ANNUAL REPORT 2014

Year ended March 31, 2014

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

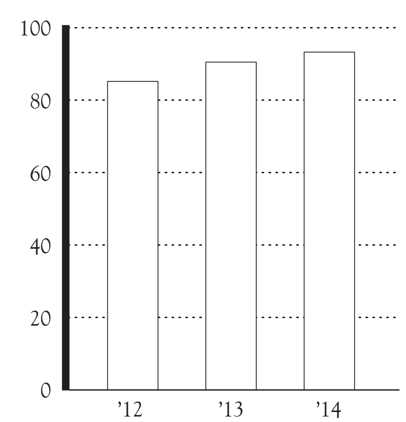
Financial Highlights

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

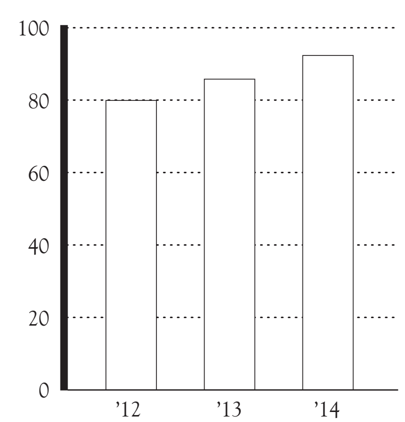
	Millions of Yen			Thousands of U.S. Dollars
	2012	2013	**2014**	**2014**
For the year:				
Orders received	¥ 85,125	¥ 90,591	**¥ 93,230**	**$ 905,145**
Revenues from construction	79,641	85,553	**92,035**	**893,544**
Operating income	1,916	2,231	**2,233**	**21,680**
Net income	811	1,323	**1,339**	**13,000**
At year-end:				
Total assets	¥ 66,928	¥ 80,370	**¥ 85,003**	**$ 825,272**
Current assets	48,513	56,859	**57,784**	**561,010**
Net property, plant and equipment	3,138	2,990	**3,037**	**29,485**
Current liabilities	37,988	46,979	**47,878**	**464,836**
Net shareholders' equity	27,386	31,113	**34,035**	**330,436**

Note: U.S. dollar amounts represent translations of Japanese yen amounts at the exchange rate on March 31, 2014 of ¥103 to US$1.

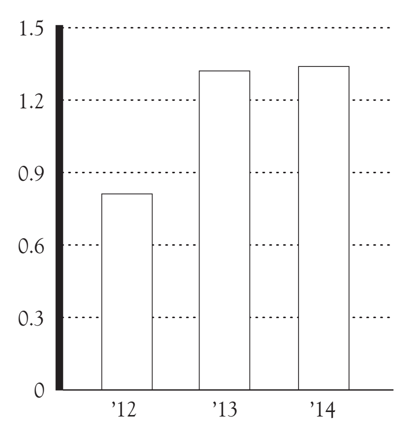
Orders Received
(Billions of yen)



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, 2014, as a result of government economic policies and the Bank of Japan's fiscal policies, the revival of the Japanese economy continued as was evidenced by an improvement in corporate earnings thanks to a weakening in the value of the yen against other major currencies and a rise in share prices. Personal consumption also showed evidence of recovery.

In the construction industry, indications that the long-awaited upturn in private-sector capital investment were noted. A consequence of this upturn however has been a shortage of workers, and this appears to have emerged as a pressing issue.

In the above circumstances SNK and its subsidiaries (together the SNK Group or the Group) has adhered to the Group's time-tested fundamental principle of contributing to society while enhancing corporate value. In this, the final year of the current three-year business plan, the SNK Group stressed its policy of responding to customers' needs. The SNK Group strove to achieve the goals of the current plan, since the business results of the year ended March 2014 will form the basis of the business plan for the next three years.

The marked change in the construction industry was noted; however the SNK Group continued its established policy of striking a balance between profitability on the one hand and the exploitation of the opportunities offered for business growth on the other hand. As a result, orders received during the current fiscal year increased 2.9% year on year to ¥93,230 million; and revenues from construction rose 7.6% to ¥92,035 million.

Despite a sharp rise in labor costs arising from the shortage of workers and rising prices of materials, 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, gross profit increased 3.9% year on year to ¥8,369 million; operating income rose 0.1% to ¥2,233 million, and ordinary income increased 2.3% to ¥2,513 million.

Extraordinary income was ¥254 million and extraordinary losses were ¥228 million. As a result, net income increased 1.3% year on year to ¥1,339 million.

2) Issues to be Addressed

Although concerns have been expressed that the Japanese economy may decline temporarily following the increase in the rate of consumption tax effective from April 1, 2014, construction investment is expected to increase further due to both private-sector construction projects as well as Tokyo Olympics-related infrastructure projects. On the other hand, as various construction projects are expected to be undertaken in rapid succession, the shortage of workers is expected to remain a major concern over the medium to long term. Greatly improved productivity through the elimination of waste will be indispensable to address this concern, as also from the point of view of the Group's financial performance.

The Group has drawn up a new three-year business plan, the Ultimate Value Plan 2016. The plan's goals are: 1) to gain the highest level of customer confidence; 2) to ensure that technologies are handed on to the next generation, and to promote cutting-edge technologies, and 3) to strengthen corporate governance and establish a more highly flexible organizational structure. By further enhancing SNK Quality (namely quality in sales, technology and head office), the Group is resolved to earn greater trust from its customers and society while simultaneously improving its financial performance through improved productivity, thereby enhancing corporate value.

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

Examples of recent construction projects undertaken

Muromachi Furukawa Mitsui Building

❶ Tokyo
❷ Air conditioning system
❸ 62,472.62m²
❹ January 2014

LAZONA KAWASAKI TOSHIBA BUILDING

❶ Kanagawa ❷ Air conditioning system ❸ 104,594m² ❹ March 2013

Tsugaru general hospital

❶ Aomori ❷ Air conditioning system ❸ 36,872m² ❹ December 2013

Shanghai facility of AMADA Co., Ltd.

❶ Shanghai, China ❷ Air conditioning system, Plumbing system ❸ 26,322m² ❹ February 2013

❶ Location ❷ Scope of work ❸ Floor area ❹ Completion date

Topics

SNK Antibacterial Air-conditioning System in Hospitals
Curbing growth of pathogenic microorganisms throughout the year

SNK commenced full-scale introduction of the SNK Antibacterial Air-conditioning System in hospitals in October 2013. This system is a combination of the Company's patented Ag-ion Master® system (patent registered) which enhances the function of cool-mist humidifiers which curb the growth of microorganisms, and of new antibacterial air conditioners.

Previously, in accordance with the HEAS-02-2004 Design and Management Guidelines for Hospital Air-conditioning Facilities published by the Healthcare Engineering Association of Japan (HEAJ), steam humidifiers had been considered desirable for air-conditioning facilities in medical and welfare institutions from the viewpoint of preventing hospital-acquired infections. SNK, in cooperation with Mie University, Chubu Electric Power Co., Inc., and Takenaka Corporation, conducted field tests at a new ward in Mie University Hospital and confirmed that the introduction of the Ag-ion Master® (the cool-mist humidifier sanitation system developed by SNK) is effective for curbing the growth of bacteria in the proximity of the humidifier.

The results of the Company's study have been subsequently presented at academic conferences. In October 2013, HEAS-02-2004 which recommended steam humidifiers was revised as HEAS-02-2013, which now recommends cool-mist humidifiers in addition to steam humidifiers.

As a consequence of the above change in official guidelines, it is expected that there will be an increase in the introduction of cool-mist humidifiers in hospitals. Within the framework of SNK's One-stop Solution service, the Company will promote the SNK Antibacterial Air-conditioning System that is effective in curbing the growth of pathogenic microorganisms in hospitals throughout the year.

SNK Project Receives Second Annual Renewal Award (SHASE) and Second Annual Carbon Neutral Award (JABMEE)

SNK participated in a project to reduce the CO_2 emissions at the Nagoya Mitsui Building Main Building, and won the Second Annual Renewal Award of The Society of Heating, Air-Conditioning and Sanitary Engineers of Japan (SHASE) and the Second Annual Carbon Neutral Award of the Japanese Association of Building Mechanical and Electrical Engineers (JABMEE). This was the second successive year that a project in which SNK participated won the JABMEE Carbon Neutral Award, following the Aizu Olympus Corporation Extension Project – A Wing last year.

The following attributes of the above project were singled out for special praise: 1) a reduction in CO_2 emissions in excess of 36% was achieved notwithstanding the constraints arising from the refurbishment of an existing building; 2) accurate verification using measured data, and 3) establishment of a highly effective model applicable to refurbishment of existing buildings, with CO_2 emission reduction potential.

Nagoya Mitsui Building Main Building

Consolidated Balance Sheet

Shin Nippon Air Technologies Co., Ltd. and Subsidiaries
March 31, 2014

ASSETS	Millions of Yen 2014	Millions of Yen 2013	Thousands of U.S. Dollars (Note 1) 2014
CURRENT ASSETS:			
Cash and cash equivalents (Note 14)	¥ 6,093	¥ 5,791	$ 59,155
Short-term investments (Notes 3, 12, and 14)	302	494	2,932
Receivables (Note 14):			
Notes receivable—trade	1,812	1,147	17,592
Accounts receivable—trade	46,938	46,572	455,709
Allowance for doubtful accounts	(241)	(241)	(2,340)
Inventories (Note 4)	719	738	6,981
Deferred tax assets (Note 10)	1,243	1,414	12,068
Other current assets	918	944	8,913
Total current assets	57,784	56,859	561,010
PROPERTY AND EQUIPMENT:			
Land	618	607	6,000
Buildings and structures	6,224	6,125	60,427
Machinery, equipment, tools, furniture, and fixtures	1,009	1,005	9,796
Lease assets	73	91	709
Construction in progress	44	1	427
Total property and equipment	7,968	7,829	77,359
Accumulated depreciation	(4,931)	(4,839)	(47,874)
Net property and equipment	3,037	2,990	29,485
INVESTMENTS AND OTHER ASSETS:			
Investment securities (Notes 3 and 14)	20,213	17,443	196,243
Lease and other deposits	1,040	1,082	10,097
Investments in insurance contracts	2,222	1,221	21,573
Deferred tax assets (Note 10)	61	57	592
Other assets	965	944	9,369
Allowance for doubtful accounts	(319)	(226)	(3,097)
Total investments and other assets	24,182	20,521	234,777
TOTAL	¥85,003	¥80,370	$825,272

See notes to consolidated financial statements.

LIABILITIES AND EQUITY	Millions of Yen 2014	Millions of Yen 2013	Thousands of U.S. Dollars (Note 1) 2014
CURRENT LIABILITIES:			
Short-term borrowings (Notes 6 and 14)	¥ 4,710	¥ 4,285	$ 45,728
Current maturities of long-term debt (Notes 6 and 14)	92	391	893
Payables (Note 14):			
Notes payable—trade	1,899	1,831	18,437
Accounts payable—trade (Note 12)	35,281	35,270	342,534
Income taxes payable (Notes 10 and 14)	767	145	7,447
Advances received on construction work in progress (Note 7)	1,784	997	17,320
Accrued expenses	1,816	1,749	17,631
Allowance for loss on construction contracts	885	1,722	8,592
Other current liabilities	644	589	6,254
Total current liabilities	47,878	46,979	464,836
LONG-TERM LIABILITIES:			
Long-term debt (Notes 6 and 14)	126	160	1,223
Deferred tax liabilities (Note 10)	2,324	1,338	22,563
Liability for employees' retirement benefits (Note 8)	595	744	5,777
Other liabilities (Note 13)	45	36	437
Total long-term liabilities	3,090	2,278	30,000
EQUITY (Notes 9 and 19):			
Common stock—authorized, 84,252,100 shares; issued, 25,282,225 shares in 2014 and 2013	5,159	5,159	50,087
Capital surplus	6,888	6,888	66,874
Retained earnings	16,585	15,751	161,019
Treasury stock—at cost, 39,648 shares and 38,323 shares in 2014 and 2013, respectively	(25)	(24)	(243)
Accumulated other comprehensive income:			
Net unrealized gain on available-for-sale securities	5,014	3,315	48,680
Foreign currency translation adjustments	360	24	3,495
Defined retirement benefit plans	54		524
Total	5,428	3,339	52,699
Total equity	34,035	31,113	330,436
TOTAL	¥85,003	¥80,370	$825,272

Consolidated Statement of Income

Shin Nippon Air Technologies Co., Ltd. and Subsidiaries
Year Ended March 31, 2014

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2014	2013	2014
REVENUES FROM CONSTRUCTION	¥92,035	¥85,553	$893,544
COSTS OF CONSTRUCTION CONTRACTS (Note 8)	83,666	77,497	812,291
Gross profit	8,369	8,056	81,253
SELLING, GENERAL, AND ADMINISTRATIVE EXPENSES (Notes 8 and 11)	6,136	5,825	59,573
Operating income	2,233	2,231	21,680
OTHER INCOME (EXPENSES):			
Interest and dividend income	266	195	2,583
Interest expense	(20)	(21)	(194)
Foreign exchange gain – net	39	28	379
Gain on sales of investment securities (Note 3)	254	9	2,466
Loss on devaluation of golf club membership		(11)	
Loss on devaluation of investment securities (Note 3)	(216)	(43)	(2,097)
Impairment loss (Note 5)	(3)	(6)	(29)
Other – net	(14)	24	(137)
Other income – net	306	175	2,971
INCOME BEFORE INCOME TAXES AND MINORITY INTERESTS	2,539	2,406	24,651
INCOME TAXES (Note 10):			
Current	980	552	9,515
Deferred	220	531	2,136
Total income taxes	1,200	1,083	11,651
NET INCOME BEFORE MINORITY INTERESTS	1,339	1,323	13,000
NET INCOME	¥ 1,339	¥ 1,323	$ 13,000
	Yen		U.S. Dollars
PER SHARE OF COMMON STOCK (Note 2.q):			
Basic net income	¥53.05	¥52.39	$0.52
Cash dividends applicable to the year	20.00	20.00	0.19
	Thousands of Shares		
Weighted-average number of shares	25,243	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, 2014

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2014	2013	2014
NET INCOME BEFORE MINORITY INTERESTS	¥1,339	¥1,323	$13,000
OTHER COMPREHENSIVE INCOME (Note 16):			
Net unrealized gain on available-for-sale securities	1,699	2,669	16,495
Foreign currency translation adjustments	336	178	3,262
Total other comprehensive income	2,035	2,847	19,757
COMPREHENSIVE INCOME	¥3,374	¥4,170	$32,757
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO—			
Owners of the parent	¥3,374	¥4,170	$32,757

See notes to consolidated financial statements.

Consolidated Statement of Changes in Equity

Shin Nippon Air Technologies Co., Ltd. and Subsidiaries
Year Ended March 31, 2014

	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 on Available-for-Sale Securities	Foreign Currency Translation Adjustments	Defined Retirement Benefit Plans	Total Equity
BALANCE, APRIL 1, 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)
Foreign currency translation adjustments							178		178
BALANCE, MARCH 31, 2013	25,282	5,159	6,888	15,751	(24)	3,315	24		31,113
Net income				1,339					1,339
Cash dividends, ¥20.0 per share				(505)					(505)
Net unrealized gain on available-for-sale securities						1,699			1,699
Net increase in treasury stock (1,325 shares)					(1)				(1)
Foreign currency translation adjustments							336		336
Defined retirement benefit plans								¥54	54
BALANCE, MARCH 31, 2014	25,282	¥5,159	¥6,888	¥16,585	¥(25)	¥5,014	¥ 360	¥54	¥34,035

	Thousands of U.S. Dollars (Note 1)							
					Accumulated Other Comprehensive Income			
	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Net Unrealized Gain on Available-for-Sale Securities	Foreign Currency Translation Adjustments	Defined Retirement Benefit Plans	Total Equity
BALANCE, MARCH 31, 2013	$50,087	$66,874	$152,922	$(233)	$32,184	$233		$302,067
Net income			13,000					13,000
Cash dividends, $0.19 per share			(4,903)					(4,903)
Net unrealized gain on available-for-sale securities					16,495			16,495
Net increase in treasury stock (1,325 shares)				(10)				(10)
Foreign currency translation adjustments						3,262		3,262
Defined retirement benefit plans							$524	524
BALANCE, MARCH 31, 2014	$50,087	$66,874	$161,019	$(243)	$48,680	$3,495	$524	$330,436

See notes to consolidated financial statements.

Consolidated Statement of Cash Flows

Shin Nippon Air Technologies Co., Ltd. and Subsidiaries
Year Ended March 31, 2014

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2014	2013	2014
OPERATING ACTIVITIES:			
Income before income taxes and minority interests	¥ 2,539	¥ 2,406	$ 24,651
Adjustments for:			
Income taxes – paid	(247)	(1,486)	(2,398)
Depreciation and amortization	319	322	3,097
Impairment loss	3	6	29
Loss on devaluation of golf club membership		11	
Loss on devaluation of investment securities	216	43	2,097
Gain on sales of investment securities	(254)	(9)	(2,466)
Changes in assets and liabilities:			
Increase in receivables – trade	(721)	(8,040)	(7,000)
Decrease in inventories	36	330	350
(Decrease) increase in payables – trade	(100)	7,249	(971)
Increase in advances received on construction work in progress	758	127	7,359
Increase in allowance for doubtful accounts	91	51	883
Decrease in liability for employees' retirement benefits	(66)	(250)	(640)
Decrease in allowance for losses on construction contracts	(837)	(672)	(8,126)
Other – net	(46)	(887)	(447)
Net cash provided by (used in) operating activities	1,691	(799)	16,418
INVESTING ACTIVITIES:			
Increase in time deposits	(4)	(3)	(39)
Purchases of property and equipment	(187)	(62)	(1,816)
Purchases of intangible fixed assets	(102)	(79)	(990)
Purchases of short-term investments and investment securities	(693)	(1,966)	(6,728)
Proceeds from sales and redemptions of short-term investments and investment securities	760	186	7,379
Decrease in loan receivables – net	27	32	262
(Increase) decrease in other assets	(935)	43	(9,078)
Net cash used in investing activities	(1,134)	(1,849)	(11,010)
FORWARD	¥ 557	¥(2,648)	$ 5,408

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2014	2013	2014
FORWARD	¥ 557	¥(2,648)	$ 5,408
FINANCING ACTIVITIES:			
Increase in short-term borrowings – net	420	3,476	4,077
Repayment of long-term debt – net	(360)	(360)	(3,495)
Dividends paid	(505)	(443)	(4,903)
Repayment of lease obligations	(37)	(54)	(359)
Purchases of treasury stock	(1)	(1)	(10)
Net cash (used in) provided by financing activities	(483)	2,618	(4,690)
FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS	228	106	2,214
NET INCREASE IN CASH AND CASH EQUIVALENTS	302	76	2,932
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	5,791	5,715	56,223
CASH AND CASH EQUIVALENTS, END OF YEAR	¥ 6,093	¥ 5,791	$ 59,155
NONCASH INVESTING AND FINANCING ACTIVITIES:			
Finance lease assets and debt	¥ 64	¥ 32	$ 621

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Shin Nippon Air Technologies Co., Ltd. and Subsidiaries
Year Ended March 31, 2014

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 2013 consolidated financial statements to conform to the classifications used in 2014.

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 ¥103 to U.S. $.1, the approximate rate of exchange at March 31, 2014. 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, 2014, include the accounts of the Company and all subsidiaries (together, the "Group"). The Company has five 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; Shin Nippon Airtech (Singapore) Pte. Ltd. in Singapore; and SNK INDUSTRIAL TRADING (SHANGHAI) CO., LTD. in China.

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

All significant intercompany balances and transactions have been eliminated in consolidation. All material unrealized profit included in assets resulting from transactions within the Group is eliminated.

b. ***Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements*** – 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.

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 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. Past 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, actuarial gains and losses and past 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 does not change how to recognize actuarial gains and losses and past 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 past service costs that arose in the current period and have not yet been recognized in profit or loss are included in other comprehensive income and actuarial gains and losses and 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 (see Note 2.s).

(c) 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 applied the revised accounting standard and guidance for retirement benefits for (a) and (b) above, effective March 31, 2014. As a result, liability for employees' retirement benefits of ¥595 million ($5,777 thousand) was recorded as of March 31, 2014, and accumulated other comprehensive income for the year ended March 31, 2014, increased by ¥53 million ($515 thousand).

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 using 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, 2014 and 2013, were ¥76,789 million ($745,524 thousand) and ¥70,519 million, respectively.

m. ***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.

n. ***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 consolidated statement of income to the extent that they are not hedged by forward exchange contracts.

o. ***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 are shown as "Foreign currency translation adjustments" under accumulated other comprehensive income in a separate component of equity.

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

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

q. ***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, 2014 and 2013, 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.

r. ***Accounting Changes and Error Corrections –*** In December 2009, the ASBJ issued ASBJ Statement No. 24, "Accounting Standard for Accounting Changes and Error Corrections" and ASBJ Guidance No. 24, "Guidance on Accounting Standard for Accounting Changes and Error Corrections." Accounting treatments under this standard and guidance are as follows:

(1) Changes in Accounting Policies – When a new accounting policy is applied following revision of an accounting standard, the new policy is applied retrospectively unless the revised accounting standard includes specific transitional provisions, in which case the entity shall comply with the specific transitional provisions.

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

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

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

s. ***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 were 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 employees' retirement benefits) or asset (asset for retirement benefits).

(b) Treatment in the statement of income and the 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 service period 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 applied the revised accounting standard for (a) and (b) above effective March 31, 2014, and expects to apply (c) above from April 1, 2014, and is in the process of measuring the effects of applying the revised accounting standard for (c) above in future applicable periods.

3. SHORT-TERM INVESTMENTS AND INVESTMENT SECURITIES

Short-term investments and investment securities as of March 31, 2014 and 2013, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2014	2013	2014
Current:			
Time deposits which mature within three months from acquisition	¥ 202	¥ 194	$ 1,961
Debt securities	100	300	971
Total	¥ 302	¥ 494	$ 2,932
Noncurrent:			
Equity securities	¥16,924	¥14,459	$164,311
Debt securities	2,821	2,300	27,388
Investments in limited partnerships and other	468	684	4,544
Total	¥20,213	¥17,443	$196,243

The carrying amounts and aggregate fair values of marketable securities included in short-term investments and investment securities as of March 31, 2014 and 2013, were as follows:

	Millions of Yen			
March 31, 2014	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as available-for-sale:				
Equity securities	¥ 8,229	¥7,777	¥ 72	¥15,934
Debt securities	3,018	10	106	2,922
Total	¥11,247	¥7,787	¥178	¥18,856
March 31, 2013				
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

	Thousands of U.S. Dollars			
March 31, 2014	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as available-for-sale:				
Equity securities	$ 79,893	$75,505	$ 699	$154,699
Debt securities	29,301	97	1,029	28,369
Total	$109,194	$75,602	$1,728	$183,068

The information on available-for-sale securities which were sold during the years ended March 31, 2014 and 2013, is as follows:

	Millions of Yen		
March 31, 2014	Proceeds	Realized Gains	Realized Losses
Available-for-sale—Equity securities	¥460	¥254	
Total	¥460	¥254	
March 31, 2013			
Available-for-sale:			
Equity securities	¥49	¥1	
Other securities	37	8	
Total	¥86	¥9	

	Thousands of U.S. Dollars		
March 31, 2014	Proceeds	Realized Gains	Realized Losses
Available-for-sale—Equity securities	$4,466	$2,466	
Total	$4,466	$2,466	

Loss on devaluation of available-for-sale securities for the years ended March 31, 2014 and 2013, was ¥216 million ($2,097 thousand) and ¥43 million, respectively.

4. INVENTORIES

Inventories as of March 31, 2014 and 2013, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2014	2013	2014
Construction work in progress	¥696	¥671	$6,757
Materials and supplies	23	67	224
Total	¥719	¥738	$6,981

5. LONG-LIVED ASSETS

The Group recognized loss on impairments for the years ended March 31, 2014 and 2013, for the following assets:

March 31, 2014

Location	Purpose of Use	Type of Assets	Millions of Yen	Thousands of U.S. Dollars
Sri Lanka	Assets used for business	Buildings	¥3	$29

March 31, 2013

Location	Purpose of Use	Type of Assets	Millions of Yen
Shiga Prefecture	Idle properties	Buildings	¥6

For purposes of evaluating and measuring impairment, the assets used for business are classified by 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% at March 31, 2014 and 2013.

Long-term debt as of March 31, 2014 and 2013, consisted of the following:

	Millions of Yen 2014	Millions of Yen 2013	Thousands of U.S. Dollars 2014
Unsecured loans from banks, maturing serially through 2016, with interest rates of 0.65% for 2014 and 2013	¥105	¥465	$1,019
Obligations under finance leases	113	86	1,097
Less current portion	(92)	(391)	(893)
Total long-term debt	¥126	¥160	$1,223

Annual maturities of long-term debt, excluding finance leases (see Note 13), as of March 31, 2014, were as follows:

Year Ending March 31	Millions of Yen	Thousands of U.S. Dollars
2015	¥ 60	$ 582
2016	45	437
Total	¥105	$1,019

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.

Year Ended March 31, 2014

(1) The changes in defined benefit obligation for the year ended March 31, 2014, were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Balance at beginning of year	¥3,036	$29,475
Current service cost	203	1,971
Interest cost	60	583
Actuarial gains	(13)	(126)
Benefits paid	(266)	(2,583)
Balance at end of year	¥3,020	$29,320

(2) The changes in plan assets for the year ended March 31, 2014, were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Balance at beginning of year	¥2,453	$23,816
Expected return on plan assets	61	592
Actuarial losses	43	417
Contributions from the employer	242	2,350
Benefits paid	(203)	(1,971)
Balance at end of year	¥2,596	$25,204

(3) Reconciliation between the liability recorded in the consolidated balance sheet and the balances of defined benefit obligation and plan assets.

	Millions of Yen	Thousands of U.S. Dollars
Funded defined benefit obligation	¥3,020	$29,320
Plan assets	(2,596)	(25,204)
	424	4,116
Unfunded defined benefit obligation	171	1,661
Net liability arising from defined benefit obligation	¥ 595	$5,777

	Millions of Yen	Thousands of U.S. Dollars
Liability for employees' retirement benefits	¥595	$5,777
Asset for retirement benefits		
Net liability arising from defined benefit obligation	¥595	$5,777

(4) The components of net periodic benefit costs for the year ended March 31, 2014, were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Service cost	¥224	$2,175
Interest cost	60	583
Expected return on plan assets	(61)	(592)
Amortization of prior service cost	3	29
Recognized actuarial losses	19	184
Net periodic benefit costs	¥245	$2,379

(5) Accumulated other comprehensive income on defined retirement benefit plans as of March 31, 2014

	Millions of Yen	Thousands of U.S. Dollars
Unrecognized prior service cost	¥ 14	$136
Unrecognized actuarial gains	(97)	(942)
Total	¥(83)	$(806)

(6) Plan assets

a. Components of plan assets

Plan assets consisted of the following:

Debt investments	27%
Equity investments	13
Cash and cash equivalents	59
Others	1
Total	100%

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

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

(7) Assumptions used for the year ended March 31, 2014, were set forth as follows:

Discount rate	2.0%
Expected rate of return on plan assets	2.5

(8) The changes in liability for retirement benefits which have been calculated by a simplified method for the year ended March 31, 2014, were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Balance at beginning of year	¥156	$1,515
Net periodic benefit costs	21	204
Benefits paid	(7)	(68)
Balance at end of year	¥170	$1,651

(9) The Group is a member of comprehensive pension plan funds, which consist of members that include non-group 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.

(a) Funded status of comprehensive pension plans

The total amounts of comprehensive pension plans as of March 31, 2013 and 2012, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2013	2012	2013
Amount of pension assets	¥ 34,135	¥ 31,993	$ 331,408
Amount of benefit obligation	(47,934)	(42,777)	(465,379)
Net balance	¥(13,799)	¥(10,784)	$(133,971)

(b) The ratio of gross pay by the Group to the total amounts of comprehensive pension plans as of March 31, 2013 and 2012, was 17.8% and 20.1%, respectively.

(c) Additional information

March 31, 2013

The net balance in (a) above is the prior-service liabilities of ¥13,799 million ($133,971 thousand) as of March 31, 2013, which are being amortized over 18 years.

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

March 31, 2012

The net balance in (a) above is mainly due to a deficit carryforward of ¥5,587 million and net deficit of ¥5,197 million as of March 31, 2012.

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

The ratio in (b) 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 in the next consolidated fiscal year.

Year Ended March 31, 2013

The liability for retirement benefits at March 31, 2013, consisted of the following:

	Millions of Yen
Projected benefit obligation	¥ 3,192
Fair value of plan assets	(2,454)
Unrecognized prior service cost	(17)
Unrecognized actuarial gain	23
Net liability	¥ 744

The components of net periodic benefit costs for the year ended March 31, 2013, are as follows:

	Millions of Yen
Service cost	¥227
Interest cost	62
Expected return on plan assets	(53)
Amortization of prior service cost	3
Recognized actuarial loss	41
Net periodic benefit costs	¥280

Assumptions used for the year ended March 31, 2013, are set forth as follows:

Discount rate	2.0%
Expected rate of return on plan assets	2.5%
Amortization period of prior service cost	10 years
Recognition period of actuarial gain/loss	10 years

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 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 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 a normal effective statutory tax rate of approximately 37.8% for the years ended March 31, 2014 and 2013.

The tax effects of significant temporary differences and tax loss carryforwards, which resulted in deferred tax assets and liabilities as of March 31, 2014 and 2013, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2014	2013	2014
Deferred tax assets:			
Allowance for doubtful accounts	¥ 183	¥ 112	$ 1,777
Employee accrued bonuses	517	526	5,019
Liability for employees' retirement benefits	240	267	2,330
Loss on devaluation of golf club memberships	97	97	942
Loss on devaluation of investment securities	297	220	2,883
Loss on devaluation of land	218	218	2,117
Allowance for loss on construction contracts	313	650	3,039
Other	431	358	4,184
Valuation allowance	(691)	(624)	(6,709)
Total	1,605	1,824	15,582
Deferred tax liabilities:			
Unrealized gains on available-for-sale securities	(2,595)	(1,689)	(25,194)
Other	(30)	(2)	(291)
Total	(2,625)	(1,691)	(25,485)
Net deferred tax (liabilities) assets	¥(1,020)	¥ 133	$ (9,903)

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, 2014, with the corresponding figures for 2013 is as follows:

	2014	2013
Normal effective statutory tax rate	37.8%	37.8%
Expenses not deductible permanently for income tax purposes	4.1	3.4
Income not taxable permanently for income tax purposes	(1.4)	(1.1)
Inhabitant tax	2.6	2.7
Difference in statutory tax rates of overseas subsidiaries	(1.7)	(1.4)
Valuation allowance	3.2	4.4
Change of effective tax rate by tax reform	3.5	
Other—net	(0.8)	(0.8)
Actual effective tax rate	47.3%	45.0%

New tax reform laws enacted in 2014 in Japan changed the normal effective statutory tax rate for the fiscal year beginning on or after April 1, 2014, from approximately 37.8% to 35.4%. The effect of this change was to decrease deferred tax assets in the consolidated balance sheet as of March 31, 2014, by ¥87 million ($845 thousand) and to increase income taxes—deferred in the consolidated statement of income for the year then ended by ¥87 million ($845 thousand).

11. RESEARCH AND DEVELOPMENT COSTS

Research and development costs charged to income were ¥348 million ($3,379 thousand) and ¥374 million for the years ended March 31, 2014 and 2013, respectively.

12. ASSETS PLEDGED

At March 31, 2014, a time deposit of ¥27 million ($262 thousand) was pledged as collateral for accounts payable of ¥6 million ($58 thousand).

13. LEASES

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

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

	Millions of Yen 2014		Thousands of U.S. Dollars 2014	
	Finance Leases	Operating Leases	Finance Leases	Operating Leases
Due within one year	¥ 32	¥462	$ 311	$4,485
Due after one year	81	526	786	5,107
Total	¥113	¥988	$1,097	$9,592

The minimum rental commitments under noncancelable operating leases as of March 31, 2014 and 2013, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2014	2013	2014
Due within one year	¥462	¥193	$4,485
Due after one year	526	24	5,107
Total	¥988	¥217	$9,592

14. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

(1) *Group Policy for Financial Instruments*

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

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

Receivables, such as trade notes 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 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 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, 2014	Carrying Amount	Fair Value	Unrealized Gain/Loss
Cash and cash equivalents and short-term investments	¥ 6,395	¥ 6,395	
Receivables	47,689	47,689	
Investment securities	18,755	18,755	
Total	¥72,839	¥72,839	
Payables	¥37,180	¥37,180	
Short-term borrowings	4,710	4,710	
Income taxes payable	767	767	
Long-term debt and current maturities of long-term debt, excluding finance lease	105	105	
Total	¥42,762	¥42,762	
March 31, 2013			
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	

	Thousands of U.S. Dollars		
March 31, 2014	Carrying Amount	Fair Value	Unrealized Gain/Loss
Cash and cash equivalents and short-term investments	$ 62,087	$ 62,087	
Receivables	463,000	463,000	
Investment securities	182,087	182,087	
Total	$707,174	$707,174	
Payables	$360,971	$360,971	
Short-term borrowings	45,728	45,728	
Income taxes payable	7,447	7,447	
Long-term debt and current maturities of long-term debt, excluding finance lease	1,019	1,019	
Total	$415,165	$415,165	

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 long-term debt and current maturities of long-term debt are determined by the variable rate reflecting the market interest rate in the short term.

Derivatives

As discussed in Note 15, the Group had no derivative contracts at March 31, 2014.

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

	Millions of Yen		Thousands of U.S. Dollars
	2014	2013	**2014**
Investments in equity instruments that do not have a quoted market price in an active market	**¥ 990**	¥ 990	**$9,612**
Investments in limited partnerships	**468**	684	**4,544**
Total	**¥1,458**	¥1,674	**$14,156**

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

	Millions of Yen			
March 31, 2014	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	¥6,295			
Receivables	47,689			
Short-term investments – Available-for-sale securities with contractual maturities	100			
Investment securities – Available-for-sale securities with contractual maturities		¥900	¥500	¥1,500
Total	¥54,084	¥900	¥500	¥1,500

	Thousands of U.S. Dollars			
March 31, 2014	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	$ 61,117			
Receivables	463,000			
Short-term investments – Available-for-sale securities with contractual maturities	971			
Investment securities – Available-for-sale securities with contractual maturities		$8,738	$4,854	$14,563
Total	$525,088	$8,738	$4,854	$14,563

Please see Note 6 for annual maturities of long-term debt and Note 13 for obligations under finance leases.

15. DERIVATIVES

The Group had no derivative contracts outstanding at March 31, 2014 and 2013.

16. COMPREHENSIVE INCOME

The components of other comprehensive income for the years ended March 31, 2014 and 2013, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2014	2013	2014
Net unrealized gain on available-for-sale securities:			
Gain arising during the year	¥2,859	¥ 4,062	$27,757
Reclassification adjustments to profit	(254)	(1)	(2,466)
Amount before income tax effect	2,605	4,061	25,291
Income tax effect	(906)	(1,392)	(8,796)
Total	¥1,699	¥ 2,669	$16,495
Foreign currency translation adjustments – Gain arising during the year	¥ 336	¥ 178	$ 3,262
Total	¥ 336	¥ 178	$ 3,262
Total other comprehensive income	¥2,035	¥ 2,847	$19,757

17. SEGMENT INFORMATION

Under ASBJ Statement No. 17, "Accounting Standard for Segment Information Disclosures" and ASBJ Guidance No. 20, "Guidance on Accounting Standard for Segment Information Disclosures," an entity is required to report financial and descriptive information about its reportable segments. Reportable segments are operating segments or aggregations of operating segments that meet specified criteria. Operating segments are components of an entity about which separate financial information is available and such information is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. Generally, segment information is required to be reported on the same basis as is used internally for evaluating operating segment performance and deciding how to allocate resources to operating segments.

Segment information about sales, profit (loss), assets, liabilities, and other items is not shown because the Group operates entirely in the equipment construction segment.

18. CONTINGENT LIABILITIES

On March 4, 2014, the Company was criminally accused by the Fair Trade Commission of rigging bids for equipment work related to the Hokuriku Shinkansen, in violation of the Antimonopoly Law and has been charged by the Tokyo District Public Prosecutors Office. Since it is difficult to reasonally estimate the obligation of the results at this time, the Company does not record any provision.

19. SUBSEQUENT EVENT

At the general shareholders' meeting held on June 20, 2014, 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 ($0.12) per share	¥316	$3,068

* * * * * *

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, 2014, 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, 2014, 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 20, 2014

Member of
Deloitte Touche Tohmatsu Limited

Board of Directors

(As of June 20, 2014)

Chairman
Kaoru Takahashi*

President
Hiroshi Natsui*

Managing Director
Takeshi Usami

Directors
Morio Kusuda
Satoshi Fuchino
Keiichi Akamatsu
Yoshimitsu Omiya

Standing Audit & Supervisory Board Member
Isao Yamada
Toru Ikio

Audit & Supervisory Board Member
Masahisa Ichimiya
Takakazu Tsuruno

*Representative Directors

Corporate Data

(As of March 31, 2014)

Date of Establishment
October 1, 1969

Paid-in Capital
¥5,159 millions

Number of Shares Outstanding
25,282,225 shares

Number of Shareholders
5,958

Number of Employees
856

Stock Exchange Listing
Tokyo Stock Exchange, 1st Section

Transfer Agent of Common Stock
Sumitomo Mitsui Trust Bank, Limited

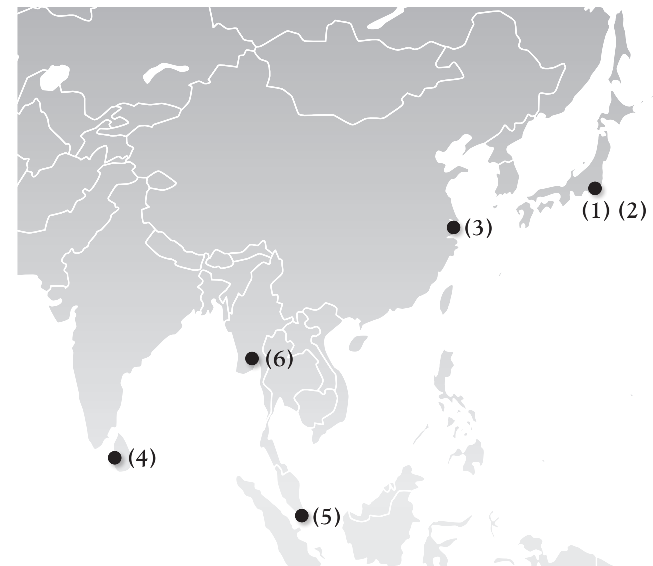
By Type of Shareholder

Financial institutions	22.90%
Individuals & Others	28.64%
Foreign Shareholders	3.82%
Other domestic companies	44.64%

By Number of Shares Held

500,000 shares or more	41.21%
100,000 – 499,999 shares	32.76%
10,000 – 99,999 shares	10.50%
1,000 – 9,999 shares	12.41%
Fewer than 1,000 shares	3.12%

Network



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