



Hibiya Engineering, Ltd.

**ANNUAL
REPORT**
2020



PROFILE

The Hibiya Engineering Group provides a comprehensive range of facilities engineering products and services, through business activities grounded in respect for the environment and the comfort of users.

Our services range from the planning, design and installation of air conditioning, sanitary, electrical and communications facilities, through to their maintenance, management, and eventual upgrading. A particular strength is the ability to meet today's social needs by applying advanced energy-saving technologies to implement sophisticated open-network IT environments and workplaces.

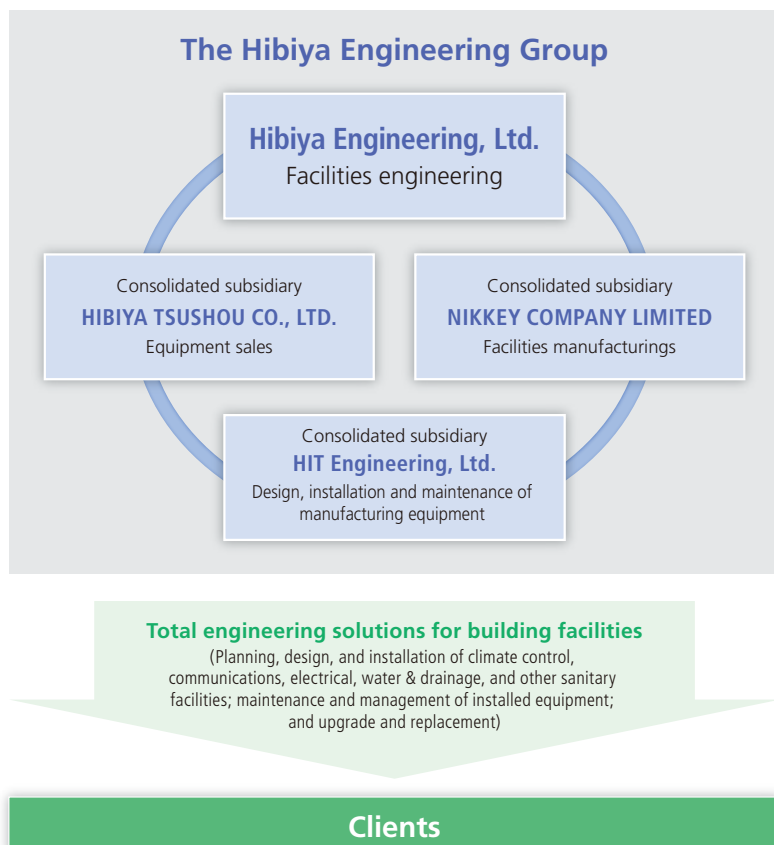
Our role as integrated facilities engineers is to create future possibilities and environments that enhance customer satisfaction. We will continue to contribute to society through innovative technologies and a passion to perform.

The HIBIYA Vision

Mission

We are devoted to fulfilling the following missions.

- Creating safe, secure and comfortable environments for customers and society by using light, water, air and information to give life to buildings
- Meeting customers' needs by providing life cycle support for buildings as an expert in the field of building management
- Contributing to the protection of the global environment by constantly upgrading comprehensive engineering capabilities
- Showing our respect and appreciation to employees, customers and shareholders



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Projections and Perspectives:

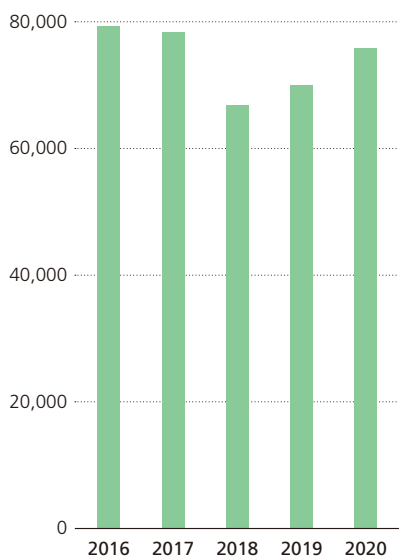
This Annual Report includes projections and descriptions of prospects regarding future plans, strategies and the operating performance of the Company. Such descriptions are not based on past facts, but rather on perspectives judged to be appropriate in view of assumptions and management convictions on the strength of information available to the Company as of March 31, 2020. Such projections of operating performance may vary from management's initial anticipation as result of general economic trends, changes in the business environment, possible revisions to the tax code and to other factors.

Consolidated Financial Highlights

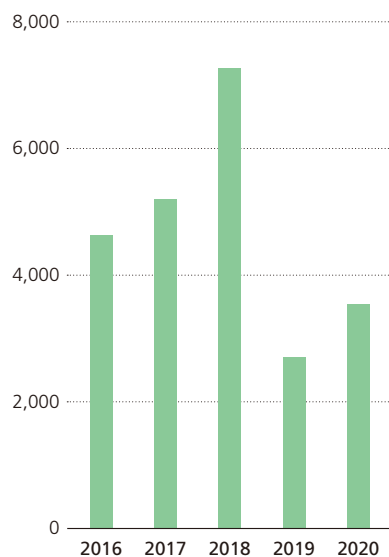
Hibiya Engineering, Ltd. and Consolidated Subsidiaries
Years ended March 31

	2016	2017	2018	2019	2020
Millions of yen					
Net Sales	¥79,401	¥78,387	¥66,838	¥70,035	¥75,890
Profit attributable to owners of parent	4,641	5,207	7,273	2,711	3,537
Total Assets	91,900	93,661	82,931	82,396	83,632
Net Assets	59,947	63,719	58,580	60,026	58,294
Yen					
Per share:					
Net Assets	¥1,966.69	¥2,117.40	¥2,350.48	¥2,441.23	¥2,391.70
Profit attributable to owners of parent	156.88	178.49	262.00	111.34	147.43
Cash Dividend (non-consolidated basis)	40.00	50.00	60.00	80.00	80.00

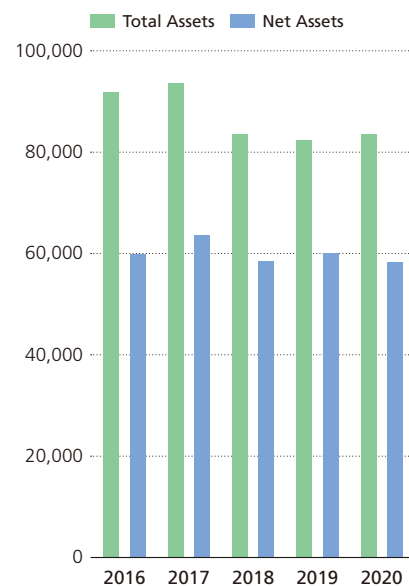
Net Sales (¥ million)



Profit attributable to owners of parent (¥ million)



Total Assets & Net Assets (¥ million)



A Message from the President



Representative
Director & President
& Chief Executive
Officer
**Nagahiro
Kuroda**

Completion of the Sixth Medium-term Management Plan

The Hibiya Engineering Group completed its three-year Sixth Medium-term Management Plan in March 2020. During the first two years of this plan, we achieved growth in sales and orders received. There was significant progress regarding the plan's two key strategies: investing in human resources and ICT and providing customers with even more advanced life cycle total solutions. As a result, we received more orders for new buildings and renovations, improved our efficiency and had many other accomplishments. (See pages from 4 to 7 for more information.)

The Seventh Medium-term Management Plan

In 2020, the outbreak of COVID-19 severely impacted economies worldwide and is still negatively affecting a broad range of activities. It is impossible to predict the eventual magnitude of the effects of this pandemic as well as how quickly the economy will recover after this crisis ends.

Although construction expenditures in Japan have been strong, the business climate for our group will remain very challenging due to changes in the demand for building construction, delays in completions of projects and other reasons. For more progress in this difficult environment, we have formulated our next management plan. This plan incorporates the uncertain outlook, including the assumption that we will continue to face challenges concerning new orders, the completion of projects and profit margins. Our entire group has a strong commitment to achieving the goals of the plan.

Initially, we intended to start our Seventh Medium-term Management Plan in April 2020. We held extensive discussions about this plan during the second half of the past fiscal year. Numerous initiatives are already under way based on these discussions. However, this process led to the decision to delay the announcement of the new plan until November in order to give us time to reconfirm the ongoing changes in our markets and the outlook. I would like to thank our stakeholders for their understanding as we continue to work on our new plan.

Accurately identifying and meeting our customers' needs

We are witnessing enormous shifts in the characteristics of our markets because of COVID-19. Many of our major markets in prior years are

shrinking. For example, companies are moving offices to suburban locations and downsizing offices. At the same time, new demands involving offices are appearing. Two examples are the reconfiguration of layouts for more distancing and the need for ventilation systems that bring in more outdoor air. Another source of growth is data centers and logistics facilities in association with the advancement of the IoT, artificial intelligence, big data and other leading-edge ICT sectors. I anticipate even faster growth in this field because of the changes in life styles and values due to COVID-19. The Hibiya Engineering Group will continue to be a prominent participant in these market sectors.

We plan to establish a presence and grow in new market categories by accurately identifying how market needs are changing and then meeting all the requirements, no matter how diverse, of each customer. We have earned a reputation for outstanding quality and reliability due to an immense volume of projects over many years for the NTT Group. As we build on this reputation, we will leverage our capabilities involving electrical systems, air conditioning and sanitation, which are key strengths of ours, to meet the expectations of every customer. One theme is "Face-to-Face" activities in order to build stronger lines of communication with job sites. Another is working as "One Team" with the goal of further improving quality. "One Team" means enabling design, sales, construction and all other categories of our operations to function as a unified team. Overall, our objective is to reinforce measures for upgrading the capabilities of our people and our organization.

As one step for accomplishing these goals, we established the Digital Transformation Business Office in July 2020. The primary roles of this new unit are creating ideas for meeting customers' needs concerning the new environment for equipment and other facilities and using IT to make business processes more efficient.

An organization that people respect and admire

The need to make ESG and the SDGs an integral part of a company's management has been attracting much attention in recent years. In 2006, when we reached our 40th anniversary, we established a new HIBIYA Vision that includes emphasis on the environment, society and governance. In addition, we have been using our life cycle total solutions skills to participate in a large number of local government and other public-sector environmental projects. Our group remains firmly dedicated to contributing to progress concerning the environment and society.

Our long-term goal is to earn a reputation among all our stakeholders as a highly admired organization. We want customers, shareholders, business partners and others to choose us over other companies. Furthermore, we want to be an employer that uses working style reforms and numerous training and benefit programs in order to give our people rewarding jobs with the opportunity to advance and achieve their goals.

I am confident that all of these activities will enable the Hibiya Engineering Group to aim for even higher goals while reinforcing our commitment to corporate social responsibility.

Highlights of the Fiscal Year

FY3/20 Results of Operations

Orders received	¥78,475 million (up 3.4% year-on-year)
Net sales	¥75,890 million (up 8.4% year-on-year)
Operating profit	¥3,690 million (up 80.1% year-on-year)
Profit attributable to owners of parent	¥3,537 million (up 30.5% year-on-year)

FY3/20 Return of Earnings to Shareholders

FY3/20 dividend and stock buybacks

Dividends

- ▶ Paid a fiscal year dividend of ¥80 per share based on the earnings target of the Sixth Medium-term Management Plan.

Repurchases

	Plan	Result	Progress rate
Number of shares acquired	300,000 shares	300,000 shares	100.0%
Total cost	¥570 million	¥560 million	99.5%

FY3/21 Forecast for Performance and Shareholder Returns

▶ Basic Policies

- Bolster core business earnings and create new business opportunities for growth and higher corporate value
- Contribute to creating a sustainable society by utilizing human resources and technologies

▶ Basic Strategies

- Use collaboration with all stakeholders to take life cycle total solutions to an even higher level
- Improve productivity by using more advanced technologies
- Implement the SmartWORK working style reform program

▶ Financial Goals (consolidated)

Orders received	¥62,000 million
Net sales	¥68,000 million
Operating profit	¥2,000 million
Profit attributable to owners of parent	¥1,500 million

The targets in the business forecast are based on conservative assumptions for orders, construction progress and profit margins in a business environment with many uncertainties.

▶ Shareholder Return Plan

Dividend

Maintain dividend of ¥80 per share

Stock buybacks

Undecided

▶ Seventh Medium-term Management Plan

Due to the uncertain outlook, the launch of the Seventh Intermediate-term Management Plan, originally scheduled for April 2020, is currently expected to be delayed for about six months.

Feature: Sixth Medium-term Management Plan and Achievement

Progress report

1

Investments in human resources and ICT for working style reforms

Utilization of ICT to improve efficiency

Using cloud-based virtual desktop services throughout the company



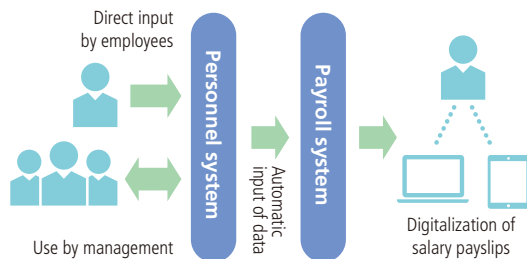
- ▶ An environment enabling all employees to work anywhere (visiting customers, job sites, at home, etc.) just as when at the office
- ▶ Access possible by using smartphones and tablets

Started using a cloud-based expense management system



- ▶ Use of transportation IC card readers for automatic input of travel expense data
- ▶ Greater efficiency by preventing input errors and reducing volume of manual operations

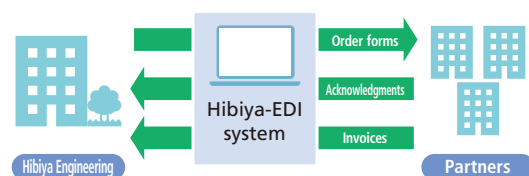
Started using a cloud-based personnel system



Benefits of the new system

- ▶ Prevention of duplication of employee direct inputs (post-approval registration)
- ▶ Developing employee career plans
- ▶ Annual reduction of more than 2,500 hours in personnel related operations

The Hibiya-EDI system enables use of the internet for invoices and order forms



Our advantages

- ▶ Greater efficiency due to fast signing of contracts
- ▶ Stronger relations with partner companies
- ▶ Reinforcement of compliance

Advantages for Partners

- ▶ Fast contract signing facilitates workers assignment as planned
- ▶ Lower volume of work increases productivity
- ▶ Cost reduction

Stronger relationships

Actions to actively promote women's participation

Tokai Branch Office earned Eruboshi (Two Stars) certification under the Female Career Advancement Promotion Act and subsequently was designated an Aichi Prefecture Female Empowerment Company

Eruboshi



Achieved compliance with Item 4 (1-3, 5) of Paragraph 5 of the standards

- 1 Hiring
- 2 Continuous employment
- 3 Working hours and other characteristics of work
- 4 Pct. of management positions
- 5 A variety of career paths

▶ Obtained in May 2019

Aichi Prefecture Female Empowerment Company



▶ Obtained in January 2020 from Aichi Prefecture

Start of training program for women returning from maternity and childcare leave



Effects

- ▶ Information exchanges and easing of concerns among employees in the same type of workplace environment
- ▶ Improvement of motivation to return to work
- ▶ Created a framework for consistent follow-up activities by every department

Implement women's career design project



Jobsite field trips for female employees



Discussion groups for female employees

Results of the female empowerment plan (women should be at least 20% of all people recruited by the Hibiya Engineering Group)

	2018	2019	2020	Three-year total
New graduates hired	23	30	27	80
Women	6	7	6	19

Women recruitment ratio **23.7%**

Feature: Sixth Medium-term Management Plan and Achievement



Further upgrade life cycle total solutions

Leverage CO₂ emission control track record to capture orders for making public-sector buildings ZEB Ready*

Project to make Kamigori Town Hall ZEB Ready

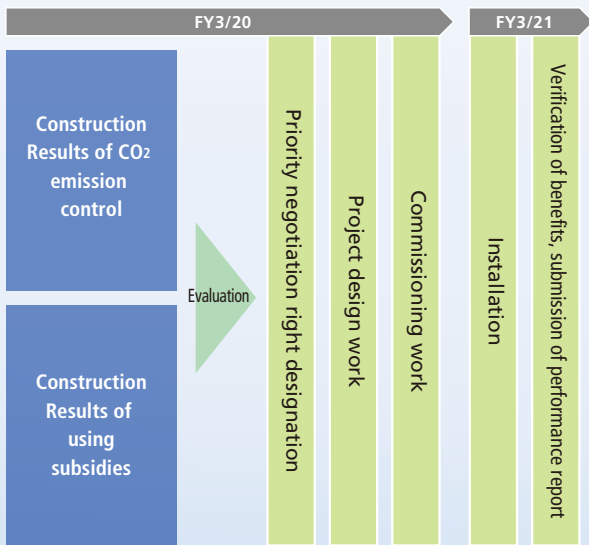
*ZEB Ready: Buildings that cut energy consumption by 50% or more

Kamigori Town Hall building in Hyogo Prefecture

Kamigori Town Hall building

Needs

- Complete renovation of an aging government building
- Large reduction in greenhouse gas emissions
- Substantial reduction in running costs



Building exterior

- ▶ Exterior wall replacement using the external thermal insulation method
- ▶ Improved thermal insulation of windows by using multilayer, vacuum-deposition low-emissivity glass

Air conditioning

- ▶ Downsized air conditioning equipment by using thermal load computations
- ▶ Increased energy conservation by using highly efficient equipment

Lights

- ▶ Complete switch from fluorescent to LED lighting for a government building
- ▶ Brightness sensors near windows and control devices for adjusting illumination in specific areas

Ventilation

- ▶ Replacement of old ventilation equipment with full heat exchange unit for improvement of energy conservation

Use of renewable energy

- ▶ Solar power generation equipment and batteries

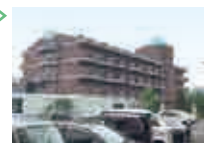
Design consultant (design supervision, commissioning) Hibiya Engineering Co., Ltd. (project leader, design and construction)

Received order for renovation using subsidies for performing a diagnosis to determine potential improvements

Develop facility total solutions for many buildings of existing customers

Low-cost elderly care home Care House Reitaku (social welfare corporation Reitakukai)

Care House Reitaku >



Needs

Update of aging equipment

Reduction of renovation expenses by using subsidies

Limiting greenhouse gas emissions

Examination of original construction proposal

Customer visits

Facility aging and energy conservation diagnosis

Assistance for subsidy applications and selection of subsidies

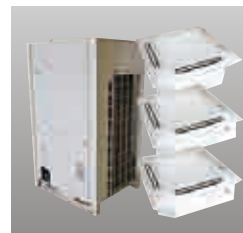
Design and renovation work

Verification of benefits and subsidy report

Ensuring continuous reliability of a facility

Becoming an even more trusted partner for customers

Renewal project activities



- ▶ Replacement of multi-split air conditioners in common-use area
- ▶ Replacement of air conditioners for residential units
- ▶ Replacement of electric heaters and hot water heaters



- ▶ Switch to LED lights in common areas
- ▶ Switch to LED lights in residential units

- ▶ Renovation subsidies cut the customer's expenditures for this project by about 50%
- ▶ Lowered the annual cost of electricity by ¥2,890,000 (20%)
- ▶ Lowered annual CO₂ emissions by 44%

- ▶ Business development targeting other customer facilities in the same prefecture
- ▶ Frequent use of subsidies matching each customer's requirements
- ▶ Solution business sales by head office and all branches as a unified team

Topics1: Finding new customers, partners and other sources of opportunities

Fall Data Center and Storage EXPO (Makuhari Messe)



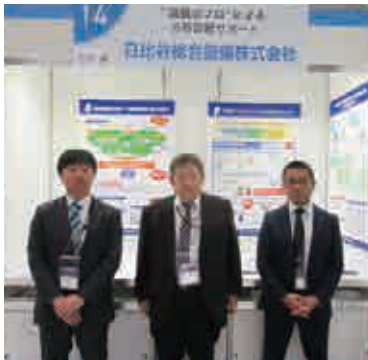
Event summary

- ▶ At the EXPO, Hibiya Engineering provided information about the group's many accomplishments involving data center renovations.

The Hibiya Engineering booth

- ▶ Hot/cold separation technology
- ▶ Exhibit of liquid immersion cooling equipment
- ▶ Heat-resistant server, wall outlet cooling with improved efficiency
- ▶ Energy conservation for university computer rooms
- ▶ Analysis of simulated server heat generation using Hibiya Engineering's own simulated heat source

Energy Conservation Fair 2020 (Tokyo Big Site)



Event summary

- ▶ This fair covers many types of energy technologies and services for energy conservation, CO₂ emission reduction, energy generation, energy storage and energy management.

The Hibiya Engineering booth

- ▶ The energy management business conducts energy conservation and management projects that utilize subsidies.
- ▶ Bulk leasing makes it possible to update the equipment at many locations while holding down the cost.

JFMA Facility Management Forum 2020 (Tower Hall Funabori)



The Hibiya Engineering booth

- ▶ BCP measures in Manazuru Town
- ▶ Bulk leasing business in Nagano Prefecture
- ▶ Data center energy conservation measures
- ▶ Renovation project accomplishments

Note: This event was held online due to COVID-19.

Topics2: Technology sharing event at the Hibiya Information Plaza

Use of IoT and AI



Seminar summary

- ▶ Presentation of recent activities of companies with unique technologies in the IoT and AI fields

Lectures

- ▶ Expectations for ExBeacon and other technologies for digital twin
- ▶ Building automation solution DBMCS that supports IoT by open operating system
- ▶ The DiAs AI-based energy conservation system
- ▶ Examples of town creation and smart community activities

Next-generation data centers

Seminar summary

- ▶ Presentation of company activities regarding data centers that are becoming increasingly important

Lectures

- ▶ Environmental measures using ICT device data involving air conditioning control for heat-resistant servers and digital twins
- ▶ Server technology trends evident in the NEC Express server and precautions when installing servers
- ▶ An overview of data centers in other countries
- ▶ The last bastion of immersion cooling? Toyota's mobility service platform is hot.

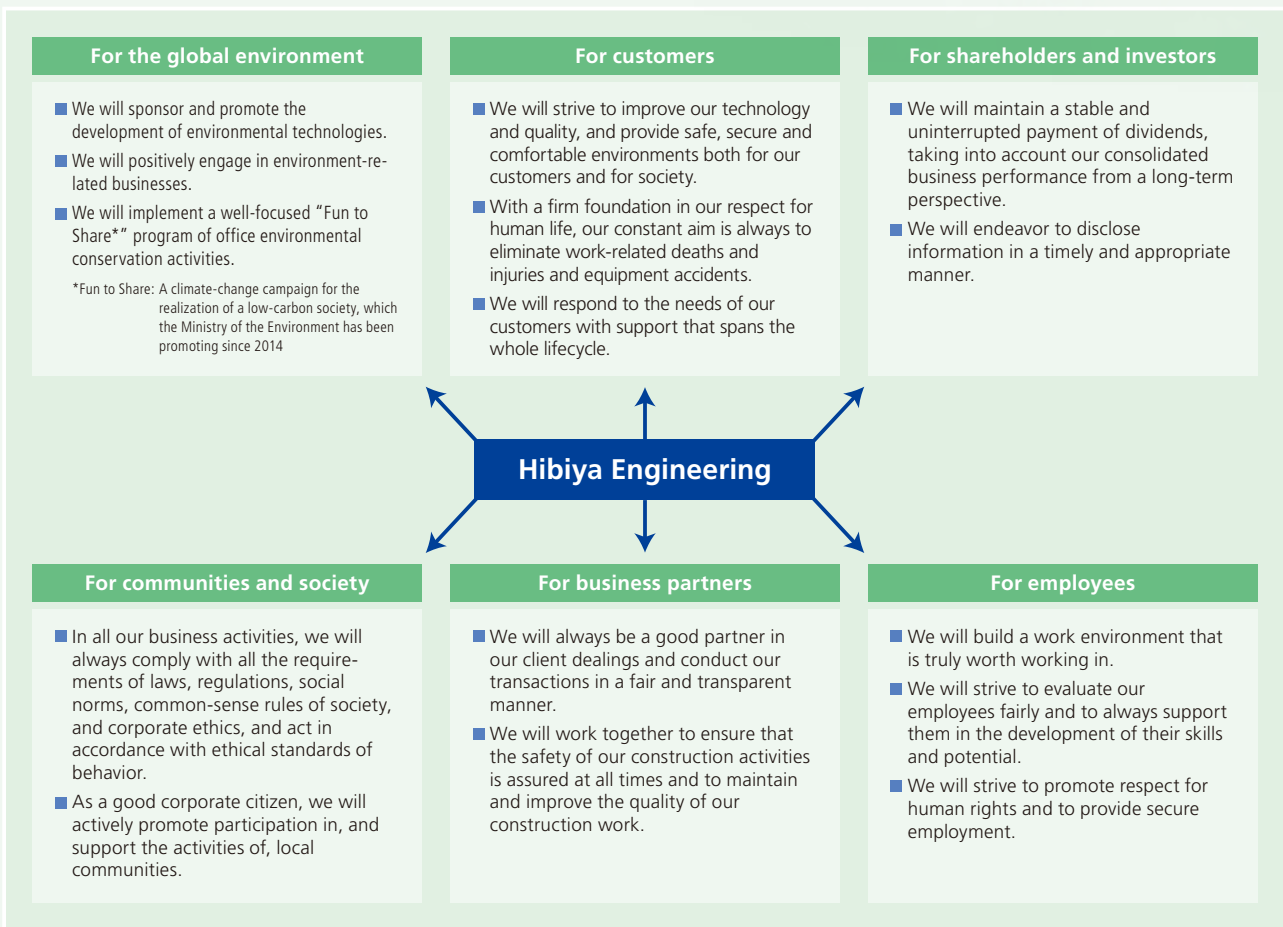


Corporate Social Responsibility at Hibiya Engineering

To achieve the objectives of the HIBIYA Vision, all activities of the Hibiya Engineering Group are guided by the Action Guidelines and Standards for Ethical Behavior. By adhering to these guidelines, we are dedicated to playing a part in sustainable social progress.

Our Commitment to Stakeholders

Hibiya Engineering has prepared “Our Commitment to Stakeholders” in order to become a company that is highly appealing to all stakeholders. This expresses our determination to conduct business activities that place priority on customers, shareholders and employees as well as on harmony with society and the global environment.



Corporate Governance

Hibiya Engineering believes that strengthening corporate governance is vital to increasing corporate value in an operating environment that is rapidly changing and becoming more challenging. The fundamental policy for measures to upgrade corporate governance is to make management more transparent, efficient and sound while rigorously implementing compliance and other risk management programs.

■ Board of Directors

There are now 9 directors, including three outside directors, and four Audit & Supervisory Board Members including three outside Audit & Supervisory Board Members. In principle, the Board of Directors meets once each month to reach decisions about important matters involving management and to receive reports.

In addition, Hibiya Engineering uses the executive officer system for the purpose of strengthening management oversight functions. Two major benefits of this system are improving the functions and effectiveness of the Board of Directors and reinforcing the supervisory function for business operations.

Hibiya Engineering has submitted notices to the Tokyo Stock Exchange stating that there are two independent outside directors and two independent outside Audit & Supervisory Board Members.

■ Term of directors

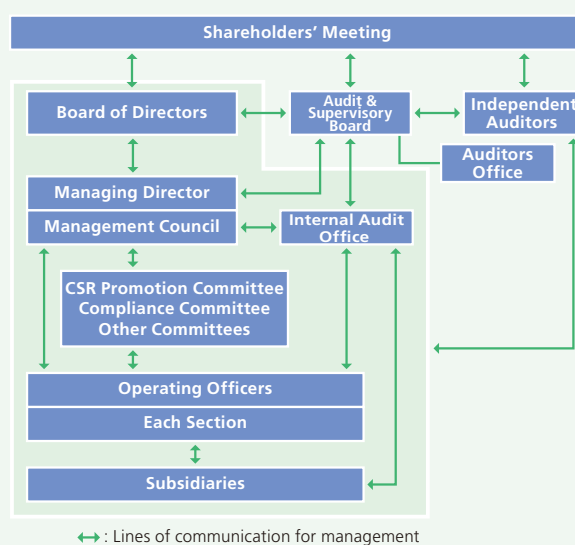
The term of directors was reduced from two years to one year in June 2008. The shorter term allows adapting more swiftly to changes in the operating environment and makes directors more accountable for management of the group during their respective terms.

■ Audit & Supervisory Board

Hibiya Engineering uses the Audit & Supervisory Board system. In June 2019, the number of full-time Audit & Supervisory Board Members was increased from one to two. There are now four, including three outside Audit & Supervisory Board Members. They attend Board of Directors meetings, Management Council and other important gatherings to perform audits and confirm that operations are conducted appropriately. They also cooperate with accounting auditors for audits in that field.

■ Internal audits

Audit & Supervisory Board Members perform audits with the four full-time staff members of the Internal Audit Office and other employees. Audits are conducted periodically to monitor the status of business operations, including at subsidiaries. Audit results are reported to the representative directors.



Compliance

Hibiya Engineering has a rigorous compliance system based on the belief that “a company has an obligation to be a good citizen of society.” All executives and employees are dedicated to performing their jobs based on high ethical standards, compliance with laws and regulations, and the Hibiya Engineering articles of incorporation and Action Guidelines. The objectives of the compliance system are to conduct business operations that always reflect the company’s social responsibilities and to further increase the transparency and

soundness of the Hibiya Engineering Group.

Hibiya Engineering has a Compliance Committee chaired by the company’s president that is responsible for companywide compliance promotion activities. The committee determines basic policies for compliance, formulates action plans, oversees compliance training for all employees, examines important compliance issues, and operates the Hibiya Hot Line, an internal whistle-blowing system.

Major completed projects

Legend ▶▶ 1 Location 2 Floor area 3 Stories 4 Equipment installed

The Okura Tokyo



- 1 Minato Ward, Tokyo
- 2 180,905m²
- 3 41 floors, 2 rooftop levels, 1 underground level
- 4 Sanitation

Fujita Medical University, Okazaki Treatment Center



- 1 Okazaki, Aichi
- 2 37,674m²
- 3 7 floors
- 4 Sanitation

THE HIRAMATSU Kyoto



©Forward Stroke inc.

- 1 Chuo Ward, Kyoto
- 2 3,982m²
- 3 5 floors, 1 underground level
- 4 Air conditioning, sanitation

Gardenia Matsukage IV



- 1 Hakodate, Hokkaido
- 2 4,266m²
- 3 4 floors
- 4 Air conditioning, sanitation



FINANCIAL SECTION

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Management's Discussion and Analysis

■ Overview

In the fiscal that ended in March 2020 the Japanese economy continued to recover gradually supported by continuance of easy-money policy and financial expenditure by the government. In the second half of the fiscal year, however, uncertainties increased due to a drop in consumer sentiment caused by the Consumption tax hike and the impact of the spread of COVID-19 pandemic.

In Japan's construction industry, construction investment remained steady throughout the year although there were delays in delivery of some equipment due to the spread of the COVID-19 pandemic and a rise in labor cost due to nationwide labor shortages.

Orders received and Sales

The company launched the Sixth Medium-term Management Plan, in fiscal year 2017. The plan's fundamental strategies are increasing orders by "providing more advanced life cycle total solutions" and thorough cost control by enhancing the on-site follow-up system corresponding to construction risks. In addition, we implemented work-style reforms, including improving the telework environment and promoting the active participation of women. In consequence, we obtained "Two-star" certification.

As a result, orders received were ¥78,475 million, up 3.4% from previous fiscal year mainly due to an increase in orders from the NTT Group.

Sales increased 8.4% to ¥75,890 million due to progress in major construction projects and other factors.

Operating profit and Profit attributable to owners of parent

There was an operating profit of ¥3,690 million, up 80.1% compared with previous fiscal year mainly due to improved profitability of the construction business and an ordinary profit of ¥4,239 million, up 32.0%. The profit attributable to owners of parent was ¥3,537 million, up 30.5%.

■ Balance Sheet and Cash Flows

Balance Sheet

Assets

Total assets increased ¥1,235 million from the end of the previous fiscal year to ¥83,632 million. Current assets increased ¥14,677 million to ¥63,905 million and noncurrent assets decreased ¥13,442 million to ¥19,726 million.

Major changes in current assets were increases of ¥3,255 million in cash and deposits, ¥5,097 million in notes receivable, accounts receivable from completed construction contracts and other and ¥5,001 million in securities.

Noncurrent assets decreased primarily because of a ¥1,489 million decrease attributable to the sale of investment securities.

Liabilities

Liabilities increased ¥2,967 million to ¥25,338 million.

Major changes in liabilities were increases of ¥875 million in notes payable, accounts payable for construction contracts and other, and ¥1,100 million in provision for bonuses.

Net Assets

Net assets were ¥58,294 million at the end of the fiscal year, including a contribution from profit attributable to owners of parent of ¥3,537 million.

Return on Equity

Return on equity increased to 6.1% from 4.7% in the previous fiscal year

Cash Flows

Net cash used in operating activities was ¥2,081 million, ¥7,882 million less than in the previous fiscal year.

Net cash provided by investing activities increased ¥10,748 million to ¥12,353 million. The main reason was an increase in the proceeds from sales of investment securities.

Net cash used in financing activities was ¥2,517 million, ¥82 million less than cash used in the previous fiscal year.

The result of these cash flows was a net increase of ¥7,755 million in cash and cash equivalents to ¥25,396 million at the end of the fiscal year.

■ Segment Information

Construction: Sales in this core business segment, which represents 88.3% of total sales, increased 9.1% to ¥67,010 million and operating profit increased 94.0% to ¥3,301 million.

Equipment sales: Segment sales increased 10.3% to ¥6,418 million and operating profit increased 9.0% to ¥321 million.

Equipment manufacturing: Segment sales decreased 11.0% to ¥2,462 million and operating profit increased 42.2% to ¥55 million.

■ Business Risks

This section explains items concerning business operations, finance and other matters that may have a significant effect on the decisions of investors. There is no information about the likelihood of any of these problems occurring or the probable severity of these problems because it is impossible to determine reliable predictions of how these risk factors may affect the activities of the Hibiya Engineering Group. Forward-looking statements are based on the judgments of the Hibiya Engineering Group as of March 31, 2020.

1. Risk of dependence on a specific customer

The Hibiya Engineering Group's sales are very dependent on Nippon Telegraph and Telephone Corporation (NTT) and its affiliates (NTT Group). If the NTT Group significantly reduces its construction expenditures for any reason, there may be a negative effect on the performance and financial position of the Hibiya Engineering Group. Since 2006, the Hibiya Engineering Group has been using the provision of building life cycle total solutions to receive orders for renovations of private-sector buildings, establish relationships with new customers and take other steps for increasing the volume of business with customers other than the NTT Group.

2. Risk related to business partners

If the financial condition of a customer of the Hibiya Engineering Group worsens, resulting in the inability to receive payments for trade receivable, there may be a negative effect on the group's

performance and financial condition. The Hibiya Engineering Group has a risk management manual for new orders that includes assessing credit risk when starting a business relationship and having the Management Council perform examinations to make final decisions when necessary.

3. Risk involving prices of materials

If there is an increase in the prices of equipment and materials used by the Hibiya Engineering Group due to a shortage of raw materials such as iron and copper or to market volatility, there may be a negative effect on the group's performance and financial position. Prices of equipment and materials are checked prior to accepting an order so that an accurate estimate can be determined. After accepting an order, a procurement study group performs examinations, a purchasing center is used for centralized purchasing and other steps are taken to hold down the cost of each project.

4. Risk related to unprofitable projects

If a project becomes unprofitable because of additional construction expenses or other items caused by factors that were unforeseen before the project started, the provision for an allowance for losses on construction contracts may be necessary and the Hibiya Engineering Group's performance and financial position may be affected. Some projects are designated for extra oversight and a unified system combining people at the job site and at their supervisors and related departments is used for risk factors that can cause delays, additional work and other problems.

5. Risk involving safety

The Hibiya Engineering Group conducts a large volume of renovation work at buildings owned by the NTT Group. If an accident resulting in injury or property damage occurs during a renovation and causes a serious failure at NTT's advanced public communications network, the Hibiya Engineering Group may be obligated to make a large, lump-sum compensation payment and performance and the financial position may be affected. Safety and quality patrols are used extensively, there are safety classes and seminars for partner companies, and the Hibiya Engineering Haneda Safety Training Center is used to maintain the highest standards of safety and quality.

6. Risk involving retirement benefit systems

Hibiya Engineering and certain consolidated subsidiaries participate in the Air-Conditioning and Sanitation Corporate Pension Fund. A decline in the financial position of this fund may result in a revision in benefits. Depending on the nature of the revision, the Hibiya Engineering Group's retirement benefit expenses may increase, affecting its performance and financial position.

7. Risk involving securities

The Hibiya Engineering Group may have to write down the value of stock that it holds because of stock market movements, changes in the performance of companies and other reasons. In addition, receiving a dividend from a stock as initially expected may not be possible.

For bonds, the Hibiya Engineering Group may be unable to receive interest or principal payments due to a default by an issuer. In addition, for bonds where interest is linked to foreign exchange rates, market interest rates and other market-based indicators, it may not be possible to receive the interest that was expected when the bond was purchased or at the beginning of the fiscal period due to changes in market conditions.

8. Risk related to recovering deferred tax assets

Deferred tax assets in the consolidated financial statements of the Hibiya Engineering Group are recorded as a result of the scheduling of the expected year for the future resolution of temporary subtraction differences. If the operating performance of Hibiya Engineering and/or its consolidated subsidiaries worsens, deferred tax assets would have to be reduced on the basis of judgments concerning the ability to recover deferred tax assets, and there may be a negative effect on the group's performance and financial position.

9. Risk of a serious information leak

For its business operations, the Hibiya Engineering Group handles data about customers' technologies and other information about customers and other types of important information. If there is a leak of this information caused by some type of incident, the group's performance and financial position may be affected by the loss of trust among customers, the need to pay compensation for damages and other reasons. The Hibiya Engineering Group has a security management system and a security framework that fully recognizes the importance of properly managing information. Due to these activities, the group has received Information Security Management System (ISMS) certification.

10. Risk involving violations of laws and regulations

A violation of laws and regulations by the executives or employees of the Hibiya Engineering Group may restrict business operations and have a negative effect on the group's performance and financial condition. To reduce vulnerability to this risk, the group is further strengthening internal audit functions, making everyone aware of internal rules and the internal reporting system, conducting compliance education activities, and using other measures.

11. Risk involving natural disasters

There is a risk of a natural disaster, large-scale pandemic or some other event disrupting lifelines, suspending or delaying construction due to shortages of fuel, materials and labor, damaging buildings and equipment at business sites, or having other harmful effects on business operations. Any of these events may have a negative effect on the Hibiya Engineering Group's performance and financial condition. To be prepared for these types of events, group has a business continuity plan that places the highest priority on the safety of people. There is emergency response equipment, drills a business continuity planning manual, and an internal data infrastructure that facilitates teleworking in order to reduce exposure to these risk factors and minimize damage.

In response to the COVID-19 pandemic, the Hibiya Engineering Group is taking many actions to prevent infections and the spread of infections in accordance with government policies and requests. There are activities for the safety of workplaces, staggered working hours and teleworking, different ways to hold meetings, restrictions on business trips, and other measures.

12. Seasonal variations in operating performance

For ordinary business operations, a larger percentage of construction work is completed in the second half than in the first half of each fiscal year. This produces a significant difference between first half and second half sales, which results in a seasonal variation in operating performance for these two six-month periods.

Consolidated Balance Sheets

Hibiya Engineering, Ltd. and Consolidated Subsidiaries
As of March 31, 2020 and 2019

	Millions of yen	
	2020	2019
Assets		
Current assets:		
Cash and cash equivalents (Note 4)	¥ 25,396	¥ 17,641
Notes receivable, accounts receivable from completed construction contracts and other (Note 4)	34,409	29,311
Short-term investments (Note 4)	802	300
Costs on uncompleted construction contracts and other (Note 3)	810	669
Other	2,493	1,324
Allowance for doubtful accounts	(5)	(17)
Total current assets	63,905	49,228
Property, plant and equipment:		
Buildings and structures	1,508	1,499
Land	94	94
Other	1,060	1,037
Total	2,662	2,630
Accumulated depreciation	(2,022)	(1,948)
Total property, plant and equipment	640	682
Investments and other assets:		
Investment securities (Note 4)	14,070	28,879
Insurance funds	1,674	1,614
Investments in silent partnership (Note 4)	695	703
Deferred tax assets (Note 5)	850	33
Asset for retirement benefits (Note 8)	391	28
Allowance for doubtful accounts (Note 7)	(456)	(28)
Other	1,865	1,258
Total investments and other assets	19,087	32,487
Total assets	¥ 83,632	¥ 82,397

See accompanying notes to consolidated financial statements.

	Millions of yen	
	2020	2019
Liabilities		
Current liabilities:		
Notes payable, accounts payable for construction contracts and other (Note 4)	¥ 17,097	¥ 16,221
Income taxes payable (Note 5)	795	826
Advances received on uncompleted construction contracts	375	379
Provision for bonuses	1,557	456
Provision for loss on construction contracts	431	751
Other	3,307	1,531
Total current liabilities	23,562	20,164
Long-term liabilities:		
Deferred tax liabilities (Note 5)	440	1,137
Liability for retirement benefits (Note 8)	1,307	1,038
Other	29	32
Total long-term liabilities	1,776	2,207
Total liabilities	25,338	22,371
Net assets		
Shareholders' equity: (Note 9)		
Capital stock:		
Authorized – 96,500,000 shares in 2020 and 2019	5,753	5,753
Issued – 25,006,321 shares in 2020 and 25,006,321 shares in 2019		
Capital surplus	6,028	6,028
Retained earnings	45,052	43,496
Treasury stock:		
979,853 shares in 2020 and 949,918 shares in 2019	(2,520)	(2,055)
Total shareholders' equity	54,313	53,222
Accumulated other comprehensive income		
Net unrealized holding gains or losses on securities	3,213	6,228
Accumulated adjustments for retirement benefits	(588)	(723)
Total accumulated other comprehensive income	2,625	5,505
Subscription rights to shares	202	204
Non-controlling interests	1,154	1,095
Total net assets	58,294	60,026
Total liabilities and net assets	¥ 83,632	¥ 82,397

See accompanying notes to consolidated financial statements.

Consolidated Statements of Income

Hibiya Engineering, Ltd. and Consolidated Subsidiaries
Years ended March 31, 2020 and 2019

	Millions of yen	
	2020	2019
Net sales	¥ 75,891	¥ 70,035
Cost of sales	63,904	60,463
Gross profit	11,987	9,572
Selling, general and administrative expenses (Note 6)	8,296	7,523
Operating income	3,691	2,049
Other income (expenses):		
Interest and dividend income	347	286
Interest expenses	0	(2)
Equity in earnings of affiliates	70	738
Gain on sales of investment securities	1,295	574
Provision of allowance for doubtful accounts (Note 7)	(431)	—
Other, net	118	112
Other income (expenses) - net	1,399	1,710
Profit before income taxes	5,090	3,759
Income taxes: (Note 5)		
Income taxes-current	1,812	946
Income taxes-deferred	(316)	54
Total income taxes	1,496	1,000
Profit	3,594	2,759
Profit attributable to non-controlling interests	56	47
Profit attributable to owners of parent (Note 12)	¥ 3,538	¥ 2,712

	Yen	
	2020	2019
Per share of common stock: (Note 12)		
Net assets	¥ 2,391.70	¥ 2,441.23
Profit		
Basic	147.43	111.34
Diluted	146.60	110.69
Cash dividend applicable to the year (Note 9)	80.00	80.00

See accompanying notes to consolidated financial statements.

Consolidated Statements of Comprehensive Income

Hibiya Engineering, Ltd. and Consolidated Subsidiaries
Years ended March 31, 2020 and 2019

	Millions of yen	
	2020	2019
Profit	¥ 3,594	¥ 2,759
Other comprehensive income: (Note 11)		
Net unrealized holding gains or losses on securities	(2,857)	1,123
Adjustments for retirements benefits	78	8
Share of other comprehensive income of associates accounted for by using equity method	(97)	(92)
Total other comprehensive income	(2,877)	1,039
Comprehensive income	717	3,798
Comprehensive income attributable to:		
Owners of parent	658	3,728
Non-controlling interests	59	70

See accompanying notes to consolidated financial statements.

Consolidated Statements of Changes in Net Assets

Hibiya Engineering, Ltd. and Consolidated Subsidiaries
As of March 31, 2020 and 2019

	Number of shares of common stock (Shares)	Shareholders' equity				Total shareholders' equity
		Capital stock	Capital surplus	Retained earnings	Treasury stock	
		(Millions of yen)				
Balance at April 1, 2018	26,506,321	¥ 5,753	¥ 6,028	¥ 45,649	¥ (4,536)	¥ 52,894
Profit attributable to owners of parent	—	—	—	2,712	—	2,712
Dividend from surplus	—	—	—	(1,726)	—	(1,726)
Purchase of treasury stock	—	—	—	—	(703)	(703)
Disposal of treasury stock	—	—	—	(7)	52	45
Retirement of treasury stock	(1,500,000)	—	—	(3,132)	3,132	—
Net changes of items other than shareholders' equity	—	—	—	—	—	—
Balance at April 1, 2019	25,006,321	¥ 5,753	¥ 6,028	¥ 43,496	¥ (2,055)	¥ 53,222
Profit attributable to owners of parent	—	—	—	3,538	—	3,538
Dividend from surplus	—	—	—	(1,940)	—	(1,940)
Purchase of treasury stock	—	—	—	—	(568)	(568)
Disposal of treasury stock	—	—	—	(42)	103	61
Retirement of treasury stock	—	—	—	—	—	—
Net changes of items other than shareholders' equity	—	—	—	—	—	—
Balance at March 31, 2020	25,006,321	¥ 5,753	¥ 6,028	¥ 45,052	¥ (2,520)	¥ 54,313

See accompanying notes to consolidated financial statements.

	Accumulated other comprehensive income				Non-controlling interests	Total net assets
	Net unrealized holding gains or losses on securities	Accumulated adjustments for retirement benefits	Total Accumulated other comprehensive income	Subscription rights to shares		
	(Millions of yen)					
Balance at April 1, 2018	¥ 5,201	¥ (712)	¥ 4,489	¥ 171	¥ 1,027	¥ 58,581
Profit attributable to owners of parent	—	—	—	—	—	2,712
Dividend from surplus	—	—	—	—	—	(1,726)
Purchase of treasury stock	—	—	—	—	—	(703)
Disposal of treasury stock	—	—	—	—	—	45
Retirement of treasury stock	—	—	—	—	—	—
Net changes of items other than shareholders' equity	1,027	(11)	1,016	33	68	1,117
Balance at April 1, 2019	¥ 6,228	¥ (723)	¥ 5,505	¥ 204	¥ 1,095	¥ 60,026
Profit attributable to owners of parent	—	—	—	—	—	3,538
Dividend from surplus	—	—	—	—	—	(1,940)
Purchase of treasury stock	—	—	—	—	—	(568)
Disposal of treasury stock	—	—	—	—	—	61
Retirement of treasury stock	—	—	—	—	—	—
Net changes of items other than shareholders' equity	(3,015)	135	(2,880)	(2)	59	(2,823)
Balance at March 31, 2020	¥ 3,213	¥ (588)	¥ 2,625	¥ 202	¥ 1,154	¥ 58,294

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Hibiya Engineering, Ltd. and Consolidated Subsidiaries
Years ended March 31, 2020 and 2019

	Millions of yen	
	2020	2019
Cash flows from operating activities:		
Profit before income taxes	¥ 5,090	¥ 3,759
Depreciation and amortization	173	175
Increase (decrease) in allowance for doubtful accounts	417	(0)
Decrease (increase) in asset for retirement benefits	(456)	49
Increase (decrease) in liability for retirement benefits	474	128
Increase (decrease) in provision for bonuses	1,101	(786)
Increase (decrease) in provision for loss on construction contracts	(320)	330
Interest and dividend income	(347)	(286)
Interest expenses	0	2
Loss (gain) on sales of investment securities	(1,295)	(574)
Loss (gain) on valuation of investment securities	14	27
Equity in (earnings) losses of affiliates	(70)	(738)
Decrease (increase) in notes and accounts receivable	(5,098)	2,754
Decrease (increase) in costs on uncompleted construction contracts and other	(141)	133
Increase (decrease) in notes and accounts payable	876	(2,154)
Increase (decrease) in advances received on uncompleted construction contracts	(4)	(251)
Other, net	175	554
Subtotal	589	3,122
Interest and dividend income received	426	366
Interest expenses paid	(0)	(2)
Income taxes paid	(3,097)	(529)
Income taxes refund	—	2,843
Net cash provided by (used in) operating activities	(2,082)	5,800
Cash flows from investing activities:		
Proceeds from sales of short-term investment securities	—	1,000
Purchase of property, plant and equipment	(51)	(44)
Purchase of intangible assets	(80)	(148)
Purchase of investment securities	(1,026)	(957)
Proceeds from sales of investment securities	11,621	1,157
Proceeds from redemption of investment securities	800	500
Purchase of insurance funds	(65)	(68)
Proceeds from maturity of insurance funds	5	20
Proceeds from withdrawal of investments in silent partnership	1,078	69
Other, net	72	76
Net cash provided by (used in) investing activities	12,354	1,605
Cash flows from financing activities:		
Purchase of treasury stock	(568)	(703)
Cash dividend	(1,940)	(1,726)
Cash dividends paid to non-controlling shareholders	(1)	(1)
Other, net	(8)	(4)
Net cash provided by (used in) financing activities	(2,517)	(2,434)
Net increase (decrease) in cash and cash equivalents	7,755	4,971
Cash and cash equivalents at beginning of period	17,641	12,670
Cash and cash equivalents at end of period	¥ 25,396	¥ 17,641

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Hibiya Engineering, Ltd. and Consolidated Subsidiaries
As of March 31, 2020 and 2019

1. Basis of presenting consolidated financial statements

The accompanying consolidated financial statements of Hibiya Engineering, Ltd. (the "Company") have been prepared in accordance with the provisions set forth in the Financial Instruments and Exchange Act and its related accounting regulations, and in conformity with accounting principles generally accepted in Japan ("Japanese GAAP"), which are different in certain respects as to application and disclosure requirements from International Financial Reporting Standards.

The accompanying consolidated financial statements have

been reformatted and translated into English from the consolidated financial statements of the Company prepared in accordance with Japanese GAAP and filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Financial Instruments and Exchange Act. Accordingly, supplementary information included in the statutory Japanese language consolidated financial statements is not presented in the accompanying consolidated financial statements.

2. Summary of significant accounting policies

(1) Consolidation

Consolidated financial statements include the accounts of the Company and its consolidated subsidiaries (collectively, the "Companies"), "Hibiya Tsushou Co., Ltd.", "NIKKEY Company Limited" and "HIT Engineering, Ltd." All significant inter-company balances and transactions are eliminated in consolidation.

Investment in one affiliate is accounted for by the equity method. Investments in other affiliates, whose income or losses are not significant for the Company's equity, are carried at cost.

As a result of the Company selling all the shares held in Nihon Meccs Corporation, which was an affiliate accounted for under the equity method, that company was removed from the scope of the equity method during the fiscal year ended March 31, 2020.

(2) Securities

The Companies assessed the intent of holding each security and classified those securities as (a) securities held for trading purposes (hereafter, "trading securities"), (b) debt securities intended to be held to maturity (hereafter, "held-to-maturity debt securities"), (c) equity securities issued by subsidiaries and affiliated companies, and (d) all other securities that are not classified in any of the above categories (hereafter, "available-for-sale securities").

The Companies currently own neither trading securities nor held-to-maturity debt securities. Equity securities issued by subsidiaries to the Company have been eliminated upon consolidation. Equity securities issued by affiliated companies which are not accounted for using the equity method are stated at average cost. Available-for-sale securities with fair value are stated at fair value. Unrealized gains and losses on these securities are reported, net of applicable income taxes, as a separate component of net assets. Available-for-sale securities with no available fair value are stated at cost determined by the periodic average method. Realized gains or losses on sale of such securities are computed using the average cost.

(3) Allowance for doubtful accounts

Allowance for doubtful accounts is provided in amounts sufficient to cover probable losses on collections. It consists of the estimated uncollectible amount with respect to certain identified doubtful accounts and an amount calculated by using the rate of actual collection losses in the past with respect to the remaining receivables.

(4) Provision for bonuses

Provision for bonuses is stated at the estimated amount of the bonuses to be paid to employees based on their services provided for the respective fiscal year.

(5) Provision for loss on construction contracts

Provision for loss on construction contracts is provided in the amount sufficient to cover probable losses on construction. The provision amount is estimated by taking into account the expected loss from uncompleted construction contracts at year-end whose amount can be reasonably estimated.

The net provision for loss on construction contracts that were charged to cost of sales for the years ended March 31, 2020

and 2019 are ¥431 million and ¥751 million, respectively.

(6) Construction contracts

Revenues and costs of construction contracts, of which the percentage of completion at the fiscal year-end can be reliably estimated, are recognized by the percentage-of-completion method. The percentage of completion is calculated based on the cost incurred to date as a percentage of the estimated total costs.

(7) Costs on uncompleted construction contracts and other

Costs on uncompleted construction contracts are stated at cost by the specific identification method. Inventories other than construction contracts are stated at cost by the specific identification method and periodic average method for finished goods and work in process, and by the last purchase cost method for raw materials. Each book value is written down in accordance with the declining profitability of each asset.

(8) Property, plant and equipment, and depreciation

Depreciation of property, plant and equipment (excluding leased assets) is computed using the declining-balance method at rates based on their useful lives prescribed in the Japanese tax regulations. However, the straight-line method is used for facilities attached to buildings and structures acquired on or after April 1, 2016. Leased assets are depreciated using the straight-line method over the period of the lease with no residual value.

(9) Retirement benefits

(a) Method for attribution of estimated retirement benefits to periods

In the calculation concerning retirement benefits, the straight-line basis is used for the method of attributing expected retirement benefits to the periods.

(b) Accounting treatment of actuarial gains and losses and past service costs

Past service costs are amortized based on the straight-line method over a certain period (10 years), which is within the average remaining years of service of the employees at the time when they arise. Actuarial gains and losses are amortized based on the straight-line method over a certain period (10 years), which is within the average remaining years of service of the employees at the time when they arise.

(c) Application of the simplified method for small-sized enterprises

Certain consolidated subsidiaries apply the simplified method in the calculation of their liability for retirement benefit and retirement benefit expenses as allowed under Japanese GAAP. Under the simplified methods, benefits payable assuming the voluntary retirement of all eligible employees at the fiscal year-end are deemed as retirement benefit obligation.

(10) Cash and cash equivalents in the consolidated statements of cash flows

In preparing the consolidated statements of cash flows, cash on hand, readily-available deposits, short-term highly liquid

investments with maturities within three months from the time of purchase and with insignificant risk of change in value are considered to be cash and cash equivalents.

(11) Amounts per share

Profit per share is calculated by dividing profit available to common shareholders by the weighted average number of common shares outstanding during the year. Cash dividend per share presented in the consolidated statements of income is applicable to the respective fiscal year including those dividends declared and to be paid after the fiscal year-end.

(12) New accounting standards not yet adopted by the Companies

- “Accounting Standard for Revenue Recognition” (ASBJ Statement No. 29, March 31, 2020)
- “Guidance on Accounting Standard for Revenue Recognition” (ASBJ Guidance No. 30, March 31, 2020)

1. Summary

The International Accounting Standards Board (“IASB”) and Financial Accounting Standards Board (“FASB”) jointly developed comprehensive revenue recognition standards and issued “Revenue from Contracts with Customers” in May 2014 (IASB’s IFRS 15 and FASB’s Topic 606). Considering that IFRS 15 shall apply to fiscal years beginning on or after January 1, 2018, and Topic 606 shall apply to fiscal years beginning after December 15, 2017, the ASBJ developed a comprehensive accounting standard on revenue recognition and thus issued the accounting standard together with the implementation guidance.

The ASBJ established the accounting standard on revenue recognition by following the basic policies in developing it. The basic policies were: firstly, incorporating the core principle of IFRS 15 as the starting point from the perspective of facilitating comparability among financial statements, which is one of the benefits of ensuring consistency with IFRS 15; secondly, adding alternative treatments, but to the extent not impairing comparability, where consideration should be given to the practice having been used in Japan.

2. Date of application

These ASBJ statement and guidance will be applied from the beginning of the fiscal year ending March 31, 2022.

3. Effects of application of the standards

The impact of the application of the “Accounting Standard for Revenue Recognition” and its guidance on the consolidated financial statements is currently under evaluation.

“Accounting Standard for Disclosure of Accounting Estimates”

(ASBJ Statement No. 31, March 31, 2020 (hereinafter, “Statement No. 31”))

1. Summary

Regarding “key sources of estimation uncertainty” which is required to be disclosed based on paragraph 125 of IAS 1 “Presentation of Financial Statements” published by the International Accounting Standards Board (IASB), there has been a public opinion that the same information should be disclosed in notes of financial statements prepared based on Japanese generally accepted accounting principles as useful information to the users.

Considering the above circumstances, the Accounting Standard Board of Japan (ASBJ) developed and issued Statement No. 31.

ASBJ’s basic policy in developing this standard is to provide principles (disclosure purposes) and companies should determine specific contents of disclosure in light of disclosure purposes rather than expanding individual notes. ASBJ referred to paragraph 125 of IAS 1 in the development of this standard.

2. Date of application

Effective from the end of the fiscal year ending March 31, 2021.

(13) Additional information

(Performance-linked stock compensation plan)

1. Summary of transactions

The Company introduced a performance-linked stock compensation plan (the “Plan”) for directors and corporate officers (excluding external directors and non-residents of Japan; the “Directors, etc.”) in August 2017.

The Plan employs a scheme called the board incentive plan trust (the “BIP Trust”). The BIP Trust is a plan where the Company’s stock and money equivalent to the amount of money converted from the Company’s stock are delivered and paid to the Directors, and the officers, depending on title, the degree of target achievement of the Medium-term Management Plan, and other indicators as is the case with performance shares and restricted stock in Europe and the U.S.

2. Company’s stock remaining in BIP Trust

The Company’s stock remaining in the BIP Trust was recorded as treasury stock under the net assets section at the book value in the BIP Trust (excluding the amount of incidental expenses). The book value and the number of shares of such treasury stock for the years ended March 31, 2020 and 2019 were ¥529 million and 219,982 shares, and ¥534 million and 222,097 shares, respectively.

3. Costs on uncompleted construction contracts and other

Costs on uncompleted construction contracts and other consist of the following:

	Millions of yen	
	2020	2019
Costs on uncompleted construction contracts	¥ 257	¥ 143
Merchandise and finished goods	291	232
Work in process	23	36
Raw materials	239	258
Total	¥ 810	¥ 669

4. Financial instruments

(1) Overview

Information on financial instruments for the years ended March 31, 2020 and 2019 were as follows:

(a) Policy for financial instruments

Surplus cash from cash and cash equivalents after deduction of operating funds, new business investments and policy investments is invested to financial instruments. The Companies have no intention to use derivatives for dealing or speculative purposes and may use them only for efficient operation of financial assets to the extent that simulations are conducted sufficiently and risks can be managed.

(b) Details and risks of financial instruments

Operating receivables of the Companies (notes receivable, accounts receivable from completed construction contracts and other) are exposed to customer credit risk that the receivables may not be collected due to deterioration of the counterparty's financial condition. In addition, operating receivables and payables denominated in foreign currencies are exposed to the risk of fluctuation in exchange rates, and the Companies use forward exchange contracts to hedge such fluctuation risk.

The Companies have short-term investments, investment securities and other investments mainly for policy investment in the business. These investments are exposed to the issuer's credit risk and to the risk of fluctuations in the interest rate, foreign currency exchange rate and market price.

Derivative transactions conducted by the Companies are primarily forward exchange contracts for the purpose of hedging against the exchange rate fluctuation risk associated with operating receivables and payables denominated in foreign currencies.

(c) Risk management for financial instruments

Credit risk management

The Company manages the credit risk in accordance with business administrative regulations regarding operating receivables. When the Company has businesses with a new customer, the Company obtains and analyzes the customer's credit information, and the order discussion committee approves the transaction depending on the customer's credit standing. Also, the condition of each customer is periodically monitored to grasp the concerns for collectibility in an early stage and reduce the risk of the customer's default. The consolidated subsidiaries similarly manage the credit risk in accordance with the Company's business administrative regulations.

The credit risk related to bonds, among short-term investments and investment securities, is insignificant as the Companies only invest into high rated securities.

Market risk management

The investments in short-term investments and investment securities are approved by the authorized person after examining the rating, yield, risk and others in accordance with the fund management policy which governs the level and volatilities monitored by the finance department. In addition, the market price, transaction results and others are reported on a monthly basis, and the condition of the risk, the investment result and others are reported to the management meeting on a quarterly basis.

In consideration of relationships with suppliers, the Companies continually review the investments other than bonds with maturities.

Supplemental information on the fair value of financial instruments

The fair value of financial instruments includes the amount based on their market prices or the amount reasonably calculated when the market prices are not available. The amount calculated incorporates changing factors and is subject to fluctuation due to changes in assumptions.

(2) Fair values of financial instruments

As of March 31, 2020 and 2019, book values, fair values and their differences were as follows;

		Millions of yen		
		2020		
		Book value	Fair value	Difference
Assets				
Cash and cash equivalents	(*1)	¥ 25,396	¥ 25,396	¥ —
Notes receivable, accounts receivable from completed construction contracts and other	(*1)	34,409	34,409	—
Short-term investments	(*2)	802	802	—
Investment securities measured at fair value	(*2)	12,829	12,828	—
Investments not measured at fair value	(*3)	1,241	—	—
Investments in silent partnership	(*3)	695	—	—
Liabilities				
Notes payable, accounts payable for construction contracts and other		¥ 17,097	¥ 17,097	¥ —

		Millions of yen		
		2019		
		Book value	Fair value	Difference
Assets				
Cash and cash equivalents	(*1)	¥ 17,641	¥ 17,641	¥ —
Notes receivable, accounts receivable from completed construction contracts and other	(*1)	29,311	29,311	—
Short-term investments	(*2)	300	300	—
Investment securities measured at fair value	(*2)	17,293	17,293	—
Investments not measured at fair value	(*3)	11,586	—	—
Investments in silent partnership	(*3)	1,703	—	—
Liabilities				
Notes payable, accounts payable for construction contracts and other		¥ 16,221	¥ 16,221	¥ —

(*1) The book value is used as fair value because these are settled in a short period and their fair value approximates the book value.

(*2) The market price on securities exchanges is used as fair value of equity securities. The market price on securities exchanges or the price quoted by financial institutions is used as fair value of debt securities.

(*3) Fair value is not disclosed since these investments do not have quoted market prices and it is extremely difficult to estimate the fair value.

(3) Securities

	Millions of yen	
	2020	2019
Short-term investments	¥ 802	¥ 300
Investment securities	14,070	28,879
Total	¥ 14,872	¥ 29,179
Available-for-sale securities with fair value	13,631	17,593
Available-for-sale securities without fair value	1,239	1,238
Equity securities issued by subsidiaries and affiliates	2	10,348
Total	¥ 14,872	¥ 29,179

(a) Available-for-sale securities with fair values

As of March 31, 2020 and 2019, book values (fair values) and acquisition costs of available-for-sale securities with fair values were as follows:

	Millions of yen		
	2020		
	Book value	Acquisition cost	Difference
Securities whose book values (fair values) exceed their acquisition costs:			
Equity securities	¥ 10,151	¥ 5,228	¥ 4,923
Debt securities:			
Government and municipal bonds	—	—	—
Corporate bonds	580	500	80
Other bonds	—	—	—
Other	—	—	—
Sub-total	¥ 10,731	¥ 5,728	¥ 5,003
Securities whose book values (fair values) do not exceed their acquisition costs:			
Equity securities	¥ 150	¥ 173	¥ (23)
Debt securities:			
Corporate bonds	503	504	(1)
Other bonds	2,247	2,300	(53)
Other	—	—	—
Sub-total	¥ 2,900	¥ 2,977	¥ (77)
Total	¥ 13,631	¥ 8,705	¥ 4,926

	Millions of yen		
	2019		
	Book value	Acquisition cost	Difference
Securities whose book values (fair values) exceed their acquisition costs:			
Equity securities	¥ 14,319	¥ 5,405	¥ 8,914
Debt securities:			
Government and municipal bonds	—	—	—
Corporate bonds	593	500	93
Other bonds	816	800	16
Other	—	—	—
Sub-total	¥ 15,728	¥ 6,705	¥ 9,023
Securities whose book values (fair values) do not exceed their acquisition costs:			
Equity securities	¥ 71	¥ 100	¥ (29)
Debt securities:			
Other bonds	1,795	1,800	(5)
Other	—	—	—
Sub-total	¥ 1,866	¥ 1,900	¥ (34)
Total	¥ 17,594	¥ 8,605	¥ 8,989

(b) Proceeds from sales, and gross realized gains and losses from the sale of available-for-sale securities for the years ended March 31, 2020 and 2019 were as follows:

	Millions of yen	
	2020	2019
Proceeds from sales		
Equity securities	¥ 363	¥ 1,155
Other	—	—
Total	¥ 363	¥ 1,155
Gross realized gains		
Equity securities	¥ 284	¥ 574
Other	—	—
Total	¥ 284	¥ 574

(c) Securities with impairment losses

For available-for-sale securities with available fair values, impairment losses are recognized if the fair value declines by more than 30% below the acquisition cost. For available-for-sale securities with no available fair values, impairment losses are recognized if the net assets per share declines by more than 50% below the net assets per share at the time of acquisition.

(4) Redemption schedule of monetary receivables and maturities of securities with maturities were as follows:

	Millions of yen			
	2020			
	Within 1 year	1 to 5 years	5 to 10 years	Over 10 years
Cash and cash equivalents	¥ 25,396	¥ —	¥ —	¥ —
Notes receivable, accounts receivable from completed construction contracts and other	34,409	—	—	—
Short-term investments and investment securities				
Securities with maturities:				
(1) Government and municipal bonds	—	—	—	—
(2) Corporate bonds	500	—	—	500
(3) Other bonds	300	2,000	—	—
Investments in silent partnership	—	194	500	—
Total	¥ 60,605	¥ 2,194	¥ 500	¥ 500

	Millions of yen			
	2019			
	Within 1 year	1 to 5 years	5 to 10 years	Over 10 years
Cash and cash equivalents	¥ 17,641	¥ —	¥ —	¥ —
Notes receivable, accounts receivable from completed construction contracts and other	29,311	—	—	—
Short-term investments and investment securities				
Securities with maturities:				
(1) Government and municipal bonds	—	—	—	—
(2) Corporate bonds	—	—	—	500
(3) Other bonds	300	2,300	—	—
Investments in silent partnership	1,000	203	500	—
Total	¥ 48,252	¥ 2,503	¥ 500	¥ 500

(5) Derivative transactions

Derivative transactions to which hedge accounting is not applied

Compound financial instruments whose embedded derivative cannot be measured separately are measured at fair value as a whole and included in Available-for-sale securities with fair values described in note 4 (3) (a) above.

5. Income taxes

Income taxes consist of corporate, enterprise and inhabitant taxes. The aggregate statutory tax rates on profit before income taxes were approximately 30.6% for the years ended March 31, 2020 and 2019, respectively.

The actual effective tax rate in the accompanying consolidated statements of income differed from the statutory tax rate primarily as a result of expenses not deductible for tax purposes.

The following table summarizes the significant differences between the statutory tax rate and the Companies' effective tax rate for consolidated financial statement purposes for the years ended March 31, 2020 and 2019.

	2020	2019
Statutory tax rate	30.6%	30.6%
Non-deductible expenses	1.1	1.1
Non-taxable dividend income	(6.2)	(0.5)
Per capita inhabitant tax	1.1	1.4
Valuation allowance	2.3	(0.7)
Equity in earnings of affiliates	(0.4)	(6.0)
Other	0.9	0.7
Effective tax rate	29.4%	26.6%

Significant components of the Companies' deferred tax assets and liabilities as of March 31, 2020 and 2019 were as follows:

	Millions of yen	
	2020	2019
Deferred tax assets:		
Loss on valuation of investment securities	¥ 172	¥ 189
Enterprise taxes payable	102	73
Provision for bonuses	478	147
Provision for loss on construction contracts	132	230
Liability for retirement benefits	909	939
Allowance for doubtful accounts	129	0
Net unrealized holding losses on securities	24	2
Other	418	372
Valuation allowance	(504)	(395)
Sub-total	¥ 1,860	¥ 1,557
Less : deferred tax liabilities-describe	(1,010)	(1,524)
Total deferred tax assets	¥ 850	¥ 33
Deferred tax liabilities:		
Net unrealized holding gains on securities	¥ (1,449)	¥ (2,660)
Other	(1)	(1)
Sub-total	¥ (1,450)	¥ (2,661)
Less : deferred tax assets-describe	1,010	1,524
Total deferred tax liabilities	¥ (440)	¥ (1,137)

6. Selling, general and administrative expenses

Major components of selling, general and administrative expenses were as follows:

	Millions of yen	
	2020	2019
Employees' salaries and allowances	¥ 2,561	¥ 2,614
Provision for bonuses	625	216
Retirement benefit expenses	219	240
Provision of allowance for doubtful accounts	(2)	6
Depreciation	127	124
Rents	1,145	1,113
Research and development expenses	100	115
Others	3,521	3,095
Total	¥ 8,296	¥ 7,523

7. Other income /expenses

As the Company separately considered the recoverability of accounts receivable (¥582 million) associated with fictitious orders arising from the misconduct of a former employee, provision of allowance for doubtful accounts of ¥431 million was recorded for that matter in other expenses.

8. Retirement benefits

The Company and two consolidated subsidiaries have funded and unfunded defined benefit plans to prepare for the payment of employees' retirement benefits. Another consolidated subsidiary participates in the small and medium enterprise retirement allowance mutual aid system.

The defined benefit corporate pension plans, all of which are funded, provide lump-sum or pension benefits based on salaries and length of service.

The lump-sum retirement benefit plans, which are principally unfunded and partially funded as a result of the setup of retirement benefit trusts, provide lump-sum benefits based on salaries and length of service.

For the defined benefit corporate pension plans and lump-sum retirement benefit plans of two consolidated subsidiaries, liability for retirement benefits and retirement benefit expenses are calculated using the simplified method.

The Company and one consolidated subsidiary participate in the Air-Conditioning Companies' Pension Fund (*Kucho Eisei Kigyo Nenkin Kikin*) as a defined benefit corporate pension plan, and the amount of plan assets proportionate to their contributions cannot be calculated in a reasonable manner. Therefore, the pension assets are accounted for as the case in the defined contribution plan.

Defined benefit plans

- (a) Reconciliation between retirement benefit obligations and plan assets at end of period and liability for retirement benefits and asset for retirement benefits on the consolidated balance sheets as of March 31, 2020 and 2019 were as follows:

	Millions of yen	
	2020	2019
Funded retirement benefit obligations	¥ 5,575	¥ 5,521
Plan assets	(4,801)	(4,667)
Net	774	854
Unfunded retirement benefit obligations	142	156
Net balance of liability and asset recorded on the consolidated balance sheets	¥ 916	¥ 1,010
Liability for retirement benefits	1,307	1,038
Asset for retirement benefits	(391)	(28)
Net balance of liability and asset recorded on the consolidated balance sheets	¥ 916	¥ 1,010

Note: Plans applying the simplified method are included.

- (b) Reconciliation between retirement benefit obligations at beginning of period and end of period (excluding plans applying the simplified method) for the years ended March 31, 2020 and 2019 were as follows:

	Millions of yen	
	2020	2019
Retirement benefit obligation at beginning of period	¥ 5,168	¥ 5,003
Current service costs	276	263
Interest costs	16	19
Actuarial gains and losses arising during period	(25)	102
Retirement benefits paid	(201)	(219)
Retirement benefit obligation at end of period	¥ 5,234	¥ 5,168

- (c) Reconciliation between plan assets at beginning of period and end of period (excluding plans applying the simplified method) for the years ended March 31, 2020 and 2019 were as follows:

	Millions of yen	
	2020	2019
Plan assets at beginning of period	¥ 4,291	¥ 4,275
Expected return on plan assets	54	54
Actuarial gains and losses arising during period	(48)	(28)
Contribution from employer	249	91
Retirement benefit paid	(114)	(101)
Plan assets at end of period	¥ 4,432	¥ 4,291

- (d) Reconciliation between liabilities for retirement benefits of plans applying the simplified method at beginning of period and end of period for the years ended March 31, 2020 and 2019 were as follows:

	Millions of yen	
	2020	2019
Liability for retirement benefits at beginning of period	¥ 133	¥ 118
Retirement benefit expenses	20	48
Retirement benefit paid	(22)	(17)
Contribution to plans	(17)	(16)
Liability for retirement benefits at end of period	¥ 114	¥ 133

- (e) The components of retirement benefit expenses for the years ended March 31, 2020 and 2019 were as follows:

	Millions of yen	
	2020	2019
Current service costs	¥ 276	¥ 263
Interest costs	16	19
Expected return on plan assets	(54)	(54)
Amortization of actuarial gains and losses	152	159
Amortization of past service costs	(17)	(17)
Retirement benefit expenses applying the simplified method	20	48
Retirement benefit expenses under defined benefit plans	¥ 393	¥ 418

(f) Adjustments for retirement benefits

Components of items recorded in adjustments for retirement benefits, before tax, for the years ended March 31, 2020 and 2019 were as follows:

	Millions of yen	
	2020	2019
Past service costs	¥ (17)	¥ (17)
Actuarial gains and losses	129	29
Total	¥ 112	¥ 12

(g) Accumulated adjustments for retirements benefits

Components of items recorded in accumulated adjustments for retirement benefits, before tax, as of March 31, 2020 and 2019 were as follows:

	Millions of yen	
	2020	2019
Unrecognized past service costs	¥ 43	¥ 60
Unrecognized actuarial gains and losses	(890)	(1,019)
Total	¥ (847)	¥ (959)

(h) Plan assets

i. Components of plan assets

Percentages to total plan assets by major category are as follows:

	2020	2019
Debt securities	29%	30%
Equity securities	4	5
General account	45	43
Cash and cash equivalents	12	12
Other	10	10
Total	100%	100%

Note: Retirement benefit trusts set up for defined benefit corporate pension plans constituted 48% and 48% of the total plan assets as of March 31, 2020 and 2019, respectively.

ii. Determination of expected long-term rate of return

In determining the expected long-term rate of return on plan assets, the Company takes into consideration the current and future plan asset allocation as well as the current and expected long-term rate of return on various asset categories comprising plan assets.

(i) Actuarial assumptions

Major actuarial assumptions for the years ended March 31, 2020 and 2019 were as follows:

	2020	2019
Discount rate	0.3%	0.3%
Expected long-term rate of return on plan assets	1.0% – 1.5%	1.0% – 1.5%

(j) Multi-employer pension plans

The Company and one consolidated subsidiary participate in several contributory funded multi-employer defined benefit corporate pension plans, for which the required contributions are accounted for as the employees' retirement benefit expenses. The amounts of required contribution to the employees' pension fund under multi-employer defined benefit corporate pension plans that should be accounted for in the same manner as defined contribution plans were ¥179 million and ¥175 million for the years ended March 31, 2020 and 2019, respectively. Most recent available information about the multi-employer plans was as follows:

	Millions of yen	
	As of March 31, 2019	As of March 31, 2018
Fair value of plan assets	¥ 10,888	¥ 10,116
Benefit obligations under pension funding programs	16,824	16,986
Deficit	¥ (5,936)	¥ (6,870)
Balance of actuarial past service costs	(8,100)	(8,829)
Surplus	2,164	1,959
Ratio of total salaries of the Companies to total funds of plans (*1)	12.9%	12.9%

Supplemental information

The amounts of principal and interest of past service costs under the plans are amortized equally over 18 years, and the Companies recorded special contributions of ¥104 million and ¥101 million related to the amortization as expenses in the consolidated financial statements for the years ended March 31, 2020 and 2019, respectively.

The ratio (*1) above does not correspond to the actual contribution ratio by the Companies.

9. Net assets

Under the Japanese Companies Act, the entire amount of payment for new shares is required to be designated as capital stock, although, generally, a company may, by a resolution of the board of directors, designate an amount not exceeding one-half of the price of the new shares as additional paid-in capital which is included in capital surplus.

Even when the total amount of additional paid-in-capital and legal earnings reserve is less than 25% of common stock, additional paid-in-capital and legal earnings reserve may be available for dividend if there are sufficient distributable surplus. Both of those appropriations require a resolution of the shareholders' meeting. Legal earnings reserve is included in retained earnings in the accompanying consolidated balance sheets.

The maximum amount that the Company can distribute as dividend is calculated based on the non-consolidated financial statements of the Company in accordance with the Japanese Companies Act.

Dividend paid to shareholders was as follows:

Date of approval	Resolution approved by	Type of shares	Amount (Millions of yen)	Amount per share (Yen)	Record date	Effective date
June 28, 2018	Annual shareholders' meeting	Common stock	¥ 739	¥ 30.00	March 31, 2018	June 29, 2018
November 6, 2018	Board of directors	Common stock	¥ 986	¥ 40.00	September 30, 2018	December 3, 2018
June 27, 2019	Annual shareholders' meeting	Common stock	¥ 971	¥ 40.00	March 31, 2019	June 28, 2019
November 6, 2019	Board of directors	Common stock	¥ 969	¥ 40.00	September 30, 2019	December 2, 2019

Note 1: The amount of dividend resolved by the board of directors on November 6, 2018 includes dividend on the Company's stock held by the BIP Trust of ¥8 million.

Note 2: The amount of dividend resolved by the annual shareholders' meeting on June 27, 2019 includes dividend on the Company's stock held by the BIP Trust of ¥8 million.

Note 3: The amount of dividend resolved by the board of directors on November 6, 2019 includes dividend on the Company's stock held by the BIP Trust of ¥8 million.

Dividend of which record date is within the fiscal year but effective date is subsequent to the fiscal year was as follows:

Date of approval	Resolution approved by	Type of shares	Amount (Millions of yen)	Paid from	Amount per share (Yen)	Record date	Effective date
June 24, 2020	Annual shareholders' meeting	Common stock	¥ 961	Retained earnings	¥ 40.00	March 31, 2020	June 25, 2020

Note: The amount of dividend includes dividend on the Company's stock held by the BIP Trust of ¥8 million.

The Japanese Companies Act also provides for companies to purchase, dispose and retire treasury stock by resolution of the board of directors. The purchasing amount should not exceed the amount available for distribution to shareholders which is determined by a certain formula.

10. Stock option plan

1. Stock option expense that was accounted for as general and administrative expenses on the consolidated statements of income for the years ended March 31, 2020 and 2019 amounted to ¥53 million and ¥46 million, respectively.

2. Outline of stock options

(1) Summary of stock option plans

Date of approval	June 26, 2009	June 29, 2010	June 29, 2011	June 28, 2012
Persons granted	9 directors of the Company 13 corporate officers of the Company	8 directors of the Company 11 corporate officers of the Company	9 directors of the Company 10 corporate officers of the Company	9 directors of the Company 10 corporate officers of the Company
Number of options granted	58,500 common shares	53,600 common shares	52,600 common shares	45,600 common shares
Date of grant	October 1, 2009	July 26, 2010	August 8, 2011	July 23, 2012
Vesting condition	No provisions	No provisions	No provisions	No provisions
Requisite service period	No provisions	No provisions	No provisions	No provisions
Exercise period	October 2, 2009 – October 1, 2039 *	July 27, 2010 – July 26, 2040 *	August 9, 2011 – August 8, 2041 *	July 24, 2012 – July 23, 2042 *

Date of approval	June 27, 2013	June 27, 2014	June 26, 2015	June 29, 2016
Persons granted	9 directors of the Company 10 corporate officers of the Company	9 directors of the Company 12 corporate officers of the Company	9 directors of the Company 12 corporate officers of the Company	8 directors of the Company 14 corporate officers of the Company
Number of options granted	38,000 common shares	25,800 common shares	30,500 common shares	32,000 common shares
Date of grant	July 22, 2013	July 22, 2014	July 21, 2015	July 25, 2016
Vesting condition	No provisions	No provisions	No provisions	No provisions
Requisite service period	No provisions	No provisions	No provisions	No provisions
Exercise period	July 23, 2013 – July 22, 2043 *	July 23, 2014 – July 22, 2044 *	July 22, 2015 – July 21, 2045 *	July 26, 2016 – July 25, 2046 *

Date of approval	June 29, 2017	June 28, 2018	June 27, 2019
Persons granted	6 directors of the Company 15 corporate officers of the Company	6 directors of the Company 15 corporate officers of the Company	6 directors of the Company 15 corporate officers of the Company
Number of options granted	26,200 common shares	25,100 common shares	34,400 common shares
Date of grant	July 24, 2017	July 23, 2018	July 22, 2019
Vesting condition	No provisions	No provisions	No provisions
Requisite service period	No provisions	No provisions	No provisions
Exercise period	July 25, 2017 – July 24, 2047 *	July 24, 2018 – July 23, 2048 *	July 23, 2019 – July 22, 2049 *

* A holder of stock options may, only during the period of 10 days immediately following the day on which such holder loses the position as a director or corporate officer of the Company, exercise his/her stock options.

(2) Scale and changes in stock options

The following describes scale and changes in stock options that existed during the fiscal year ended March 31, 2020.

a) Number of stock options

Date of approval	June 26, 2009	June 29, 2010	June 29, 2011	June 28, 2012
Fiscal year ended March 31, 2019				
Non-vested	(Share)	(Share)	(Share)	(Share)
April 1, 2019 – Outstanding	—	—	—	—
Granted	—	—	—	—
Forfeited	—	—	—	—
Vested	—	—	—	—
March 31, 2020 – Outstanding	—	—	—	—
Vested				
April 1, 2019 – Outstanding	1,800	8,600	10,600	10,900
Vested	—	—	—	—
Exercised	—	6,400	6,700	5,700
Forfeited	—	—	—	—
March 31, 2020 – Outstanding	1,800	2,200	3,900	5,200

Date of approval	June 27, 2013	June 27, 2014	June 26, 2015	June 29, 2016
Fiscal year ended March 31, 2019				
Non-vested	(Share)	(Share)	(Share)	(Share)
April 1, 2019 – Outstanding	—	—	—	—
Granted	—	—	—	—
Forfeited	—	—	—	—
Vested	—	—	—	—
March 31, 2020 – Outstanding	—	—	—	—
Vested				
April 1, 2019 – Outstanding	13,300	11,900	16,900	25,500
Vested	—	—	—	—
Exercised	6,100	3,800	4,500	5,600
Forfeited	—	—	—	—
March 31, 2020 – Outstanding	7,200	8,100	12,400	19,900

Date of approval	June 29, 2017	June 28, 2018	June 27, 2019
Fiscal year ended March 31, 2019			
Non-vested	(Share)	(Share)	(Share)
April 1, 2019 – Outstanding	—	—	—
Granted	—	—	34,400
Forfeited	—	—	—
Vested	—	—	34,400
March 31, 2020 – Outstanding	—	—	—
Vested			
April 1, 2019 – Outstanding	24,300	25,100	—
Vested	—	—	34,400
Exercised	4,900	4,600	—
Forfeited	—	—	—
March 31, 2020 – Outstanding	19,400	20,500	34,400

b) Price information

Date of approval	June 26, 2009	June 29, 2010	June 29, 2011	June 28, 2012
Exercise price	¥ 1 per share	¥ 1 per share	¥ 1 per share	¥ 1 per share
Average exercise price	—	¥ 1,877	¥ 1,877	¥ 1,877
Fair value at grant date	¥ 686	¥ 633	¥ 594	¥ 728
Date of approval	June 27, 2013	June 27, 2014	June 26, 2015	June 29, 2016
Exercise price	¥1 per share	¥ 1 per share	¥ 1 per share	¥ 1 per share
Average exercise price	¥ 1,869	¥ 1,869	¥ 1,868	¥ 1,869
Fair value at grant date	¥ 904	¥ 1,479	¥ 1,544	¥ 1,508
Date of approval	June 29, 2017	June 28, 2018	June 27, 2019	
Exercise price	¥ 1 per share	¥ 1 per share	¥ 1 per share	
Average exercise price	¥ 1,870	¥ 1,869	—	
Fair value at grant date	¥ 1,763	¥ 1,841	¥ 1,551	

(3) Method for estimating per unit fair value of stock options

a) Valuation method used Black-Scholes option-pricing model

b) Principal parameters and estimation method

Date of approval		June 27, 2019
Expected volatility of the underlying stock	(*1)	27.4%
Expected life of the option	(*2)	5 years
Expected dividend on stock	(*3)	¥ 80.0 per share
Risk-free interest rate during the expected option term	(*4)	(0.24)%

(*1) The volatility of the stock option is calculated based on the actual stock prices during five years from July 21, 2014 to July 22, 2019.

(*2) The expected life of the option is the estimated average period from valuation dates to each director's and corporate officer's expected retirement date.

(*3) The actual dividend during the past 12 months.

(*4) Yield of Japanese government bond whose remaining period corresponds to the above expected life of the option.

11. Comprehensive income

Reclassification adjustments and income tax benefit (expense) on other comprehensive income for the years ended March 31, 2020 and 2019 were as follows:

	Millions of yen	
	2020	2019
Net unrealized holding gains or losses on securities:		
Gains (losses) arising during the period	¥ (3,764)	¥ 2,182
Reclassification adjustments	(325)	(546)
Sub-total, before tax	¥ (4,089)	¥ 1,636
Income tax benefit (expense)	1,232	(513)
Net unrealized holding gains or losses on securities	¥ (2,857)	¥ 1,123
Adjustments for retirements benefits gains or losses on securities:		
Gains (losses) arising during the period	¥ (21)	¥ (117)
Reclassification adjustments	133	129
Sub-total, before tax	¥ 112	¥ 12
Income tax benefit (expense)	(34)	(4)
Net unrealized holding gains or losses on securities	¥ 78	¥ 8
Share of other comprehensive income of associates accounted for using equity method:		
Gains (losses) arising during the period	88	40
Reclassification adjustments	(185)	(132)
Share of other comprehensive income of associates accounted for using equity method	¥ (97)	¥ (92)
Total other comprehensive income	¥ (2,877)	¥ 1,039

12. Profit per share

Reconciliation of the differences between basic and diluted profit per share ("EPS") for the years ended March 31, 2020 and 2019 were as follows:

	Millions of yen	Thousands of shares	Yen
	Profit	Weighted average number of shares	EPS
For the year ended March 31, 2020			
Basic EPS			
Profit available to common shareholders	¥ 3,537	23,997	¥ 147.43
Effect of dilutive securities			
Stock acquisition rights	—	135	—
Diluted EPS			
Profit for computation	¥ 3,537	24,132	¥ 146.60
For the year ended March 31, 2019			
Basic EPS			
Profit available to common shareholders	¥ 2,712	24,355	¥ 111.34
Effect of dilutive securities			
Stock acquisition rights	—	143	—
Diluted EPS			
Profit for computation	¥ 2,712	24,498	¥ 110.69

In computing basic and diluted EPS, the Company's stock held by the BIP Trust was included in treasury stock deducted for computing the weighted average number of shares (weighted average number of shares of such treasury stock for the year ended March 31, 2020 and 2019 were 220 thousand shares and 224 thousand shares, respectively).

13. Segment information

1. General information about reportable segments

Reportable segments are the constituent units of the Hibiya Engineering, Ltd. (the "Group") for each of which separate and discrete financial information is available and the board of directors perform a regular review for the purposes of determining the allocation of resources and evaluating the results of operations.

As a comprehensive engineering organization, the Group's business operations involve equipment used for air conditioning, plumbing and sanitation, electrical systems, data management, communications and other applications. The Company has been developing business activities, such as planning, design and installation of a broad range of equipment, and its subsidiaries have been operating the equipment sales agent and engaged in manufacture and sales of equipment. Each company is managed independently, establishes its own comprehensive strategies for its products and services, and conducts its own business activities.

Consequently, the Group's activities are divided into three reportable segments based on the products and services of each company in the Group: construction, equipment sales and equipment manufacturing.

2. Basis of measurement for sales, income or loss, assets and other items by reportable segment

The accounting policies of the reportable segments are generally consistent with the summary of significant accounting policies (see Note

2). Also, segment income is based on operating income.

The amounts of intersegment transactions and transfers are mainly determined in accordance with actual market prices.

3. Information about sales, income or loss, assets and other items by reportable segment

Segment information as of and for the fiscal years ended March 31, 2020 and 2019 were as follows:

	Millions of yen					
	2020					
	Construction	Equipment sales	Equipment manufacturing	Total	Adjustments (*1)	Consolidated
Net sales:						
Outside customers	¥ 67,010	¥ 6,418	¥ 2,463	¥ 75,891	¥ —	¥ 75,891
Intersegment	—	3,780	524	4,304	(4,304)	—
Total	¥ 67,010	¥ 10,198	¥ 2,987	¥ 80,195	¥ (4,304)	¥ 75,891
Segment income (*2)	¥ 3,302	¥ 321	¥ 55	¥ 3,678	¥ 13	¥ 3,691
Segment assets	¥ 38,434	¥ 8,409	¥ 2,438	¥ 49,281	¥ 34,351	¥ 83,632
Other items:						
Depreciation and amortization	¥ 145	¥ 9	¥ 19	¥ 173	¥ —	¥ 173
Increase in tangible and intangible fixed assets	111	1	19	131	—	131

	Millions of yen					
	2019					
	Construction	Equipment sales	Equipment manufacturing	Total	Adjustments (*1)	Consolidated
Net sales:						
Outside customers	¥ 61,448	¥ 5,819	¥ 2,768	¥ 70,035	¥ —	¥ 70,035
Intersegment	1	3,598	375	3,974	(3,974)	—
Total	¥ 61,449	¥ 9,417	¥ 3,143	¥ 74,009	¥ (3,974)	¥ 70,035
Segment income (*2)	¥ 1,702	¥ 295	¥ 39	¥ 2,036	¥ 13	¥ 2,049
Segment assets	¥ 29,857	¥ 8,928	¥ 2,306	¥ 41,091	¥ 41,306	¥ 82,397
Other items:						
Depreciation and amortization	¥ 139	¥ 11	¥ 25	¥ 175	¥ —	¥ 175
Increase in tangible and intangible fixed assets	178	12	6	196	—	196

(*1) Adjustments of segment income are mainly due to intersegment transaction eliminations.

Corporate assets (not allocated to specific segments) included in the adjustments of segment assets as of March 31, 2020 and 2019 were ¥35,977 million and ¥43,158 million, respectively, mainly consisting of cash and cash equivalents, short-term investments, investment securities, and others of the Company. Moreover, intersegment transaction eliminations included in the adjustments of segment assets as of March 31, 2020 and 2019 were ¥1,626 million and ¥1,852 million, respectively.

(*2) Segment income is reconciled to operating income in the consolidated statements of income.

(Related Information)

(1) Information by major customer for the years ended March 31, 2020 and 2019 were as follows:

2020	Net sales	
	Millions of yen	Related reportable segments
Name of customer		
NTT FACILITIES, INC.	¥ 7,999	Construction, Equipment sales, Equipment manufacturing
Takenaka Corporation	¥ 7,743	Construction, Equipment sales

2019	Net sales	
	Millions of yen	Related reportable segments
Name of customer		
NTT FACILITIES, INC.	¥ 7,725	Construction, Equipment sales, Equipment manufacturing

14. Related party transactions and balances

(Related party transactions and balances)

Related party transactions and fiscal year-end balances were as follows:

Fiscal year ended March 31, 2020 (From April 1, 2019 to March 31, 2020)

2020						
Category	Company name	Location	Capital or investments in capital Millions of yen	Business description	Ownership percentage of voting rights (%)	Relationship
Affiliate	Nihon Meccs Corporation	Chuo-ku, Tokyo	(Capital) ¥ 120	Property maintenance and management	(Owning) direct39.1	Construction work for facilities engineering Interlocking directorate

2020			
Details of transaction	Transaction amount (*1) (*3) Millions of yen	Account	Year-end balance (*3) Millions of yen
Sales of shares in an associate (*2)			
Sales proceeds	¥ 11,200	—	—
Gain on sales	956	—	—

(*1) Terms of price were determined after price negotiation and terms of settlement were the same as those with general customers in accordance with the basic agreement.

(*2) The Company sold all shares in Nihon Meccs Corporation held by the Company to Nihon Meccs Corporation, and the terms of price were reasonably determined after consultation on the basis of net assets, and other factors.

With this transaction, Nihon Meccs Corporation was no longer an affiliate, and the above items are based on the situation at the time that this transaction was carried out.

(*3) The transaction amount is exclusive of consumption taxes, and the year-end balance is inclusive of consumption taxes.

Fiscal year ended March 31, 2019 (From April 1, 2018 to March 31, 2019)

Not applicable.

(The condensed financial information of major affiliates)

The condensed financial information of Nihon Meccs Corporation, the significant affiliate, as of and for the years ended March 31, 2020 and 2019 were as follows:

In the fiscal year ended March 31, 2020, the investment in Nihon Meccs Corporation ceased to be accounted for under the equity method following the sale of all shares held by the Company in January 2020. The period for which its investment in Nihon Meccs Corporation was accounted for by the equity method in the Company's consolidated statement of income during the fiscal year ended March 31, 2020 was from April 1, 2019 until December 31, 2019, Nihon Meccs Corporation's summarized financial information for the fiscal year ended March 31, 2020 is omitted because of its immateriality.

	Millions of yen	
	2020	2019
Current assets	¥ —	¥ 28,729
Non-current assets	—	16,116
Current liabilities	—	14,424
Long-term liabilities	—	2,724
Net assets	—	27,697
Net sales	—	60,567
Profit before income taxes	—	2,723
Net income	—	1,855



Independent auditor's report

To the Board of Directors of Hibiya Engineering, Ltd.:

Opinion

We have audited the accompanying consolidated financial statements of Hibiya Engineering, Ltd. ("the Company") and its consolidated subsidiaries (collectively referred to as "the Group"), which comprise the consolidated balance sheets as at March 31, 2020 and 2019, the consolidated statements of income, comprehensive income, changes in net assets and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies, other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at March 31, 2020 and 2019, and its consolidated financial performance and cash flows for the years then ended in accordance with accounting principles generally accepted in Japan.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in Japan. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Japan, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Audit & Supervisory Board Members and Audit & Supervisory Board for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the 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.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern in accordance with accounting principles generally accepted in Japan and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Audit & supervisory board members and audit & supervisory board are responsible for overseeing the directors' performance of their duties including the design, implementation and maintenance of the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with auditing standards generally accepted in Japan will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of our audit in accordance with auditing standards generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, while the objective of the audit is not to express an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to

continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate whether the presentation and disclosures in the consolidated financial statements are in accordance with accounting standards generally accepted in Japan, the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with audit & supervisory board members and audit & supervisory board regarding, among other matters, the planned scope and timing of the audit, significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide audit & supervisory board members and audit & supervisory board with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Interest required to be disclosed by the Certified Public Accountants Act of Japan

We do not have any interest in the Group which is required to be disclosed pursuant to the provisions of the Certified Public Accountants Act of Japan.

/S/ Kotetsu Nonaka
Designated Engagement Partner
Certified Public Accountant

/S/ Kenji Ishino
Designated Engagement Partner
Certified Public Accountant

KPMG AZSA LLC
Tokyo Office, Japan
August 6, 2020

Notes to the Reader of Independent Auditor's Report:

This is a copy of the Independent Auditor's Report and the original copies are kept separately by the Company and KPMG AZSA LLC.

Corporate Data

Investor Information

As of March 31, 2020

Total number of shares authorized	96,500,000 shares
Total number of shares issued	25,006,321 shares
Number of shareholders	3,178

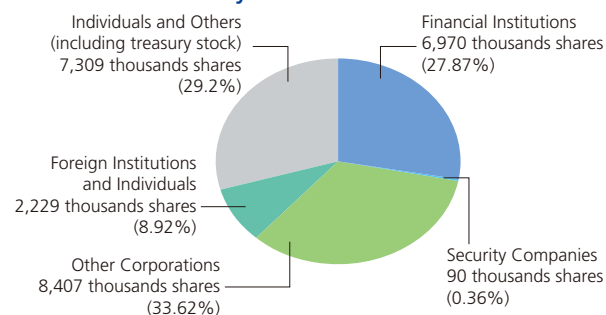
Major Shareholders

Name of shareholders	Number of held thousands shares	Percentage of shares in issue(%)
1 Hibiya Engineering Customer Stock Ownership Plan	1,324	5.51
2 The Master Trust Bank of Japan, Ltd. (Trust account)	1,207	5.03
3 NTT Urban Development Co.	920	3.83
4 Sumitomo Realty & Development Co., Ltd.	920	3.83
5 The Master Trust Bank of Japan, Ltd. (Retirement benefit trust account, Hyakujushi Bank account)	900	3.75
6 Japan Trustee Services Bank, Ltd. (Trust account)	805	3.35
7 Telecommunications Mutual Benefit Association	698	2.91
8 Hibiya Engineering Employee Stock Ownership Plan	659	2.75
9 Kyoritsu Construction Co., Ltd.	594	2.47
10 Kyowa Exeo Corporation	530	2.21

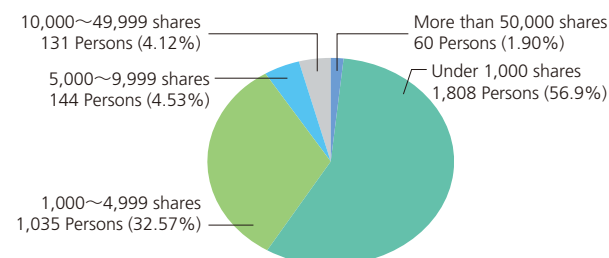
Notes

- Hibiya Engineering has 979,853 shares of treasury stock, excluding the shares owned by these major shareholders.
- Shareholding percentages are based on shares issued after deducting treasury stock. Treasury stock does not include 219,982 Hibiya Engineering stock held by the Executive Compensation Board Incentive Plan Trust.

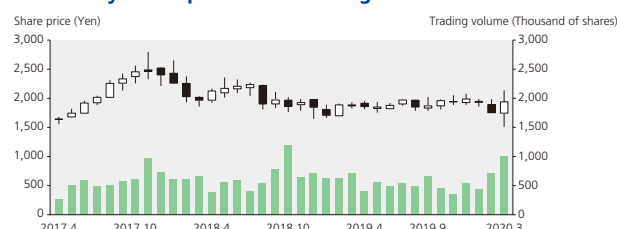
Share distribution by owner



Share distribution by size of holding



Monthly share prices and trading volume



Board of Directors

As of June 24, 2020

Representative Director & President & Chief Executive Officer	Nagahiro Kuroda
Representative Director & Senior Executive Vice President	Shigehito Katsuki
Director and Managing Executive Officer	Tetsuya Kamachi
Director and Managing Executive Officer	Hiroshi Jitsukawa
Director and Managing Executive Officer	Yuuji Yamauchi
Director and Senior Executive Officer	Satoshi Tomie
Director	Hiroo Atsumi
Director	Seiichi Hashimoto
Director	Masako Osuna
Audit & Supervisory Board Member (standing)	Kouji Kuwahara
Audit & Supervisory Board Member (standing)	Hidekazu Uekusa
Audit & Supervisory Board Member	Akira Itou
Audit & Supervisory Board Member	Hiroataka Tadakoshi

Notes

- Hiroo Atsumi, Seiichi Hashimoto and Masako Osuna are outside directors.
- Kouji Kuwahara, Akira Itou and Hiroataka Tadakoshi are outside Audit & Supervisory Board Members.
- The Company has notified the Tokyo Stock Exchange that Hiroo Atsumi, Seiichi Hashimoto and Masako Osuna are independent directors and Kouji Kuwahara and Akira Itou are independent Audit & Supervisory Board Members.

Offices

As of March 31, 2020

Head Office

3-5-27 Mita, Minato-ku, Tokyo

Tokyo Main Office

3-4-1, Shibaura, Minato-ku, Tokyo

Branches

Hokkaido, Tohoku, Yokohama, Tokai, Hokuriku, Kansai, Chugoku, Shikoku, Kyushu, Okinawa

Offices

Hakodate, Iwate, Niigata, Nagano, Ibaraki, Kita-Kanto, Chiba, Shizuoka, Kobe, Okayama, Kumamoto, Kagoshima

Research Facilities

Noda in Chiba Prefecture



Hibiya Engineering,Ltd.

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TEL +81-3-3454-1385 FAX +81-3-3452-4260
URL <http://www.hibiya-eng.co.jp/>