l. ***Construction Contracts –*** Revenues and related costs are recognized on the percentage-of-completion method (the estimate of the progress rate of construction is a cost proportion 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 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 posted by way of the percentage-of-completion method for the years ended March 31, 2013 and 2012, were ¥70,519 million ($750,202 thousand) and ¥63,910 million, respectively.

m. ***Leases –*** In March 2007, the ASBJ issued ASBJ Statement No. 13, "Accounting Standard for Lease Transactions," which revised the previous accounting standard for lease transactions issued in June 1993. The revised accounting standard for lease transactions was effective for fiscal years beginning on or after April 1, 2008.

Under the previous accounting standard, finance leases that were deemed to transfer ownership of the leased property to the lessee were capitalized. However, other finance leases were permitted to be accounted for as operating lease transactions if certain "as if capitalized" information was disclosed in the notes to the lessee's financial statements. The revised accounting standard requires that all finance lease transactions be capitalized to recognize lease assets and lease obligations in the consolidated balance sheet. The Company applied the revised accounting standard effective April 1, 2008. In addition, the Company accounted for leases which existed at the transition date and do not transfer ownership of the leased property to the lessee as operating lease transactions as permitted under the revised accounting standard.

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

o. ***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 balance sheet date. The foreign exchange gains and losses from translation are recognized in the income statement to the extent that they are not hedged by forward exchange contracts.

p. ***Foreign Currency Financial Statements –*** The balance sheet accounts of the foreign subsidiaries are translated into Japanese yen at the current exchange rate as of the balance sheet date except for equity, which is translated at the historical rate. Differences arising from such translation were 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 yen at the average exchange rate.

q. ***Income Taxes –*** The provision for income taxes is computed based on the pretax income included in the consolidated statements 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 tax laws to the temporary differences.

r. ***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.

Diluted net income per share for the years ended March 31, 2013 and 2012, is not disclosed because the Group did not have any convertible bonds, bonds with warrants or stock options.

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.

s. ***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 with a revision of accounting standards, the new policy is applied retrospectively unless the revised accounting standards include specific transitional provisions. When the revised accounting standards include specific transitional provisions, an entity shall comply with the specific transitional provisions.

(2) Changes in presentation
When the presentation of financial statements is changed, prior-period financial statements are reclassified in accordance with the new presentation.

(3) Changes in accounting estimates
A change in an accounting estimate is accounted for in the period of the change if the change affects that period only and is accounted for prospectively if the change affects both the period of the change and future periods.

(4) Corrections of prior-period errors
When an error in prior-period financial statements is discovered, those statements are restated.

This accounting standard and the guidance are applicable to accounting changes and corrections of prior-period errors which are made from the beginning of the fiscal year that begins on or after April 1, 2011.

t. ***New Accounting Pronouncements***

Accounting Standard for Retirement Benefits – On May 17, 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 followed by partial amendments from time to time through 2009.

Major changes are as follows:

(a) Treatment in the balance sheet
Under the current requirements, actuarial gains and losses and past service costs that are yet to be recognized in profit or loss are not recognized in the consolidated balance sheet, and the difference between retirement benefit obligations and plan assets (hereinafter, "deficit or surplus"), adjusted by such unrecognized amounts, is recognized as a liability or asset.

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

(b) Treatment in the consolidated statement of income and the consolidated statement of comprehensive income
The revised accounting standard does not change how to recognize actuarial gains and losses and past service costs in profit or loss. Those amounts would be recognized in profit or loss over a certain period no longer than the expected average remaining working lives of the employees. However, actuarial gains and losses and past service costs that arose in the current period and have not yet been recognized in profit or loss shall be included in other comprehensive income and actuarial gains and losses and past 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.

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

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

The Company expects to apply the revised accounting standard for (a) and (b) above from the end of the annual period beginning on April 1, 2013, and for (c) above from the beginning of the annual period beginning on April 1, 2014, and is in the process of measuring the effects of applying the revised accounting standard in future applicable periods.

3. SHORT-TERM INVESTMENTS AND INVESTMENT SECURITIES

Short-term investments and investment securities as of March 31, 2013 and 2012, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2013	2012	2013
Current:			
Time deposits which mature within three months from acquisition	¥ 194	¥ 190	$ 2,064
Debt securities	300		3,191
Total	¥ 494	¥ 190	$ 5,255
Noncurrent:			
Equity securities	¥14,159	¥ 9,202	$150,627
Debt securities	2,600	2,021	27,660
Investments in limited partnerships and other	684	713	7,277
Total	¥17,443	¥11,936	$185,564

The carrying amounts and aggregate fair values of marketable securities included in short-term investments and investment securities as of March 31, 2013 and 2012, were as follows:

	Millions of Yen			
March 31, 2013	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as available-for-sale:				
Equity securities	¥ 8,258	¥5,313	¥102	¥13,469
Debt securities	2,807	9	216	2,600
Total	¥11,065	¥5,322	¥318	¥16,069
March 31, 2012				
Securities classified as available-for-sale:				
Equity securities	¥6,946	¥1,957	¥ 635	¥ 8,268
Debt securities	2,400		379	2,021
Total	¥9,346	¥1,957	¥1,014	¥10,289

	Thousands of U.S. Dollars			
March 31, 2013	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as available-for-sale:				
Equity securities	$ 87,851	$56,521	$1,085	$143,287
Debt securities	29,862	96	2,298	27,660
Total	$117,713	$56,617	$3,383	$170,947

The information on available-for-sale securities which were sold during the years ended March 31, 2013 and 2012, is as follows:

	Millions of Yen		
March 31, 2013	Proceeds	Realized Gains	Realized Losses
Available-for-sale:			
Equity securities	¥49	¥1	
Other securities	37	8	
Total	¥86	¥9	
March 31, 2012			
Available-for-sale:			
Equity securities	¥232	¥45	¥ 1
Other securities	3		10
Total	¥235	¥45	¥11

	Thousands of U.S. Dollars		
March 31, 2013	Proceeds	Realized Gains	Realized Losses
Available-for-sale:			
Equity securities	$521	$11	
Other securities	394	85	
Total	$915	$96	

Loss on devaluation of available-for-sale securities for the years ended March 31, 2013 and 2012, was ¥43 million ($457 thousand) and ¥67 million, respectively.

4. INVENTORIES

Inventories as of March 31, 2013 and 2012, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2013	2012	2013
Construction work in progress	¥671	¥ 991	$7,138
Materials and supplies	67	60	713
Total	¥738	¥1,051	$7,851

5. LONG-LIVED ASSETS

The Group recognized loss on impairments for the years ended March 31, 2013 and 2012, of the following assets:

March 31, 2013

Location	Purpose of Use	Type of Assets	Millions of Yen	Thousands of U.S. Dollars
Shiga Prefecture	Idle properties	Buildings	¥6	$64

March 31, 2012

Location	Purpose of Use	Type of Assets	Millions of Yen
Osaka Prefecture	Assets used for business	Buildings and others	¥ 8
Osaka Prefecture	Assets used for business	Lease assets	25
Total			¥33

For purposes of evaluating and measuring impairment, the assets used for business are classified into group by each branch. Assets used for rent and idle properties are individually evaluated.

Carrying amounts of idle properties and assets used in business were devalued to their recoverable amounts, due to a reconsideration of the purpose of their use and a decline in profitability, respectively.

Recoverable amounts of certain assets were measured at the anticipated net selling price at disposition. The Group used the appraisal value of significant assets to calculate the reasonable net selling price at disposition.

6. 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 0.320% to 1.475% and from 0.360% to 1.475% at March 31, 2013 and 2012, respectively.

Long-term debt as of March 31, 2013 and 2012, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2013	2012	2013
Unsecured loan from bank, maturing serially through 2016, with interest rates ranging from 0.65% to 1.03% and from 0.65% to 1.10% for 2013 and 2012, respectively	¥465	¥825	$4,947
Obligations under finance leases	86	107	915
Less current portion	(391)	(410)	(4,160)
Total long-term debt	¥160	¥522	$1,702

Annual maturities of long-term debt, excluding finance leases (see Note 14), as of March 31, 2013, were as follows:

Year Ending March 31	Millions of Yen	Thousands of U.S. Dollars
2014	¥360	$3,830
2015	60	638
2016	45	479
Total	¥465	$4,947

7. ADVANCES RECEIVED ON CONSTRUCTION WORK IN PROGRESS

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

8. RETIREMENT AND PENSION PLANS

The Group has severance payment plans for 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.

The liability for employees' retirement benefits as of March 31, 2013 and 2012, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2013	2012	2013
Projected benefit obligation	¥3,192	¥3,255	$33,957
Fair value of plan assets	(2,454)	(2,129)	(26,106)
Unrecognized past service loss	23	(21)	244
Unrecognized actuarial loss	(17)	(112)	(180)
Net liability	¥ 744	¥ 993	$ 7,915

Notes to Consolidated Financial Statements

The components of net periodic benefit costs for the years ended March 31, 2013 and 2012, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2013	2012	2013
Service cost	¥227	¥226	$2,414
Interest cost	62	63	660
Expected return on plan assets	(53)	(47)	(564)
Amortization of past service loss	4	4	43
Amortization of actuarial loss	41	63	436
Net periodic benefit costs	¥281	¥309	$2,989

Assumptions used for the years ended March 31, 2013 and 2012, were set forth as follows:

	2013	2012
Discount rate	2.0%	2.0%
Expected rate of return on plan assets	2.5%	2.5%
Amortization period of past service loss	10 years	10 years
Amortization period of actuarial loss	10 years	10 years

The Group is a member of comprehensive pension plan funds, which consist of members that include nongroup companies, and such plan assets and benefit obligations could not be reasonably allocated among members.

In such a case, Japanese GAAP permits charging premiums for the funds to income as paid.

(1) Funded status of comprehensive pension plans

The total amounts of comprehensive pension plans as of March 31, 2012 and 2011, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2012	2011	2012
Amount of pension assets	¥ 31,993	¥36,013	$ 340,351
Amount of benefit obligation	(42,777)	(41,726)	(455,074)
Net balance	¥(10,784)	¥(5,713)	$(114,723)

(2) The ratio of gross pay by the Group to the total amounts of comprehensive pension plans as of March 31, 2012 and 2011, was 20.1% and 20.1%, respectively.

(3) Additional information

March 31, 2012

The net balance in (1) above is mainly due to a deficit carryforward of ¥5,587 million ($59,436 thousand) and net deficit of ¥5,197 million ($55,287 thousand) as of March 31, 2012, and the prior-service liabilities of ¥5,587 million as of March 31, 2011.

The prior-service liabilities of ¥276 million ($2,936 thousand) as of March 31, 2012, are being amortized over the average estimated remaining service years of four years.

The ratio in (2) above does not conform to the actual charge ratio applied to the Group.

The 78th board of representatives for the Group's employees pension fund held on February 19, 2013, approved an increase in premiums paid to the fund from April 1, 2013. The Group's annual contribution to the fund is expected to increase by ¥173 million ($1,840 thousand) in the next consolidated fiscal year.

March 31, 2011

The net balance in (1) above is mainly due to a deficit carryforward of ¥2,054 million and net deficit of ¥3,659 million as of March 31, 2011.

The prior-service liabilities of ¥204 million as of March 31, 2011, are being amortized over three years.

The ratio in (2) above does not conform to the actual charge ratio applied to the Group.

Further details: About 10% of pension assets amounting to ¥36,013 million were managed by AIJ Investment Advisors CO., LTD. as of March 31, 2011. Almost all the pension assets managed by AIJ Investment Advisors CO., LTD. would be lost, however such loss was not reflected in the above funded status.

The Company would be requested to make an additional contribution to cover a deficit carryforward including their pension losses.

9. 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. For companies that meet certain criteria, such as (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 is prescribed as one year rather than two years of normal term by its articles of incorporation, the Board of Directors may declare dividends (except for dividends in kind) at any time during the fiscal year if the company has prescribed so in its articles of incorporation. However, the Company cannot do so because it does not meet all the above criteria.

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 that was charged upon the payment of such dividends until the total of the aggregate amount of the legal reserve and additional paid-in capital equals 25% of 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 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.

10. INCOME TAXES

The Company and its domestic subsidiary are subject to Japanese national and local income taxes which, in the aggregate, resulted in normal effective statutory tax rates of approximately 37.8% and 40.5% for the years ended March 31, 2013 and 2012, respectively.

The tax effects of significant temporary differences and tax loss carryforwards which resulted in deferred tax assets and liabilities as of March 31, 2013 and 2012, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2013	2012	2013
Deferred tax assets:			
Allowance for doubtful accounts	¥ 112	¥ 97	$ 1,191
Employee accrued bonuses	526	476	5,596
Liability for employees' retirement benefits	267	358	2,840
Loss on devaluation of golf club memberships	97	95	1,032
Loss on devaluation of investment securities	220	220	2,340
Loss on devaluation of land	218	218	2,319
Allowance for loss on construction contracts	650	905	6,915
Other	358	502	3,809
Valuation allowance	(624)	(518)	(6,638)
Total	1,824	2,353	19,404
Deferred tax liabilities:			
Unrealized gains on available-for-sale securities	(1,689)	(297)	(17,968)
Other	(2)		(21)
Total	(1,691)	(297)	(17,989)
Net deferred tax assets	¥ 133	¥2,056	$ 1,415

A reconciliation between the normal effective statutory tax rates for the years ended March 31, 2013 and 2012, and the actual effective tax rates reflected in the accompanying consolidated statement of income is as follows:

	2013	2012
Normal effective statutory tax rate	37.8%	40.5%
Expenses not deductible permanently for income tax purposes	3.4	4.7
Income not taxable permanently for income tax purposes	(1.1)	(1.7)
Inhabitant tax	2.7	3.4
Difference in statutory tax rates of overseas subsidiaries	(1.4)	0.6
Taxable income difference for the business tax		1.6
Valuation allowance	4.4	0.3
Change of effective tax rate by tax reform		10.1
Other—net	(0.8)	(0.8)
Actual effective tax rate	45.0%	58.7%

11. RESEARCH AND DEVELOPMENT COSTS

Research and development costs charged to income were ¥374 million ($3,979 thousand) and ¥284 million for the years ended March 31, 2013 and 2012, respectively.

12. RELATED-PARTY TRANSACTIONS

Transactions with related parties for the years ended March 31, 2013 and 2012, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2013	2012	2013
Mitsui & Co. Plant Systems, Ltd. (a subsidiary of Mitsui & Co., Ltd.):			
Revenues from construction		¥7,204	
Receivables		4,385	

13. ASSETS PLEDGED

At March 31, 2013, a time deposit of ¥27 million ($287 thousand) was pledged as collateral for accounts payable of ¥8 million ($85 thousand).

14. LEASES

The Group leases certain computer equipment and other equipment.

Total lease payments under finance lease arrangements that do not transfer ownership of the leased property to the lessee were ¥6 million ($63 thousand) and ¥15 million for the years ended March 31, 2013 and 2012, respectively.

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

	Millions of Yen		Thousands of U.S. Dollars	
	2013		2013	
	Finance Leases	Operating Leases	Finance Leases	Operating Leases
Due within one year	¥31	¥193	$330	$2,053
Due after one year	55	24	585	255
Total	¥86	¥217	$915	$2,308

ASBJ Statement No. 13, "Accounting Standard for Lease Transactions" requires that all finance lease transactions be capitalized to recognize lease assets and lease obligations in the consolidated balance sheet. However, ASBJ Statement No. 13 permits leases without ownership transfer of the leased property to the lessee and whose lease inception was before March 31, 2008, to continue to be accounted for as operating lease transactions if certain "as if capitalized" information is disclosed in the notes to the consolidated financial statements. The Company applied ASBJ Statement No. 13 effective April 1, 2008, and accounted for such leases as operating lease transactions. Pro forma information of leased property whose lease inception was before March 31, 2008, was as follows:

For the Year Ended March 31, 2013

Depreciation expense and interest expense, which are not reflected in the accompanying consolidated statement of income and which are computed using the straight-line method and the interest method were ¥5 million ($53 thousand) and ¥1 million ($10 thousand), respectively, for the year ended March 31, 2013.

For the Year Ended March 31, 2012

	Millions of Yen		
	Tools, Furniture and Fixtures	Others	Total
Acquisition cost	¥10	¥58	¥68
Accumulated depreciation	(9)	(54)	(63)
Net leased property	¥ 1	¥ 4	¥ 5

Obligations under finance leases:

	Millions of Yen
Due within one year	¥6
Due after one year	
Total	¥6

Depreciation expense and interest expense, which were not reflected in the accompanying consolidated statement of income and which were computed using the straight-line method and the interest method, were ¥14 million and ¥1 million, respectively, for the year ended March 31, 2012.

The minimum rental commitments under noncancelable operating leases as of March 31, 2013 and 2012, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2013	2012	2013
Due within one year	¥193	¥532	$2,053
Due after one year	24	194	255
Total	¥217	¥726	$2,308

15. 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 and trade accounts are exposed to customer credit risk. Receivables in foreign currencies are exposed to the risk of fluctuation in foreign currency exchange rates. Short-term investments in securities and investment securities 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. Although payables in foreign currencies are exposed to the risk of fluctuation in foreign currency exchange rates, those risks are netted against the balance of receivables denominated in the same foreign currency as noted above.

Short-term borrowings are used mainly for funding the Company's operations and long-term debt was used for business investments in the past. Such borrowing 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 guidelines, 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 exchange risk and interest rate risk)

Foreign currency trade receivables and payables are exposed to market risk resulting from fluctuations in foreign currency exchange rates. Foreign exchange risk is hedged principally by borrowings in foreign currency (impact loan) for more than 50% of the position of receivables in foreign currency, 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, 2013	Carrying Amount	Fair Value	Unrealized Gain/Loss
Cash and cash equivalents and short-term investments	¥ 6,285	¥ 6,285	
Receivables	46,384	46,384	
Investment securities	15,769	15,769	
Total	¥68,438	¥68,438	
Payables	¥37,101	¥37,101	
Short-term borrowings	4,285	4,285	
Income taxes payable	145	145	
Long-term debt and current maturities of long-term debt, excluding finance lease	465	465	
Total	¥41,996	¥41,996	

March 31, 2012	Millions of Yen Carrying Amount	Fair Value	Unrealized Gain/Loss
Cash and cash equivalents and short-term investments	¥ 5,905	¥ 5,905	
Receivables	38,671	38,671	
Investment securities	10,289	10,289	
Total	¥54,865	¥54,865	
Payables	¥29,741	¥29,741	
Short-term borrowings	800	800	
Income taxes payable	951	951	
Long-term debt and current maturities of long-term debt excluding finance lease	825	826	¥1
Total	¥32,317	¥32,318	¥1

March 31, 2013	Thousands of U.S. Dollars Carrying Amount	Fair Value	Unrealized Gain/Loss
Cash and cash equivalents and short-term investments	$ 66,861	$ 66,861	
Receivables	493,447	493,447	
Investment securities	167,755	167,755	
Total	$728,063	$728,063	
Payables	$394,692	$394,692	
Short-term borrowings	45,585	45,585	
Income taxes payable	1,543	1,543	
Long-term debt and current maturities of long-term debt, excluding finance lease	4,947	4,947	
Total	$446,767	$446,767	

Cash and Cash Equivalents and Receivables

The carrying values of cash and cash equivalents and receivables approximate fair value because of their short maturities.

Short-Term investments and Investment Securities

The fair values of short-term investments 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 and investment securities by classification is included in Note 3.

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 and Current Maturities of Long-Term Debt, Excluding Finance Lease

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

Derivatives

As discussed in Note 16, the Group had no derivative contracts at March 31, 2013.

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

	Millions of Yen 2013	Millions of Yen 2012	Thousands of U.S. Dollars 2013
Investments in equity instruments that do not have a quoted market price in an active market	**¥ 990**	¥ 934	**$10,532**
Investments in limited partnerships	**684**	713	**7,277**
Total	**¥1,674**	¥1,647	**$17,809**

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

March 31, 2013	Millions of Yen Due in One Year or Less	Due after One Year through Five Years	Due after Five Years through Ten Years	Due after Ten Years
Cash and cash equivalents	¥ 5,985			
Receivables	46,384			
Short-term investments – Available-for-sale securities with contractual maturities	300			
Investment securities – Available-for-sale securities with contractual maturities		¥500	¥500	¥1,500
Total	¥52,669	¥500	¥500	¥1,500

March 31, 2013	Thousands of U.S. Dollars Due in One Year or Less	Due after One Year through Five Years	Due after Five Years through Ten Years	Due after Ten Years
Cash and cash equivalents	$ 63,670			
Receivables	493,447			
Short-term investments – Available-for-sale securities with contractual maturities	3,191			
Investment securities – Available-for-sale securities with contractual maturities		$5,319	$5,319	$15,957
Total	$560,308	$5,319	$5,319	$15,957

Please see Note 6 for annual maturities of long-term debt and Note 14 for obligations under finance leases, respectively.

16. DERIVATIVES
The Group had no derivative contracts outstanding at March 31, 2013 and 2012.

17. COMPREHENSIVE INCOME
The components of other comprehensive income for the years ended March 31, 2013 and 2012, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2013	2012	2013
Net unrealized gain (loss) on available-for-sale securities:			
Gain (loss) arising during the year	¥4,062	¥(413)	$43,213
Reclassification adjustments to profit	(1)	(37)	(11)
Amount before income tax effect	4,061	(450)	43,202
Income tax effect	(1,392)	237	(14,808)
Total	¥2,669	¥(213)	$28,394
Foreign currency translation adjustments:			
Gain (loss) arising during the year	¥ 178	¥ (18)	$ 1,894
Total	¥ 178	¥ (18)	$ 1,894
Total other comprehensive income (loss)	¥2,847	¥(231)	$30,288

18. 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 shown because the Group operates entirely in the equipment construction segment.

19. SUBSEQUENT EVENT
At the general shareholders' meeting held on June 21, 2013, the Company's shareholders approved the following appropriation of retained earnings:

	Millions of Yen	Thousands of U.S. Dollars
Year-end cash dividends, ¥12.5 ($0.13) per share	¥316	$3,362

* * * * * *

Deloitte.

Deloitte Touche Tohmatsu LLC
MS Shibaura Building
4-13-23, Shibaura
Minato-ku, Tokyo 108-8530
Japan

Tel:+81 (3) 3457 7321
Fax:+81 (3) 3457 1694
www.deloitte.com/jp

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, 2013, 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, 2013, 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 21, 2013

Member of Deloitte Touche Tohmatsu

Board of Directors

(As of June 21, 2013)

President
Kaoru Takahashi*

Vice President
Hiroshi Natsui

Senior Managing Directors
Hideyuki Yamamoto
Mitsumasa Tsukahara

Managing Director
Takeshi Usami

Directors
Morio Kusuda
Satoshi Fuchino

Standing Audit & Supervisory Board Member
Hisanori Sato
Isao Yamada

Audit & Supervisory Board Member
Masahisa Ichimiya
Takakazu Tsuruno

*Representative Directors

Corporate Data

(As of March 31, 2013)

Date of Establishment
October 1, 1969

Paid-in Capital
¥5,159 millions

Number of Shares Outstanding
25,282,225 shares

Number of Shareholders
6,302

Number of Employees
860

Stock Exchange Listing
Tokyo Stock Exchange, 1st Section

Transfer Agent of Common Stock
Sumitomo Mitsui Trust Bank, Limited

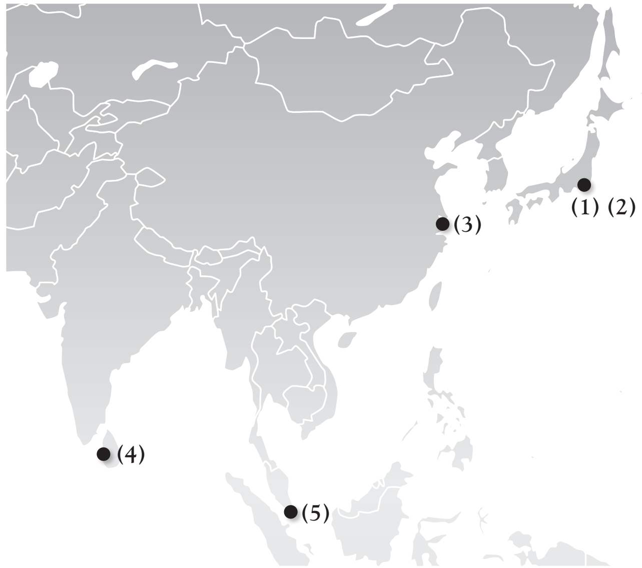
By Type of Shareholder

Financial institutions	22.85%
Individuals & Others	28.90%
Foreign Shareholders	4.04%
Other domestic companies	44.21%

By Number of Shares Held

500,000 shares or more	39.58%
100,000 – 499,999 shares	33.54%
10,000 – 99,999 shares	10.54%
1,000 – 9,999 shares	13.02%
Fewer than 1,000 shares	3.32%

Network



(1)**Head Office**
Hamacho Center Bldg. 2-31-1, Nihonbashi hamacho, chuo-ku, Tokyo 103-0007, Japan
Phone:81-3-3639-2700 Fax:81-3-3639-2732
URL:http://www.snk.co.jp/

SUBSIDIARIES

(2)**Shin Nikku Service Co., Ltd.**
Wakamatsu Bldg. 3-3-6, Nihonbashihoncho, Chuo-ku, Tokyo 103-0023, Japan
Phone:81-3-5200-3940
Fax:81-3-5200-3935

(3)**Shin Nippon Air Technologies (Shanghai) Co., Ltd.**
2F, 301, Jiang Chang San Road, Shanghai, 200436, P.R.China
Phone:86-21-51060068
Fax:86-21-51060063

(4)**Shin Nippon Lanka (Private) Limited Office/Factory**
309/1 Colombo Road, Welisara Sri Lanka
Phone:94-11-2005300
Fax:94-11-2236599

(5)**Shin Nippon Airtech (Singapore) Pte. Ltd.**
315 Outram Road, #09-06, Tan Boon Liat Building, Singapore 169074
Phone:65-6227-2300
Fax:65-6227-3122