Hibiya Engineering,Ltd.

2018 ANNUAL REPORT

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 Engineering Group

Hibiya Engineering, Ltd.
Facilities engineering

Consolidated subsidiary
HIBIYA TSUSHOU CO., LTD.
Equipment sales

Consolidated subsidiary
NIKKEY COMPANY LIMITED
Facilities engineering and others

Consolidated subsidiary
HIT Engineering, Ltd.
Design, installation and maintenance of manufacturing equipment

Equity-method affiliate
NIHON MECCS CO., LTD.
Property maintenance and management, construction, and facilities engineering

Total engineering solutions for building facilities
(Planning, design, and installation of climate control, communications, electrical, water & drainage, and other sanitary facilities; maintenance and management of installed equipment; and upgrade and replacement)

Clients

CONTENTS

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, 2018. 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.

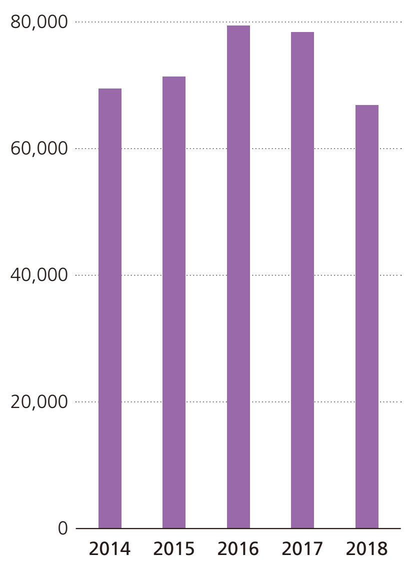
Consolidated Financial Highlights

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

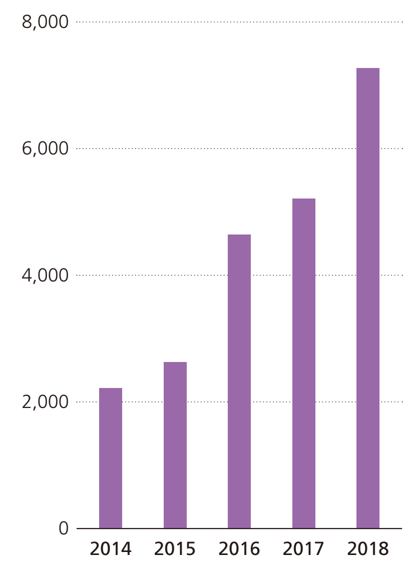
	2014	2015	2016	2017	2018	2018
	Millions of yen					Thousands of U.S. dollars
Net Sales	¥69,466	¥71,329	¥79,401	¥78,387	¥66,838	$629,122
Profit attributable to owners of parent	2,215	2,630	4,641	5,207	7,273	68,458
Total Assets	83,531	84,725	91,900	93,661	83,550	786,426
Net Assets	57,068	58,939	59,947	63,719	58,580	551,393
	Yen					U.S. dollars
Per share:						
Net Assets	¥1,828.81	¥1,912.49	¥1,966.69	¥2,117.40	¥2,350.48	$22.12
Profit attributable to owners of parent	72.78	87.62	156.88	178.49	262.00	2.47
Cash Dividend (non-consolidated basis)	30.00	32.00	40.00	50.00	60.00	0.56

Note: The expression of Japanese yen amounts in U.S. dollars is included solely for the convenience of readers outside Japan, using the prevailing exchange rate of March 31, 2018, which was ¥106.24 to US$1.00.

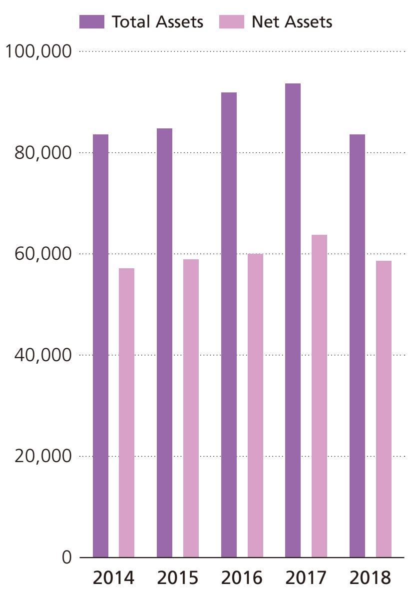
Net Sales (¥ million)



Profit attributable to owners of parent (¥ million)



Total Assets & Net Assets (¥ million)



A Message from the President

In Japan, there are expectations for the economy to continue to recover slowly. The economy is benefiting from measures by the Japanese government and Bank of Japan as the labor market and personal income improve. However, caution is needed concerning the economic outlook due to uncertainty about overseas economies and the effects of volatility in financial markets.

In Japan's construction industry, the residential construction sector is soft but the volume of public works expenditures is firm. Competition for construction orders is expected to become intense in the coming years. Foreign exchange rate movements may raise the cost of building materials and Japan's shortage of workers is likely to raise the cost of labor. As a result, changes in Japan's construction market must be closely monitored.

Under such circumstances, the Hibiya Engineering Group launched its Sixth Medium-term Management Plan in fiscal 2018. There were many activities based on the plan's fundamental strategies of changing how people work by making investments in human resources and ICT and of providing customers with even more advanced life cycle total solutions. To invest in people and ICT for changing how people work, a "refresh" time off system was established, the ICT environment was improved by relocating the head office, tablets are widely used and other actions were taken. Steady progress with launching new systems and building an ICT infrastructure is making business operations more efficient and supporting recruiting activities by making the Hibiya Engineering Group an attractive place to work. To become a source of more advanced life cycle total solutions, the entire group worked on strengthening skills for creating medium and long-term proposals for customers based on the life cycles of buildings. In addition, there were activities for supplying customers with advanced energy management systems as an organization with energy conservation and management expertise. Participation in Japan's smart community initiative is one more measure for building a highly diversified service model.

We will continue working on many initiatives in the current fiscal year, which is the second year of our Sixth Medium-term Management Plan. Using our group's technologies for more labor-efficient construction activities along with higher quality is one priority. We are also focusing on further upgrading our compliance activities and measures concerning safety and quality. The Hibiya Engineering Group has the goal of long-term and stable progress as a comprehensive engineering services organization that is a one-stop source of services for all our customers' needs.

Thank you for your support as we continue to take the actions needed to accomplish our goals.

President and Representative Director

Yoshiharu Nishimura

Highlights of the Fiscal Year

Results of Operations in Year Ended March 31, 2018

In the first year of the Sixth Medium-term Management Plan, results of operations were as follows. Business operations were guided by the core strategic goals of changing how people work by making investments in people and ICT and creating even more advanced life cycle total solutions.

Orders received	¥72,583 million	(down 6.2% year-on-year)
Net sales	¥66,838 million	(down 14.7% year-on-year)
Operating profit	¥3,171 million	(down 43.5% year-on-year)
Profit attributable to owners of parent	¥7,273 million	(up 39.7% year-on-year)

Distributions to shareholders

FY2018

Dividends

- Based on the Sixth Medium-term Management Plan earnings target, the plan is to pay a FY2018 dividend per share of ¥60

Repurchases

- Plan was to purchase 500,000 shares at a cost of ¥850 million
  During FY2018, conducted a tender offer for part of major shareholder stock. for the purpose of enabling Hibiya Engineering to increase the return of earnings to shareholders and use capital more efficiently
  (purchased 4.49 million shares at a cost of ¥11.0 billion and retired all of these shares)

Plan for FY2019

Basic policy

- Continue distributing earnings to shareholders based on the earnings goal of the Sixth Medium-term Management Plan as well as place even more emphasis on dividends for shareholders.

Dividends

- The dividend will be increased from ¥60 for FY2018 to ¥80 for FY2019.

Repurchases

- Following the large repurchase of stock in FY2018, the plan is to purchase 300,000 shares at a cost of ¥660 million.

The Sixth Medium-term Management Plan (April 2017 - March 2020)

Fundamental Goal

"Establish and reinforce corporate reforms" for the stable and long-term continuation and advancement of business operations

Core Strategies

- **Invest in human resources and ICT to change how people work**
- **More advanced life cycle total solutions**

Financial Goals (consolidated)

Orders received	At least ¥75 billion
Net sales	At least ¥75 billion
Operating profit	At least ¥4 billion
Ordinary profit	At least ¥5 billion
Profit attributable to owners of parent	At least ¥3 billion
ROE	At least 5.0%

Steadfastly implementing basic strategies defined in the Medium-term Management plan

Sixth Medium-term Management Plan Fundamental Goal

"Establish and reinforce corporate reforms" for the stable and long-term continuation and advancement of business operations

Sixth Medium-term Management Plan Core Strategies

Invest in human resources and ICT to change how people work

- Recruiting, training and skill enhancement activities
- Workforce diversity activities
- Maintain the proper work-life balance
- Establish a competitive edge and operate efficiently

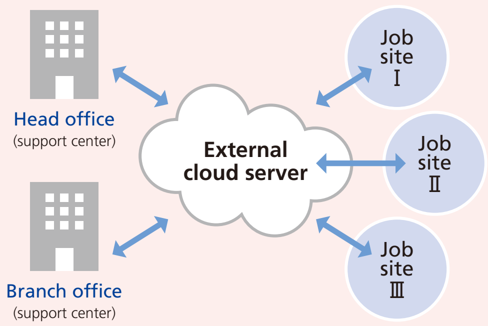
More advanced life cycle total solutions

- Expand and upgrade consistent-revenue businesses
- Cooperation among Hibiya Engineering Group companies
- Collaborative sales activities with the NTT Group
- Use alliances

Establish job site support centers

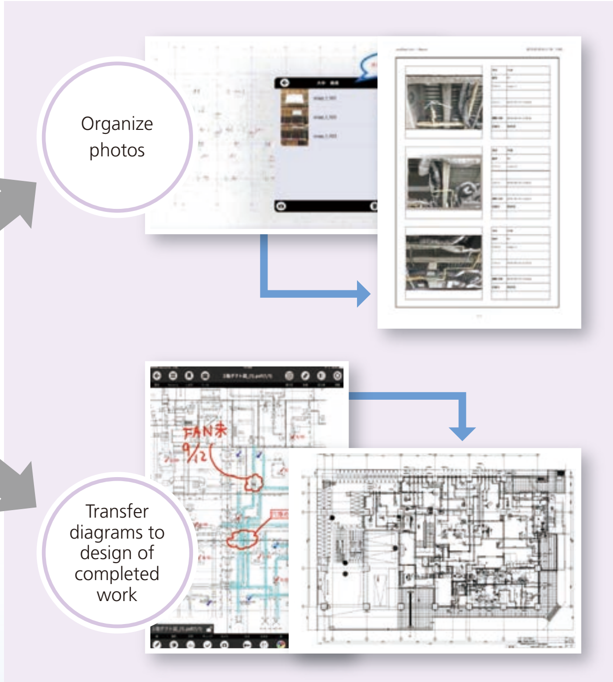
Support job sites by centralizing administrative tasks to reduce the amount of work at job sites and providing replacement personnel from these centers when there is a large volume of work.

Use of a cloud server allows accessing information from anywhere



Support Center

- Supporting field operations
- Utilizing ICT to enhance business efficiency
- Reducing long work hours



Use assistance of support centers to reduce work performed at job sites

Achievement in FY2018 **2** Invest in human resources and ICT to change how people work

Use ICT for business process reforms and stronger management

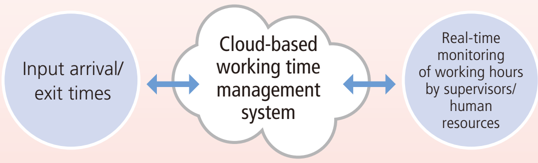
Improve how people do their jobs by using new cloud-based applications.

Changed the office network to wireless taking the opportunity of the relocation of the head office

People can use Wi-Fi for their jobs anywhere in the new head office.

Better management of working hours

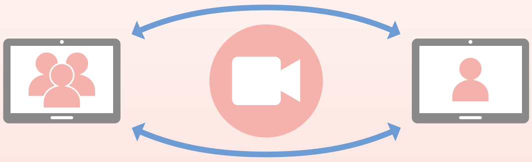
Real-time monitoring of working hours facilitates dialogue between the staff and supervisors (human resources) to achieve a proper amount of overtime.



All meeting rooms have monitors

More efficient TV conferences

The use of a cloud app allows setting up a TV conference with no special equipment. This makes engineering services and sales meetings more effective.



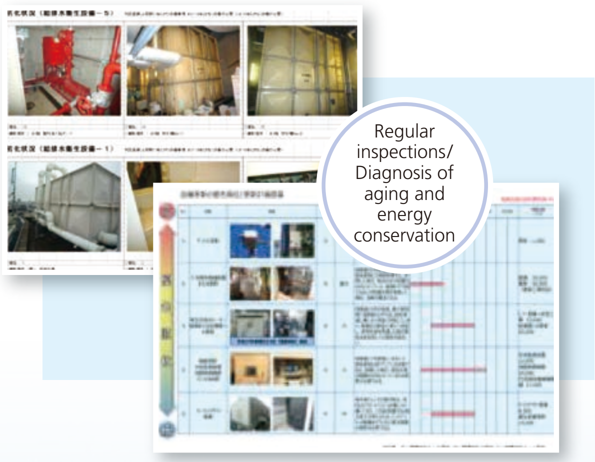
Achievement in FY2018 **3** More advanced life cycle total solutions

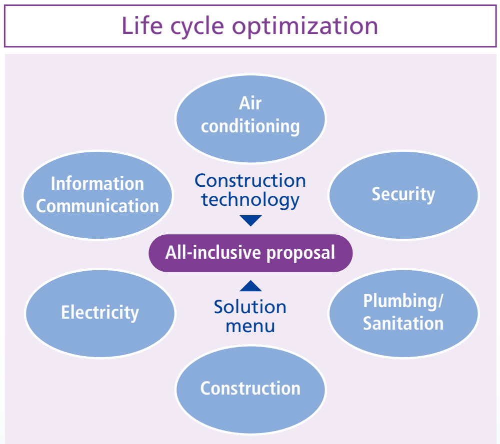
All-inclusive building proposals for major customers

Unified activities by engineering services and sales personnel to create all-inclusive building proposals based on medium/long-term plans with regular inspections and diagnosis services for aging and energy conservation.

- Select suitable buildings based on size, age and other characteristics
- Create comprehensive steady-revenue proposals for individual large buildings

Life Cycle Total Solutions





Examples

Building	Size/Age etc.	Diagnosis	All-inclusive proposal
Company A training center	Main building and 8 others Age: 6 to 43 years	Comprehensive aging diagnosis Energy diagnosis	Proposal for updating of individual buildings in stages Updating air conditioning/heat source/rest rooms
Company B office building	16,000m^2 35 years, B1/17 floors	Comprehensive aging diagnosis Piping x-ray diagnosis	Replace all tenant air conditioning units Update rest rooms and pipes

Topics1: The New Hibiya Information Plaza

Located at the head office, this plaza provides visitors with information about Hibiya Engineering technologies and has space for seminars covering a variety of subjects.

The Hibiya Information Plaza

The plaza is at the Hibiya Engineering head office.

■ The Hibiya Information Plaza is used for many purposes.

Visitors can learn about many Hibiya Engineering technologies.	Many types of seminars will take place at the plaza.	A large monitor gives visitors a panoramic view of Hibiya Engineering's Haneda Safety Training Center.	Visitors can also learn about Smart DASH®, a smart air conditioning system for data centers, of NTT Facilities, Inc.

The First Hibiya Information Plaza Seminar

April 2018

At the first seminar, participants heard an explanation of the Net Zero Energy Building (ZEB) technology for buildings that effectively have no energy consumption or may even be a net provider of energy.

- Presentation 1: ZEB Using Building IoT by NTT Facilities Inc.
- Presentation 2: The ZEB Planning Skills by Hibiya Engineering, Ltd.
- Presentation 3: Compact and Smart Building Energy Management System for Small to Midsize ZEB by Hibiya Tsushou Co., Ltd.
- Key Developments Presentation: Remote Demand Surveillance and Building Energy Management Systems by Watanabe Electric Industry Co., Ltd.
- Time for participants to meet each other and exchange information

The Hibiya Information Plaza Seminar

Topics2: Cogeneration Award 2017

Hibiya Engineering selected for a 2017 Cogeneration Award for cogeneration system using combustible gas emitted at Kawane Hot Spring.

Outstanding Achievement Award, private sector category, Cogeneration Awards 2017

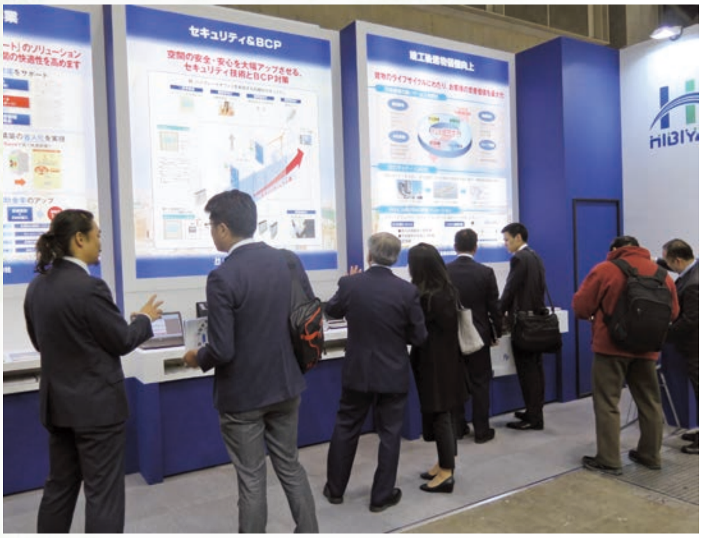
Advanced Cogeneration and Energy Utilization Center

This award was received jointly with:

- City of Shimada (project owner)
- Hibiya Engineering
- National University Corporation Shizuoka University
- Yanmar Energy Systems Co., Ltd.

Topics3: Participation in Trade Shows and Exhibitions

The Hibiya Engineering Group takes part in many trade shows and exhibitions to add new customers, locate potential alliance partners and take other actions that create more business opportunities.



A Hibiya Engineering booth at a trade fair

August 2017 AXES Sapporo

Environment Plaza Sapporo 2017

September 2017 INTEX Osaka

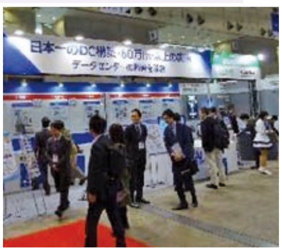
Kansai Smart Building Expo

October 2017 West Japan General Exhibition Center

Eco Techno 2017

October 2017 Nagoya Trade & Industry Center

Building Construction Expo Nagoya



November 2017 Makuhari Messe

Data Center Expo (Fall)

November 2017 Yume Messe Miyagi

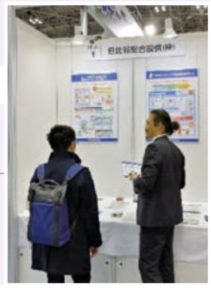
Business Match Tohoku 2017

December 2017 Tokyo Big Sight

Smart Building Expo

February 2018 Hiroshima City Exhibition Hall

Business Fair Chu-Shikoku 2018



February 2018 Tokyo Big Sight

Energy Conservation Fair 2018

February 2018 Tower Hall Funabori

JFMA Facility Management Forum

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

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.

For the environment

- We will develop environmental technologies.
- We will conduct environmental businesses.
- We will use our business activities to reduce our environmental impact.
- We will perform office environment protection activities, centered on the Challenge 25 Campaign.

For customers

- We will be a source of safe, secure and comfortable environments for customers and society by constantly upgrading technologies and improving quality.
- We will aim to eliminate workplace and equipment accidents based on our respect for life.
- We will use support that spans the entire life cycle to meet the needs of our customers.

For shareholders and investors

- We will strive to increase corporate value and make profit distributions that reflect our performance.
- We will disclose information in a timely and appropriate manner.

Hibiya Engineering

For communities and society

- For all our business activities, we will adhere to the highest standards for ethical behavior. We will comply with laws, regulations and socially accepted standards of behavior and retain a dedication to common sense and corporate ethics.
- As a responsible corporate citizen, we will participate in and support a variety of community and social activities.

For business partners

- We will do business in a fair and transparent manner as a trustworthy partner.
- We will cooperate in order to maintain and improve the safety and quality of construction activities.

For employees

- We will provide a workplace that is pleasant and stimulating.
- We will evaluate employees fairly and allow employees to improve their skills.
- We will provide jobs based on our respect for human rights.

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 external directors, and four corporate auditors, including three external auditors. 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 external directors and two independent external corporate auditors.

■ Term of directors

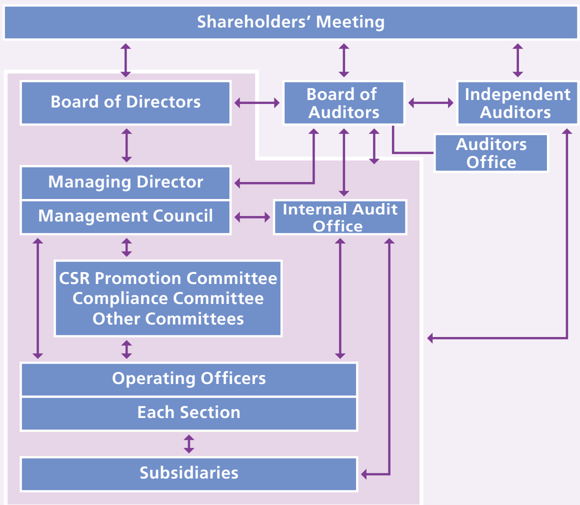
The term of directors was reduced from two years to one year in June 2008. The shorter term allows adapting more swiftly to changes in the operating environment and makes directors more accountable for management of the group during their respective terms.

■ Board of Auditors

Hibiya Engineering uses the corporate auditor system and increased the number of external corporate auditors by one in June 2008. There are currently four corporate auditors, including three external auditors. Auditors attend meetings of the Board of Directors, Management Council and other important meetings to ensure that business operations do not violate any laws. Corporate auditors also perform financial audits in conjunction with the independent auditors.

■ Internal audits

Corporate auditors perform audits with the two 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.



↔ : Lines of communication for management

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

Sumitomo Fudosan Onarimon Tower

1 Minato-ku Tokyo
2 32,631m²
3 22 stories above ground/2 stories below ground/2 levels of roof
4 Air conditioning/sanitation

GLP Suita

1 Suita city, Osaka
2 165,236m²
3 4 stories above ground
4 Air conditioning/sanitation

Otani University Main Campus

1 Kyoto city, Kyoto
2 14,587m²
3 5 stories above ground/1 level of roof
4 Air conditioning/sanitation

Fujita Health University Hospital new building B

1 Toyoake city, Aichi
2 31,776m²
3 8 stories above ground/1 story below ground/1 level of roof
4 Sanitation

FINANCIAL SECTION

CONTENTS

Management's Discussion and Analysis

■ Overview

In the fiscal year ended March 2018, the Japanese economy continued to recover slowly with the support of a variety of monetary easing measures. Capital expenditures increased along with improvement of corporate earnings and consumer spending increased, although with some unevenness, along with steady improvements in the labor market and personal income.

In Japan's construction industry, there was a consistently high level of activity due to strong construction expenditures. However, caution is required about the outlook because of intense competition as well as the rising cost of labor caused by Japan's chronic labor shortage, higher prices of building materials and other challenges.

Orders received and Sales

This fiscal year was the first year of the Hibiya Engineering Group's Sixth Medium-term Management Plan. During the fiscal year, there were many activities based on the plan's fundamental strategy of making investments in human resources and ICT in order to change how people work and become a source of even more advanced life cycle total solutions. To invest in people and ICT for changing how people work, a "refresh" time off system was established, the ICT environment was improved by relocating the head office, tablets are widely used and other actions were taken. Steady progress with launching new systems and building an ICT infrastructure is making business operations more efficient and supporting recruiting activities by making the Hibiya Engineering Group an attractive place to work. To become a source of more advanced life cycle total solutions, the entire group worked on strengthening skills for creating medium and long-term proposals for customers based on the life cycles of buildings. In addition, there were activities for supplying customers with advanced energy management systems as an organization with energy conservation and management expertise. Participation in Japan's smart community initiative is one more measure for building a highly diversified service model. During the fiscal year, there were also measures for reinforcing safety and quality management by reexamining the organizational structure and for maintaining a rigorous compliance program.

In the fiscal year that ended in March 2018, orders received decreased 6.2% to ¥72,583 million and sales decreased 14.7% to ¥66,838 million.

Operating profit and Profit attributable to owners of parent

Operating profit fell 43.5% to ¥3,171 million and profit attributable to owners of parent increased 39.7% to ¥7,273 million. Earnings per share rose to ¥262.00 from ¥178.49 in the previous year. Earnings per share fully diluted also rose to ¥260.69 from ¥177.48.

■ Balance Sheet and Cash Flows

Balance Sheet

Assets

Total assets decreased ¥10,110 million from the end of the previous fiscal year to ¥83,550 million. Current assets decreased ¥4,545 million to ¥51,683 million and noncurrent assets decreased ¥5,565 million to ¥31,867 million.

Major changes in current assets were an increase of ¥1,324 million in cash and deposits and a decrease of ¥9,037 million in notes receivable, accounts receivable from completed construction contracts and other.
Noncurrent assets decreased mainly because of a ¥5,596 million decrease in investment securities that was primarily due to the sale of securities.

Liabilities

Liabilities decreased ¥4,972 million to ¥24,970 million.

The decrease in liabilities was mainly attributable to decreases of ¥2,451 million in notes payable, accounts payable for construction contracts and other and ¥1,758 million in income taxes payable.

Net Assets

Despite the contribution from profit attributable to owners of parent of ¥7,273 million, net assets were ¥58,580 million at the end of the fiscal year as the company retired treasury stock acquired through a tender offer and other factors.

Return on Equity

Return on equity rose to 12.3% from 8.8% in the previous fiscal year.

Cash Flows

Net cash provided by operating activities was ¥5,672 million, an improvement of ¥401 million compared with the previous fiscal year.

Net cash provided by investing activities was ¥9,863 million, an increase of ¥7,637 million from the previous fiscal year. The main reason was an increase in the proceeds from sales of investment securities.

Net cash used in financing activities was ¥14,211 million, ¥12,115 million more than cash used in the previous fiscal year. The main reason was an increase in the purchase of treasury shares.

The result of these cash flows was a net increase of ¥1,324 million in cash and cash equivalents to ¥12,669 million at the end of the fiscal year.

Segment Information

Construction: Sales in this core business segment, which represents 86.8% of total sales, decreased 15.9% to ¥58,029 million and operating profit decreased 46.5% to ¥2,622 million.

Equipment sales: Segment sales decreased 5.7% to ¥5,742 million and operating profit increased 6.7% to ¥338 million.

Equipment manufacturing segment: Segment sales decreased 6.4% to ¥3,066 million and operating profit decreased 47.6% to ¥200 million.

Business Risks

The following section is a list of items contained in the discussion of results of operations and financial condition in the Annual Report that may have a significant effect on the decisions of investors. These items are based on the judgments of the Hibiya Engineering Group as of March 31, 2018.

1. Risk of dependence on a specific customer

The Group's sales are heavily dependent on Nippon Telegraph and Telephone Corporation (NTT) and its affiliates ("NTT Group"). Should the NTT Group significantly reduce its investments in construction for any reason, the Group's operating performance and financial position may be adversely affected.

2. Risk related to business partners

The operating environment in the Japanese construction market is extremely difficult because of continuing restrictions on construction expenditures, particularly with regard to public works projects. Due to this situation, there is intense competition for orders and price competition. In this environment, if the creditworthiness of any business partner worsens, the Group's operating performance and financial position may be affected by bad debt associated with trade receivables.

3. Risk related to prices of materials

If there is an increase in prices of equipment and materials used by the Group due to a shortage of raw materials such as iron and copper and/or market fluctuations, the Group's operating performance and financial position may be affected.

4. Risk related to unprofitable work

If a project undertaken by the Group becomes unprofitable because of additional construction costs or other items caused by factors that were unforeseen before the project was started, the provision for an allowance for losses on construction contracts may become necessary and the Group's operating performance and financial position may be affected.

5. Risk involving safety

The 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 Group may be obligated to make a large, lump-sum compensation payment and the Group's operating performance and financial position may be affected.

6. Risk involving retirement benefit systems

The Company 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 Group's retirement benefit expenses may increase, affecting its operating performance and financial position.

7. Risk involving securities

The Group may have to write down the value of stock that it holds because of stock market movements, changes in the performance of individual companies and other factors. In addition, the Group may not be able to receive dividend from this stock as initially expected. For bonds, the 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 marketbased indicators, the Group may be unable 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 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 the Company 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 the Group's operating performance and financial position may be affected.

9. 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, 2018 and 2017

		Millions of yen		Thousands of U.S. dollars (Note 1)
		2018	2017	**2018**
Assets				
Current assets:				
Cash and cash equivalents	*(Note 4)*	**¥ 12,670**	¥ 11,346	**$ 119,258**
Notes receivable, accounts receivable from completed construction contracts and other	*(Note 4)*	**32,065**	41,103	**301,817**
Short-term investments	*(Note 4)*	**1,501**	969	**14,128**
Costs on uncompleted construction contracts and other	*(Note 3)*	**802**	711	**7,549**
Deferred tax assets	*(Note 5)*	**668**	1,304	**6,288**
Income taxes receivable		**2,840**	—	**26,732**
Other		**1,151**	813	**10,833**
Allowance for doubtful accounts		**(13)**	(17)	**(122)**
Total current assets		**51,684**	56,229	**486,483**
Property, plant and equipment:				
Buildings and structures		**1,482**	1,575	**13,950**
Land		**94**	94	**885**
Other		**1,031**	982	**9,704**
Total		**2,607**	2,651	**24,539**
Accumulated depreciation		**(1,866)**	(2,004)	**(17,564)**
Total property, plant and equipment		**741**	647	**6,975**
Investments and other assets:				
Investment securities	*(Note 4)*	**26,632**	32,228	**250,678**
Insurance funds		**1,566**	1,618	**14,740**
Investments in silent partnership	*(Note 4)*	**1,712**	1,723	**16,114**
Deferred tax assets	*(Note 5)*	**—**	47	**—**
Asset for retirement benefits	*(Note 7)*	**34**	70	**320**
Other		**1,182**	1,100	**11,126**
Total investments and other assets		**31,126**	36,786	**292,978**
Total assets		**¥ 83,551**	¥ 93,662	**$ 786,436**

See accompanying notes to consolidated financial statements.

		Millions of yen		Thousands of U.S. dollars (Note 1)
		2018	2017	**2018**
Liabilities				
Current liabilities:				
Notes payable, accounts payable for construction contracts and other	*(Note 4)*	**¥ 18,375**	¥ 20,826	**$ 172,957**
Income taxes payable	*(Note 5)*	**356**	2,115	**3,351**
Advances received on uncompleted construction contracts		**630**	158	**5,930**
Provision for bonuses		**1,242**	3,016	**11,691**
Provision for loss on construction contracts		**421**	315	**3,963**
Other		**1,824**	2,544	**17,168**
Total current liabilities		**22,848**	28,974	**215,060**
Long-term liabilities:				
Deferred tax liabilities	*(Note 5)*	**1,202**	582	**11,314**
Liability for retirement benefits	*(Note 7)*	**879**	340	**8,274**
Other		**41**	46	**386**
Total long-term liabilities		**2,122**	968	**19,974**
Total liabilities		**24,970**	29,942	**235,034**
Net assets				
Shareholders' equity:	*(Note 8)*			
Capital stock: Authorized – 96,500,000 shares in 2018 and 2017 Issued – 26,506,321 shares in 2018 and 31,000,309 shares in 2017		**5,753**	5,753	**54,151**
Capital surplus		**6,028**	5,932	**56,739**
Retained earnings		**45,649**	49,293	**429,678**
Treasury stock: 2,093,217 shares in 2018 and 2,072,671 shares in 2017		**(4,536)**	(2,625)	**(42,695)**
Total shareholders' equity		**52,894**	58,353	**497,873**
Accumulated other comprehensive income				
Net unrealized holding gains or losses on securities		**5,201**	3,343	**48,955**
Deferred gains or losses on hedges		**—**	0	**—**
Accumulated adjustments for retirement benefits		**(712)**	(444)	**(6,702)**
Total accumulated other comprehensive income		**4,489**	2,899	**42,253**
Subscription rights to shares		**171**	181	**1,610**
Non-controlling interests		**1,027**	2,287	**9,666**
Total net assets		**58,581**	63,720	**551,402**
Total liabilities and net assets		**¥ 83,511**	¥ 93,662	**$ 786,436**

See accompanying notes to consolidated financial statements.

Consolidated Statements of Income

Hibiya Engineering, Ltd. and Consolidated Subsidiaries
Years ended March 31, 2018 and 2017

		Millions of yen		Thousands of U.S. dollars (Note 1)
		2018	2017	**2018**
Net sales		**¥ 66,839**	¥ 78,388	**$ 629,132**
Cost of sales		**55,911**	64,343	**526,271**
Gross profit		**10,928**	14,045	**102,861**
Selling, general and administrative expenses	*(Note 6)*	**7,756**	8,436	**73,004**
Operating income		**3,172**	5,609	**29,857**
Other income (expenses):				
Interest and dividend income		**264**	241	**2,485**
Interest expenses		**(2)**	(2)	**(18)**
Equity in earnings of affiliates		**561**	998	**5,280**
Gain on sales of investment securities		**4,523**	—	**42,573**
Gain on sales of non-current assets		**—**	255	**—**
Other, net		**99**	131	**932**
Other income (expenses) - net		**5,445**	1,623	**51,252**
Profit before income taxes		**8,617**	7,232	**81,109**
Income taxes:	*(Note 5)*			
Income taxes-current		**595**	2,105	**5,601**
Income taxes-deferred		**655**	(270)	**6,165**
Total income taxes		**1,250**	1,835	**11,766**
Profit		**7,367**	5,397	**69,343**
Profit attributable to non-controlling interests		**93**	190	**875**
Profit attributable to owners of parent	*(Note 11)*	**¥ 7,274**	¥ 5,207	**$ 68,468**

See accompanying notes to consolidated financial statements.

		Yen		U.S. dollars (Note 1)
Per share of common stock:	*(Note 11)*	**2018**	2017	**2018**
Net assets		**¥ 2,350.48**	¥ 2,117.40	**$ 22.12**
Net income				
Basic		**262.00**	178.49	**2.47**
Diluted		**260.69**	177.48	**2.45**
Cash dividend applicable to the year	*(Note 8)*	**60.00**	50.00	**0.56**

See accompanying notes to consolidated financial statements.

Consolidated Statements of Comprehensive Income

Hibiya Engineering, Ltd. and Consolidated Subsidiaries
Years ended March 31, 2018 and 2017

		Millions of yen		Thousands of U.S. dollars (Note 1)
		2018	2017	**2018**
Profit		**¥ 7,367**	¥ 5,397	**¥ 69,343**
Other comprehensive income:	*(Note 10)*			
Net unrealized holding gains or losses on securities		**1,809**	305	**17,027**
Deferred gains or losses on hedges		**(0)**	(0)	**(0)**
Adjustments for retirements benefits		**(330)**	54	**(3,106)**
Share of other comprehensive income of associates accounted for by using equity method		**133**	59	**1,252**
Total other comprehensive income		**1,612**	418	**15,173**
Comprehensive income		**8,979**	5,815	**84,516**
Comprehensive income attributable to:				
Owners of parent		**8,864**	5,568	**83,434**
Non-controlling interests		**115**	247	**1,082**

See accompanying notes to consolidated financial statements.

Consolidated Statements of Changes in Net Assets

Hibiya Engineering, Ltd. and Consolidated Subsidiaries
As of March 31, 2018 and 2017

	Number of shares of common stock	Shareholders' equity				
		Capital stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
	(Shares)	(Millions of yen)				
Balance at April 1, 2016	31,000,309	¥ 5,753	¥ 5,932	¥ 45,425	¥ (1,909)	¥ 55,201
Profit attributable to owners of parent	—	—	—	5,207	—	5,207
Dividend from surplus	—	—	—	(1,325)	—	(1,325)
Purchase of treasury stock	—	—	—	—	(760)	(760)
Disposal of treasury stock	—	—	—	(14)	44	30
Net changes of items other than shareholders' equity	—	—	—	—	—	—
Balance at April 1, 2017	31,000,309	¥ 5,753	¥ 5,932	¥ 49,293	¥ (2,625)	¥ 58,353
Profit attributable to owners of parent	—	—	—	7,274	—	7,274
Dividend from surplus	—	—	—	(1,602)	—	(1,602)
Purchase of treasury stock	—	—	(113)	—	(11,286)	(11,399)
Disposal of treasury stock	—	—	—	(74)	131	57
Retirement of treasury stock	(4,493,988)	—	—	(9,242)	9,242	—
Change in equity in affiliates accounted for by equity method treasury stock	—	—	—	—	2	2
Changes in treasury shares of parent arising from transactions with non-controlling shareholders	—	—	209	—	—	209
Net changes of items other than shareholders' equity	—	—	—	—	—	—
Balance at March 31, 2018	**26,506,321**	**¥ 5,753**	**¥ 6,028**	**¥ 45,649**	**¥ (4,536)**	**¥ 52,894**

See accompanying notes to consolidated financial statements.

	Accumulated other comprehensive income				Subscription rights to shares	Non-controlling interests	Total net assets
	Net unrealized holding gains or losses on securities	Deferred gains or losses on hedges	Accumulated adjustments for retirement benefits	Total Accumulated other comprehensive income			
	(Millions of yen)						
Balance at April 1, 2016	¥ 3,095	¥ 1	¥ (558)	¥ 2,538	¥ 163	¥ 2,045	¥ 59,947
Profit attributable to owners of parent	—	—	—	—	—	—	5,207
Dividend from surplus	—	—	—	—	—	—	(1,325)
Purchase of treasury stock	—	—	—	—	—	—	(760)
Disposal of treasury stock	—	—	—	—	—	—	30
Net changes of items other than shareholders' equity	248	(1)	114	361	18	242	621
Balance at April 1, 2017	¥ 3,343	¥ 0	¥ (444)	¥ 2,899	¥ 181	¥ 2,287	¥ 63,720
Profit attributable to owners of parent	—	—	—	—	—	—	7,274
Dividend from surplus	—	—	—	—	—	—	(1,602)
Purchase of treasury stock	—	—	—	—	—	—	(11,399)
Disposal of treasury stock	—	—	—	—	—	—	57
Retirement of treasury stock	—	—	—	—	—	—	—
Change in equity in affiliates accounted for by equity method treasury stock	—	—	—	—	—	—	2
Changes in treasury shares of parent arising from transactions with non-controlling shareholders	—	—	—	—	—	—	209
Net changes of items other than shareholders' equity	1,858	(0)	(268)	1,590	(10)	(1,260)	320
Balance at March 31, 2018	**¥ 5,201**	**¥ —**	**¥ (712)**	**¥ 4,489**	**¥ 171**	**¥ 1,027**	**¥ 58,581**

See accompanying notes to consolidated financial statements.

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
	(Thousands of U.S. dollars (Note 1))				
Balance at April 1, 2017	$ 54,151	$ 55,836	$ 463,978	$ (24,708)	$ 549,257
Profit attributable to owners of parent	—	—	68,468	—	68,468
Dividend from surplus	—	—	(15,079)	—	(15,079)
Purchase of treasury stock	—	(1,064)	—	(106,231)	(107,295)
Disposal of treasury stock	—	—	(697)	1,233	536
Retirement of treasury stock	—	—	(86,992)	86,992	—
Change in equity in affiliates accounted for by equity method treasury stock	—	—	—	19	19
Changes in treasury shares of parent arising from transactions with non-controlling shareholders	—	1,967	—	—	1,967
Net changes of items other than shareholders' equity	—	—	—	—	—
Balance at March 31, 2018	**$ 54,151**	**$ 56,739**	**$ 429,678**	**$ (42,695)**	**$ 497,873**

See accompanying notes to consolidated financial statements.

	Accumulated other comprehensive income				Subscription rights to shares	Non-controlling interests	Total net assets
	Net unrealized holding gains or losses on securities	Deferred gains or losses on hedges	Accumulated adjustments for retirement benefits	Total Accumulated other comprehensive income			
	(Thousands of U.S. dollars (Note 1))						
Balance at April 1, 2017	$ 31,466	$ 0	$ (4,179)	$ 27,287	$ 1,704	$ 21,526	$ 599,774
Profit attributable to owners of parent	—	—	—	—	—	—	68,468
Dividend from surplus	—	—	—	—	—	—	(15,079)
Purchase of treasury stock	—	—	—	—	—	—	(107,295)
Disposal of treasury stock	—	—	—	—	—	—	536
Retirement of treasury stock	—	—	—	—	—	—	—
Change in equity in affiliates accounted for by equity method treasury stock	—	—	—	—	—	—	19
Changes in treasury shares of parent arising from transactions with non-controlling shareholders	—	—	—	—	—	—	1,967
Net changes of items other than shareholders' equity	17,489	(0)	(2,523)	14,966	(94)	(11,860)	3,012
Balance at March 31, 2018	**$ 48,955**	**$ —**	**$ (6,702)**	**$ 42,253**	**$ 1,610**	**$ 9,666**	**$ 551,402**

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Hibiya Engineering, Ltd. and Consolidated Subsidiaries
Years ended March 31, 2018 and 2017

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2017	**2018**
Cash flows from operating activities:			
Profit before income taxes	**¥ 8,617**	¥ 7,232	**$ 81,109**
Depreciation and amortization	**210**	167	**1,977**
Increase (decrease) in allowance for doubtful accounts	**(2)**	(30)	**(19)**
Decrease (increase) in asset for retirement benefits	**6**	(32)	**56**
Increase (decrease) in liability for retirement benefits	**93**	92	**875**
Increase (decrease) in provision for bonuses	**(1,773)**	596	**(16,689)**
Increase (decrease) in provision for loss on construction contracts	**106**	217	**998**
Interest and dividend income	**(264)**	(241)	**(2,485)**
Interest expenses	**2**	2	**18**
Loss (gain) on sales of non-current assets	**—**	(255)	**—**
Loss (gain) on sales of investment securities	**(4,523)**	—	**(42,573)**
Equity in (earnings) losses of affiliates	**(561)**	(998)	**(5,280)**
Decrease (increase) in notes and accounts receivable	**9,038**	2,327	**85,072**
Decrease (increase) in costs on uncompleted construction contracts and other	**(91)**	177	**(857)**
Increase (decrease) in notes and accounts payable	**(2,451)**	(2,413)	**(23,070)**
Increase (decrease) in advances received on uncompleted construction contracts	**472**	(62)	**4,443**
Other, net	**(1,127)**	729	**(10,608)**
Subtotal	**7,752**	7,508	**72,967**
Interest and dividend income received	**269**	247	**2,532**
Interest expenses paid	**(2)**	(2)	**(19)**
Income taxes paid	**(2,347)**	(2,481)	**(22,091)**
Net cash provided by (used in) operating activities	**5,672**	5,272	**53,389**
Cash flows from investing activities:			
Purchase of property, plant and equipment	**(338)**	(185)	**(3,181)**
Proceeds from sales of property,plant and equipment	**—**	360	**—**
Purchase of intangible assets	**(28)**	(139)	**(264)**
Purchase of short-term investment securities	**(1,000)**	—	**(9,413)**
Purchase of investment securities	**(2,091)**	(496)	**(19,682)**
Proceeds from sales of investment securities	**11,853**	—	**111,568**
Proceeds from redemption of investment securities	**1,400**	2,400	**13,178**
Purchase of insurance funds	**(34)**	(116)	**(320)**
Proceeds from maturity of insurance funds	**86**	37	**809**
Proceeds from withdrawal of investments in silent partnership	**66**	330	**621**
Other, net	**(50)**	34	**(470)**
Net cash provided by (used in) investing activities	**9,864**	2,225	**92,846**
Cash flows from financing activities:			
Purchase of treasury stock	**(11,662)**	(760)	**(109,770)**
Purchase of treasury stock of subsidiaries in consolidation	**(934)**	—	**(8,791)**
Cash dividend	**(1,602)**	(1,325)	**(15,079)**
Cash dividend paid to non-controlling shareholders	**(6)**	(6)	**(56)**
Other, net	**(8)**	(6)	**(77)**
Net cash provided by (used in) financing activities	**(14,212)**	(2,097)	**(133,773)**
Net increase (decrease) in cash and cash equivalents	**1,324**	5,400	**12,462**
Cash and cash equivalents at beginning of period	**11,346**	5,946	**106,796**
Cash and cash equivalents at end of period	**¥ 12,670**	¥ 11,346	**$ 119,258**

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Hibiya Engineering, Ltd. and Consolidated Subsidiaries
As of March 31, 2018 and 2017

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.

The translations of the Japanese yen amounts into U.S. dollars are included solely for the convenience of readers outside Japan, using the prevailing exchange rate at March 31, 2018, or ¥106.24 to U.S. $1.00. The convenience translations should not be construed as representations that the Japanese yen amounts have been, could have been, or could in the future be, converted into U.S. dollars at this or any other rate of exchange.

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.

(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, 2018 and 2017 are ¥421 million ($3,963 thousand) and ¥315 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

Net income per share is calculated by dividing net income 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

For the year ended March 31, 2018

– "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29, March 30, 2018)

– "Guidance on Accounting Standard for Revenue Recognition" (ASBJ Guidance No. 30, March 30, 2018)

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.

(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 at March 31, 2018 were ¥566 million ($5,328 thousand) and 235,600 shares, respectively.

3. Costs on uncompleted construction contracts and other

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

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2017	**2018**
Costs on uncompleted construction contracts	**¥ 213**	¥ 161	**$ 2,005**
Merchandise and finished goods	**265**	283	**2,494**
Work in process	**31**	38	**292**
Raw materials	**293**	229	**2,758**
Total	**¥ 802**	¥ 711	**$ 7,549**

4. Financial instruments

(1) Overview

Information on financial instruments for the years ended March 31, 2018 and 2017 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, 2018 and 2017, book values, fair values and their differences were as follows;

		Millions of yen		
		2018		
		Book value	Fair value	Difference
Assets				
Cash and cash equivalents	(*1)	**¥ 12,670**	**¥ 12,670**	**¥ —**
Notes receivable, accounts receivable from completed construction contracts and other	(*1)	**32,065**	**32,065**	—
Short-term investments	(*2)	**1,501**	**1,501**	—
Investment securities measured at fair value	(*2)	**20,976**	**20,976**	—
Investments not measured at fair value	(*3)	**11,251**	—	—
Investments in silent partnership	(*3)	**1,712**	—	—
Liabilities				
Notes payable, accounts payable for construction contracts and other		**¥ 18,375**	**¥ 18,375**	**¥ —**

		Millions of yen		
		2017		
		Book value	Fair value	Difference
Assets				
Cash and cash equivalents	(*1)	¥ 11,346	¥ 11,346	¥ —
Notes receivable, accounts receivable from completed construction contracts and other	(*1)	41,103	41,103	—
Short-term investments	(*2)	969	969	—
Investment securities measured at fair value	(*2)	11,628	11,628	—
Investments not measured at fair value	(*3)	20,600	—	—
Investments in silent partnership	(*3)	1,723	—	—
Liabilities				
Notes payable, accounts payable for construction contracts and other		¥ 20,826	¥ 20,826	¥ —

		Thousands of U.S. dollars (Note 1)		
		2018		
		Book value	Fair value	Difference
Assets				
Cash and cash equivalents	(*1)	**$ 119,258**	**$ 119,258**	**$ —**
Notes receivable, accounts receivable from completed construction contracts and other	(*1)	**301,817**	**301,817**	—
Short-term investments	(*2)	**14,128**	**14,128**	—
Investment securities measured at fair value	(*2)	**197,440**	**197,440**	—
Investments not measured at fair value	(*3)	**105,902**	—	
Investments in silent partnership	(*3)	**16,114**	—	
Liabilities				
Notes payable, accounts payable for construction contracts and other		**$ 172,957**	**$ 172,957**	**$ —**

(*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		Thousands of U.S. dollars (Note 1)
	2018	2017	**2018**
Short-term investments	**¥ 1,501**	¥ 969	**$ 14,128**
Investment securities	**26,632**	32,228	**250,678**
Total	**¥ 28,133**	¥ 33,197	**$ 264,806**
Available-for-sale securities with fair value	**16,881**	12,597	**158,895**
Available-for-sale securities without fair value	**1,465**	1,464	**13,790**
Equity securities issued by subsidiaries and affiliates	**9,786**	19,136	**92,112**
Total	**¥ 28,132**	¥ 33,197	**$ 264,797**

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

As of March 31, 2018 and 2017, book values (fair values) and acquisition costs of available-for-sale securities with fair values were as follows:

	Millions of yen		
	2018		
	Book value	Acquisition cost	Difference
Securities whose book values (fair values) exceed their acquisition costs:			
Equity securities	**¥ 12,130**	**¥ 4,827**	**¥ 7,303**
Debt securities:			
Government and municipal bonds	**—**	**—**	**—**
Corporate bonds	**590**	**500**	**90**
Other bonds	**1,518**	**1,500**	**18**
Other	**—**	**—**	**—**
Sub-total	**¥ 14,238**	**¥ 6,827**	**¥ 7,411**
Securities whose book values (fair values) do not exceed their acquisition costs:			
Equity securities	**¥ 73**	**¥ 74**	**¥ (1)**
Debt securities:			
Other bonds	**2,570**	**2,600**	**(30)**
Other	**—**	**—**	**—**
Sub-total	**¥ 2,643**	**¥ 2,674**	**¥ (31)**
Total	**¥ 16,881**	**¥ 9,501**	**¥ 7,380**

	Millions of yen		
	2017		
	Book value	Acquisition cost	Difference
Securities whose book values (fair values) exceed their acquisition costs:			
Equity securities	¥ 8,947	¥ 4,321	¥ 4,626
Debt securities:			
Government and municipal bonds	—	—	—
Corporate bonds	986	898	88
Other bonds	2,080	2,000	80
Other	—	—	—
Sub-total	¥ 12,013	¥ 7,219	¥ 4,794
Securities whose book values (fair values) do not exceed their acquisition costs:			
Equity securities	¥ 0	¥ 0	¥ (0)
Debt securities:			
Other bonds	584	600	(16)
Other	—	—	—
Sub-total	¥ 584	¥ 600	¥ (16)
Total	¥ 12,597	¥ 7,819	¥ 4,778

	Thousands of U.S. dollars (Note 1)		
	2018		
	Book value	Acquisition cost	Difference
Securities whose book values (fair values) exceed their acquisition costs:			
Equity securities	**$ 114,176**	**$ 45,435**	**$ 68,741**
Debt securities:			
Government and municipal bonds	**—**	**—**	**—**
Corporate bonds	**5,553**	**4,706**	**847**
Other bonds	**14,288**	**14,119**	**169**
Other	**—**	**—**	**—**
Sub-total	**$ 134,017**	**$ 64,260**	**$ 69,757**
Securities whose book values (fair values) do not exceed their acquisition costs:			
Equity securities	**$ 687**	**$ 696**	**$ (9)**
Debt securities:	**—**	**—**	**—**
Other bonds	**24,191**	**24,473**	**(282)**
Other	**—**	**—**	**—**
Sub-total	**$ 24,878**	**$ 25,169**	**$ (291)**
Total	**$ 158,895**	**$ 89,429**	**$ 69,466**

(b) Proceeds from sales, and gross realized gains and losses from the sale of available-for-sale securities for the years ended March 31, 2018 and 2017 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2017	2018
Proceeds from sales			
Equity securities	¥ 211	¥ —	$ 1,986
Other		—	—
Total	¥ 211	¥ —	$ 1,986
Gross realized gains			
Equity securities	¥ 201	¥ —	$ 1,892
Other		—	—
Total	¥ 201	¥ —	$ 1,892

(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			
	2018			
	Within 1 year	1 to 5 years	5 to 10 years	Over 10 years
Cash and cash equivalents	¥ 12,670	¥ —	¥ —	¥ —
Notes receivable, accounts receivable from completed construction contracts and other	32,065	—	—	—
Short-term investments and investment securities				
Securities with maturities:				
(1) Government and municipal bonds	—	—	—	—
(2) Corporate bonds	—	—	—	500
(3) Other bonds	1,501	2,600	—	—
Investments in silent partnership	—	1,000	712	—
Total	¥ 46,236	¥ 3,600	¥ 712	¥ 500

	Millions of yen			
	2017			
	Within 1 year	1 to 5 years	5 to 10 years	Over 10 years
Cash and cash equivalents	¥ 11,346	¥ —	¥ —	¥ —
Notes receivable, accounts receivable from completed construction contracts and other	41,005	98	—	—
Short-term investments and investment securities				
Securities with maturities:				
(1) Government and municipal bonds	—	—	—	—
(2) Corporate bonds	400	—	—	500
(3) Other bonds	500	2,100	—	—
Investments in silent partnership	—	1,223	500	—
Total	¥ 53,251	¥ 3,421	¥ 500	¥ 500

	Thousands of U.S. dollars (Note 1)			
	2018			
	Within 1 year	1 to 5 years	5 to 10 years	Over 10 years
Cash and cash equivalents	$ 119,258	$ —	$ —	$ —
Notes receivable, accounts receivable from completed construction contracts and other	301,817	—	—	—
Short-term investments and investment securities				
Securities with maturities:				
(1) Government and municipal bonds	—	—	—	—
(2) Corporate bonds	—	—	—	4,706
(3) Other bonds	14,119	24,473	—	—
Investments in silent partnership	—	9,413	6,702	—
Total	$ 435,194	$ 33,886	$ 6,702	$ 4,706

(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 income before income taxes were approximately 30.9% and 30.9% for the years ended March 31, 2018 and 2017, 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, 2018 and 2017.

	2018	2017
Statutory tax rate	**30.9%**	30.9%
Non-deductible expenses	**0.5**	0.5
Non-taxable dividend income	**(15.8)**	(0.4)
Per capita inhabitant tax	**0.6**	0.6
Equity in earnings of affiliates	**(2.0)**	(4.3)
Tax credits for salary growth	**(0.3)**	(2.0)
Other	**(0.6)**	(0.0)
Effective tax rate	**14.5%**	25.4%

Significant components of the Companies' deferred tax assets and liabilities as of March 31, 2018 and 2017 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2017	**2018**
Deferred tax assets:			
Loss on valuation of investment securities	**¥ 200**	¥ 200	**$ 1,883**
Enterprise taxes payable	**47**	134	**442**
Provision for bonuses	**383**	931	**3,605**
Provision for loss on construction contracts	**129**	97	**1,214**
Liability for retirement benefits	**888**	713	**8,358**
Net unrealized holding losses on securities	**9**	5	**85**
Other	**383**	497	**3,605**
Valuation allowance	**(418)**	(414)	**(3,934)**
Sub-total	**¥ 1,621**	¥ 2,163	**$ 15,258**
Less : deferred tax liabilities-describe	**(953)**	(812)	**(8,970)**
Total deferred tax assets	**¥ 668**	¥ 1,351	**$ 6,288**
Current deferred tax assets	**668**	1,304	**6,288**
Non-current deferred tax assets	—	47	—
Deferred tax liabilities:			
Net unrealized holding gains on securities	**¥ (2,154)**	¥ (1,357)	**$ (20,275)**
Other	**(1)**	(37)	**(9)**
Sub-total	**¥ (2,155)**	¥ (1,394)	**$ (20,284)**
Less : deferred tax assets-describe	**953**	812	**8,970**
Total deferred tax liabilities	**¥ (1,202)**	¥ (582)	**$ (11,314)**

6. Selling, general and administrative expenses

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

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2017	**2018**
Employees' salaries and allowances	**¥ 2,581**	¥ 2,472	**$ 24,294**
Provision for bonuses	**584**	1,383	**5,497**
Retirement benefit expenses	**220**	220	**2,071**
Provision of allowance for doubtful accounts	**(2)**	(29)	**(19)**
Depreciation	**161**	125	**1,515**
Rents	**1,142**	1,048	**10,749**
Research and development expenses	**112**	148	**1,054**
Others	**2,958**	3,069	**27,843**
Total	**¥ 7,756**	¥ 8,436	**$ 73,004**

7. 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, 2018 and 2017 is as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2017	**2018**
Funded retirement benefit obligations	**¥ 5,356**	¥ 4,780	**$ 50,414**
Plan assets	**(4,662)**	(4,659)	**(43,882)**
Net	**694**	121	**6,532**
Unfunded retirement benefit obligations	**151**	149	**1,422**
Net balance of liability and asset recorded on the consolidated balance sheets	**¥ 845**	¥ 270	**$ 7,954**
Liability for retirement benefits	**879**	340	**8,274**
Asset for retirement benefits	**(34)**	(70)	**(320)**
Net balance of liability and asset recorded on the consolidated balance sheets	**¥ 845**	¥ 270	**$ 7,954**

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, 2018 and 2017 is as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2017	**2018**
Retirement benefit obligation at beginning of period	**¥ 4,425**	¥ 4,488	**$ 41,651**
Current service costs	**228**	232	**2,146**
Interest costs	**18**	15	**169**
Actuarial gains and losses arising during period	**642**	46	**6,043**
Retirement benefits paid	**(310)**	(303)	**(2,918)**
Past service cost	**—**	(53)	**—**
Retirement benefit obligation at end of period	**¥ 5,003**	¥ 4,425	**$ 47,091**

(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, 2018 and 2017 is as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2017	**2018**
Plan assets at beginning of period	**¥ 4,288**	¥ 4,329	**$ 40,361**
Expected return on plan assets	**54**	55	**508**
Actuarial gains and losses arising during period	**(1)**	(40)	**(9)**
Contribution from employer	**93**	92	**875**
Retirement benefit paid	**(159)**	(148)	**(1,496)**
Plan assets at end of period	**¥ 4,275**	¥ 4,288	**$ 40,239**

(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, 2018 and 2017 is as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2017	**2018**
Liability for retirement benefits at beginning of period	**¥ 133**	¥ 129	**$ 1,252**
Retirement benefit expenses	**18**	36	**169**
Retirement benefit paid	**(16)**	(15)	**(150)**
Contribution to plans	**(17)**	(17)	**(160)**
Liability for retirement benefits at end of period	**¥ 118**	¥ 133	**$ 1,111**

(e) The components of retirement benefit expenses for the years ended March 31, 2018 and 2017 is as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2017	**2018**
Current service costs	**¥ 228**	¥ 232	**$ 2,146**
Interest costs	**18**	15	**169**
Expected return on plan assets	**(55)**	(55)	**(517)**
Amortization of actuarial gains and losses	**185**	125	**1,742**
Amortization of past service costs	**(17)**	(14)	**(160)**
Retirement benefit expenses applying the simplified method	**18**	36	**169**
Retirement benefit expenses under defined benefit plans	**¥ 377**	¥ 339	**$ 3,549**

(f) Adjustments for retirement benefits

Components of items recorded in adjustments for retirement benefits, before tax, for the years ended march 31, 2018 are as follows:

	Millions of yen	Thousands of U.S. dollars (Note 1)
	2018	**2018**
Past service costs	**¥ (17)**	**$ (160)**
Actuarial gains and losses	**(458)**	**(4,311)**
Total	**¥ (475)**	**$ (4,471)**

(g) Accumulated adjustments for retirements benefits

Components of items recorded in accumulated adjustments for retirement benefits, before tax, as of march 31, 2018 and 2017 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2017	**2018**
Unrecognized past service costs	**¥ 77**	¥ 95	**$ 724**
Unrecognized actuarial gains and losses	**(1,048)**	(590)	**(9,864)**
Total	**¥ (971)**	¥ (495)	**$ (9,140)**

(h) Plan assets

i. Components of plan assets

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

	2018	2017
Debt securities	**30%**	29%
Equity securities	**5**	5
General account	**43**	44
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, 2018 and 2017, 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, 2018 and 2017 are as follows:

	2018	2017
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 ¥165 million ($1,553 thousand) and ¥160 million for the years ended March 31, 2018 and 2017, respectively. Latest most available information about the multi-employer plans was as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	As of March 31, 2017	As of March 31, 2016	As of March 31, 2017
Fair value of plan assets	**¥ 9,039**	¥ 40,402	**$ 85,081**
Benefit obligations under pension funding programs	**17,011**	51,357	**160,119**
Deficit	**¥ (7,972)**	¥ (10,955)	**$ (75,038)**
Balance of actuarial past service costs	**(9,468)**	(12,029)	**$ (89,119)**
Surplus	**1,496**	1,074	**14,081**
Ratio of total salaries of the Companies to total funds of plans (*1)	**11.9%**	12.3%	

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 ¥101 million ($ 951 thousand) and ¥112 million related to the amortization as expenses in the consolidated financial statements for the years ended March 31, 2018 and 2017, respectively.

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

8. 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 (Thousands of U.S. dollars) (Note 1)	Amount per share (Yen)	Amount per share (U.S.dollars) (Note 1)	Record date	Effective date
June 29, 2016	Annual shareholders' meeting	Common stock	**¥ 591**		**¥ 20.00**		March 31, 2016	June 30, 2016
November 8, 2016	Board of directors	Common stock	**¥ 734**		**¥ 25.00**		September 30, 2016	December 5, 2016
June 29, 2017	Annual shareholders' meeting	Common stock	**¥ 728**	**$ 6,852**	**¥ 25.00**	**$ 0.24**	March 31, 2017	June 30, 2017
November 7, 2017	Board of directors	Common stock	**¥ 874**	**$ 8,227**	**¥ 30.00**	**$ 0.28**	September 30, 2017	December 4, 2017

Note: The amount of dividend resolved by the board of directors on November 7, 2017 includes dividend on the Company's stock held by the BIP Trust of ¥3 million ($28 thousand).

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)	Amount (Thousands of U.S. dollars) (Note 1)	Paid from	Amount per share (Yen)	Amount per share (U.S. dollars) (Note 1)	Record date	Effective date
June 28, 2018	Annual shareholders' meeting	Common stock	**¥ 739**	**$ 6,956**	Retained earnings	**¥ 30.00**	**$ 0.28**	March 31, 2018	June 29, 2018

Note: The amount of dividend includes dividend on the Company's stock held by the BIP Trust of ¥7 million ($66 thousand).

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.

9. 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, 2018 and 2017 amounted to ¥46 million ($433 thousand) and ¥48 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	June 27, 2013
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	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	38,000 common shares
Date of grant	October 1, 2009	July 26, 2010	August 8, 2011	July 23, 2012	July 22, 2013
Vesting condition	No provisions	No provisions	No provisions	No provisions	No provisions
Requisite service period	No provisions	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 *	July 23, 2013 – July 22, 2043 *

Date of approval	June 27, 2014	June 26, 2015	June 29, 2016	June 29, 2017
Persons granted	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	6 directors of the Company 15 corporate officers of the Company
Number of options granted	25,800 common shares	30,500 common shares	32,000 common shares	26,200 common shares
Date of grant	July 22, 2014	July 21, 2015	July 25, 2016	July 24, 2017
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, 2014 – July 22, 2044 *	July 22, 2015 – July 21, 2045 *	July 26, 2016 – July 25, 2046 *	July 25, 2017 – July 24, 2047 *

* 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, 2018.

a) Number of stock options

Date of approval	June 26, 2009	June 29, 2010	June 29, 2011	June 28, 2012	June 27, 2013
Fiscal year ended March 31, 2017					
Non-vested	(Share)	(Share)	(Share)	(Share)	(Share)
April 1, 2017 – Outstanding	—	—	—	—	—
Granted	—	—	—	—	—
Forfeited	—	—	—	—	—
Vested	—	—	—	—	—
March 31, 2018 – Outstanding	—	—	—	—	—
Vested					
April 1, 2017 – Outstanding	5,900	18,000	22,100	22,600	23,400
Vested	—	—	—	—	—
Exercised	4,100	9,400	11,500	10,300	8,800
Forfeited	—	—	—	—	—
March 31, 2018 – Outstanding	1,800	8,600	10,600	12,300	14,600

Date of approval	June 27, 2014	June 26, 2015	June 29, 2016	June 29, 2017
Fiscal year ended March 31, 2017				
Non-vested	(Share)	(Share)	(Share)	(Share)
April 1, 2017 – Outstanding	—	—	—	—
Granted	—	—	—	26,200
Forfeited	—	—	—	—
Vested	—	—	—	26,200
March 31, 2018 – Outstanding	—	—	—	—
Vested				
April 1, 2017 – Outstanding	18,300	25,600	32,000	—
Vested	—	—	—	26,200
Exercised	5,600	6,800	4,500	—
Forfeited	—	—	—	—
March 31, 2018 – Outstanding	12,700	18,800	27,500	26,200

b) Price information

Date of approval	June 26, 2009	June 29, 2010	June 29, 2011	June 28, 2012	June 27, 2013
Exercise price	¥1 per share ($0.01 per share)	¥1 per share ($0.01 per share)	¥1 per share ($0.01 per share)	¥1 per share ($0.01 per share)	¥1 per share ($0.01 per share)
Average exercise price	¥1,919 ($18.06)	¥1,919 ($18.06)	¥1,919 ($18.06)	¥1,919 ($18.06)	¥1,919 ($18.06)
Fair value at grant date	¥686 ($6.46)	¥633 ($5.96)	¥594 ($5.59)	¥728 ($6.85)	¥904 ($8.51)

Date of approval	June 27, 2014	June 26, 2015	June 29, 2016	June 29, 2017
Exercise price	¥1 per share ($0.01 per share)	¥1 per share ($0.01 per share)	¥1 per share ($0.01 per share)	¥1 per share ($0.01 per share)
Average exercise price	¥1,919 ($18.06)	¥1,919 ($18.06)	¥1,919 ($18.06)	—
Fair value at grant date	¥1,479 ($13.92)	¥1,544 ($14.53)	¥1,508 ($14.19)	¥1,763 ($16.59)

(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 29, 2017
Expected volatility of the underlying stock	(*1)	28.6%
Expected life of the option	(*2)	6 years
Expected dividend on stock	(*3)	¥50.0 ($0.47) per share
Risk-free interest rate during the expected option term	(*4)	(0.06)%

(*1) The volatility of the stock option is calculated based on the actual stock prices during five years from July 25, 2012 to July 24, 2017.
(*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.

10. Comprehensive income

Reclassification adjustments and income tax benefit (expense) on other comprehensive income for the years ended March 31, 2018 and 2017 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2017	**2018**
Net unrealized holding gains or losses on securities:			
Gains (losses) arising during the period	**¥ 2,602**	¥ 459	**$ 24,492**
Reclassification adjustments	**—**	—	**—**
Sub-total, before tax	**¥ 2,602**	¥ 459	**$ 24,492**
Income tax benefit (expense)	**(793)**	(154)	**(7,465)**
Net unrealized holding gains or losses on securities	**¥ 1,809**	¥ 305	**$ 17,027**
Deferred gains or losses on hedges			
Gains (losses) arising during the period	**¥ (0)**	¥ (0)	**$ (0)**
Income tax benefit (expense)	**0**	0	**0**
Deferred gains or losses on hedges	**¥ (0)**	¥ (0)	**$ (0)**
Adjustments for retirements benefits gains or losses on securities:			
Gains (losses) arising during the period	**¥ (578)**	¥ (26)	**$ (5,441)**
Reclassification adjustments	**103**	104	**970**
Sub-total, before tax	**¥ (475)**	¥ 78	**$ (4,471)**
Income tax benefit (expense)	**145**	(24)	**1,365**
Net unrealized holding gains or losses on securities	**¥ (330)**	¥ 54	**$ (3,106)**
Share of other comprehensive income of associates accounted for using equity method:			
Gains (losses) arising during the period	**¥ 133**	¥ 59	**$ 1,252**
Total other comprehensive income	**¥ 1,612**	¥ 418	**$ 15,173**

11. Net income per share

Reconciliation of the differences between basic and diluted net income per share ("EPS") for the years ended March 31, 2018 and 2017 was as follows:

	Millions of yen	Thousands of shares	Yen	U.S. dollars (Note 1)
	Net income	Weighted average number of shares	EPS	EPS
For the year ended March 31, 2018				
Basic EPS				
Net income available to common shareholders	**¥ 7,273**	**27,761**	**¥ 262.00**	**$ 2.47**
Effect of dilutive securities				
Stock acquisition rights	**—**	**139**	**—**	**—**
Diluted EPS				
Net income for computation	**¥ 7,273**	**27,900**	**¥ 260.69**	**$ 2.45**

	Millions of yen	Thousands of shares	Yen
	Net income	Weighted average number of shares	EPS
For the year ended March 31, 2017			
Basic EPS			
Net income available to common shareholders	¥ 5,207	29,173	¥ 178.49
Effect of dilutive securities			
Stock acquisition rights	—	165	—
Diluted EPS			
Net income for computation	¥ 5,207	29,338	¥ 177.48

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, 2018: 116 thousand shares).

12. Segment information

1. General information about reportable segments

Reportable segments are the constituent units of the Hibiya Engineering the "Group" for each of which separate 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, 2018 and 2017 was as follows:

	Millions of yen					
	2018					
	Construction	Equipment sales	Equipment manufacturing	Total	Adjustments (*1)	Consolidated
Net sales:						
Outside customers	**¥ 58,030**	**¥ 5,743**	**¥ 3,066**	**¥ 66,839**	**¥ —**	**¥ 66,839**
Intersegment	**3**	**4,030**	**470**	**4,503**	**(4,503)**	**—**
Total	**¥ 58,033**	**¥ 9,773**	**¥ 3,536**	**¥ 71,342**	**¥ (4,503)**	**¥ 66,839**
Segment income (*2)	**¥ 2,623**	**¥ 338**	**¥ 201**	**¥ 3,162**	**¥ 10**	**¥ 3,172**
Segment assets	**¥ 36,380**	**¥ 9,382**	**¥ 2,512**	**¥ 48,274**	**¥ 35,277**	**¥ 83,551**
Other items:						
Depreciation and amortization	**¥ 175**	**¥ 8**	**¥ 27**	**¥ 210**	**¥ —**	**¥ 210**
Increase in tangible and intangible fixed assets	**322**	**20**	**32**	**374**	**—**	**374**

	Millions of yen					
	2017					
	Construction	Equipment sales	Equipment manufacturing	Total	Adjustments (*1)	Consolidated
Net sales:						
Outside customers	¥ 69,022	¥ 6,091	¥ 3,275	¥ 78,388	¥ —	¥ 78,388
Intersegment	5	4,462	718	5,185	(5,185)	—
Total	¥ 69,027	¥ 10,553	¥ 3,993	¥ 83,573	¥ (5,185)	¥ 78,388
Segment income (*2)	¥ 4,898	¥ 317	¥ 383	¥ 5,598	¥ 11	¥ 5,609
Segment assets	¥ 41,631	¥ 9,655	¥ 3,613	¥ 54,899	¥ 38,763	¥ 93,662
Other items:						
Depreciation and amortization	¥ 136	¥ 6	¥ 24	¥ 167	¥ —	¥ 167
Increase in tangible and intangible fixed assets	461	5	16	483	—	483

	Thousands of U.S. dollars (Note 1)					
	2018					
	Construction	Equipment sales	Equipment manufacturing	Total	Adjustments (*1)	Consolidated
Net sales:						
Outside customers	**$ 546,216**	**$ 54,057**	**$ 28,859**	**$ 629,132**	**$ —**	**$ 629,132**
Intersegment	**28**	**37,933**	**4,424**	**42,385**	**(42,385)**	**—**
Total	**$ 546,244**	**$ 91,990**	**$ 33,283**	**$ 671,517**	**$ (42,385)**	**$ 629,132**
Segment income (*2)	**$ 24,690**	**$ 3,181**	**$ 1,892**	**$ 29,763**	**$ 94**	**$ 29,857**
Segment assets	**$ 342,432**	**$ 88,309**	**$ 23,645**	**$ 454,386**	**$ 332,050**	**$ 786,436**
Other items:						
Depreciation and amortization	**$ 1,648**	**$ 75**	**$ 254**	**$ 1,977**	**$ —**	**$ 1,977**
Increase in tangible and intangible fixed assets	**3,031**	**188**	**301**	**3,520**	**—**	**3,520**

(*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, 2018 and 2017 were ¥37,142 million ($349,605 thousand) and ¥40,950 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, 2018 and 2017 were ¥1,865 million ($17,555 thousand) and ¥2,186 million, respectively.

(*2) Segment income is adjusted for consistency with operating income in the consolidated statements of income.

(Related Information)

(1) Information by major customer for the years ended March 31, 2018 and 2017 was as follows:

2018	Net sales		
Name of customer	Millions of yen	Thousands of U.S. dollars (Note 1)	Related reportable segments
NTT FACILITIES, INC.	**¥ 8,755**	**$ 82,408**	Construction, Equipment sales, Equipment manufacturing
NIPPON TELEGRAPH AND TELEPHONE EAST CORPORATION	**¥ 7,506**	**$ 70,651**	Construction

2017	Net sales	
Name of customer	Millions of yen	Related reportable segments
NTT FACILITIES, INC.	¥ 11,549	Construction, Equipment sales, Equipment manufacturing
NIPPON TELEGRAPH AND TELEPHONE EAST CORPORATION	¥ 10,096	Construction

13. Related party transactions and balances

(Related party transactions and balances)

Related party transactions and balances as of and for the year ended March 31, 2018 were as follows:

2018							
			Capital or investments in capital				
Category	Company name	Location	Millions of yen	Thousands of U.S. dollars (Note 1)	Business description	Ownership percentage of voting rights (%)	Relationship
Affiliate	Nihon Meccs Corporation	Chuo-ku, Tokyo	(Capital) **¥ 120**	(Capital) **$ 1,130**	Property maintenance and management	(Owning) direct 39.1	Construction work for facilities engineering Interlocking directorate

2018					
	Transaction amount (*1) (*3)			Year-end balance (*3)	
Details of transaction	Millions of yen	Thousands of U.S. dollars (Note 1)	Account	Millions of yen	Thousands of U.S. dollars (Note 1)
Sales of shares in an associate (*2)					
Sales proceeds	**¥ 14,621**	**$ 137,622**	—	—	—
Gain on sales	**4,322**	**40,681**	—	—	—

(*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 a portion of shares in Nihon Meccs Corporation held by the Company, and the terms of price were reasonably determined after consultation on the basis of net assets and other factors.

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

(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, 2018 and 2017 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2017	**2018**
Current assets	**¥ 27,974**	¥ 42,671	**$ 263,309**
Non-current assets	**15,445**	15,400	**145,378**
Current liabilities	**14,440**	14,230	**135,919**
Long-term liabilities	**2,739**	2,727	**25,781**
Net assets	**26,240**	41,114	**246,988**
Net sales	**60,209**	59,496	**566,726**
Income before income taxes	**2,911**	3,117	**27,400**
Net income	**2,089**	2,114	**19,663**

Independent Auditor's Report

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

We have audited the accompanying consolidated financial statements of Hibiya Engineering , Ltd. and its consolidated subsidiaries , which comprise the consolidated balance sheets as at March 31, 2018 and 2017, and the consolidated statements of income, statements of comprehensive income, statements of changes in net assets and statements of cash flows for the years then ended , and a summary of significant accounting policies and other explanatory information.

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

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

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

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

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Hibiya Engineering , Ltd. and its consolidated subsidiaries as at March 31, 2018 and 2017, and their financial performance and cash flows for the years then ended in accordance with accounting principles generally accepted in Japan.

Convenience Translation
The U.S. dollar amounts in the accompanying consolidated financial statements as of and for the year ended March 31, 2018 are presented solely for convenience of the readers. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

KPMG AZSA LLC

September 14, 2018
Tokyo, Japan

Corporate Data

Investor Information

As of March 31, 2018

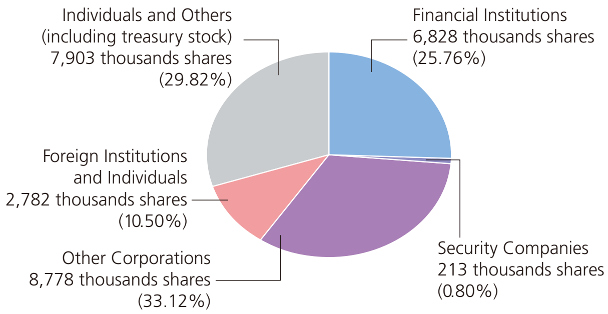
Total number of shares authorized	96,500,000 shares
Total number of shares issued	26,506,321 shares
Number of shareholders	2,875

Major Shareholders

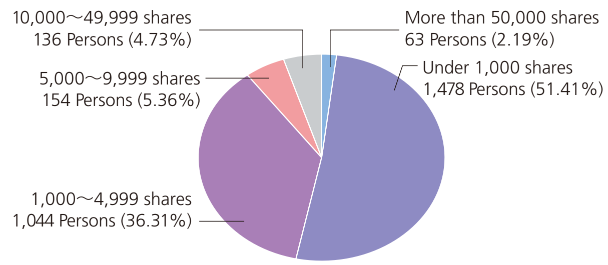
Name of shareholders	Number of held thousands shares	Percentage of shares in issue(%)
1 Hibiya Engineering Customer Stock Ownership Plan	1,224	4.97
2 NTT Urban Development Co.	920	3.73
3 Sumitomo Realty & Development Co., Ltd.	920	3.73
4 The Master Trust Bank of Japan, Ltd. (Retirement benefit trust account, Hyakujushi Bank account)	900	3.65
5 The Master Trust Bank of Japan, Ltd. (Trust account)	737	2.99
6 Japan Trustee Services Bank, Ltd. (Trust account)	728	2.96
7 Telecommunications Mutual Benefit Association	698	2.84
8 Kyoritsu Construction Co., Ltd.	594	2.41
9 Hibiya Engineering Employee Stock Ownership Plan	568	2.31
10 Kyowa Exeo Corporation	530	2.15

Notes
1) Hibiya Engineering has 1,857 thousand shares of treasury stock, which is 7.01% of all shares issued, excluding the shares owned by these major shareholders.
2) Shareholding percentages are based on shares issued after deducting treasury stock. Treasury stock does not include Hibiya Engineering stock held by the Executive Compensation Board Incentive Plan Trust.
3) The number of shares shown above that are associated trusts are as follows.
The Master Trust Bank of Japan, Ltd.
(Retirement benefit trust account, The Hyakujushi Bank, Ltd. account): 900 thousand shares
(Assets placed in trust by The Hyakujushi Bank, Ltd., which has the right to submit voting instructions)
The Master Trust Bank of Japan, Ltd. (Trust account): 737 thousand shares
Japan Trustee Services Bank, Ltd. (Trust account): 728 thousand shares

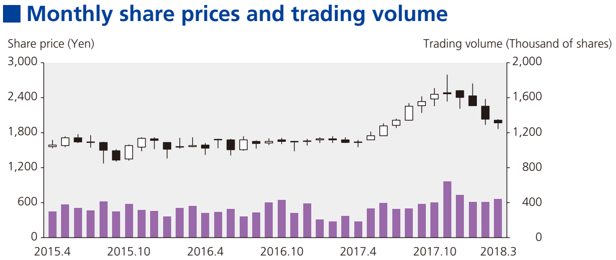
Share distribution by owner



Share distribution by size of holding



Monthly share prices and trading volume



Board of Directors

As of June 28, 2018

President and Representative Director	Yoshiharu Nishimura
Vice President and Representative Director	Shigeru Toyoda
Director	Tetsuya Kamachi
Director	Keisuke Shimoda
Director	Hiroshi Jitsukawa
Director	Yuuji Yamauchi
Director	Kensho Kusumi
Director	Hiroo Atsumi
Director	Seiichi Hashimoto
Standing Corporate Auditor	Kouji Kuwahara
Auditor	Akira Itou
Auditor	Masamitsu Nakamura
Auditor	Hirotaka Tadakoshi

Notes
1) Kensho Kusumi, and Hiroo Atsumi and Seiichi Hashimoto are external directors under the terms of the Corporate Law Article 2 Section 15.
2) Kouji Kuwahara, Akira Itou and Hirotaka Tadakoshi are external auditors under the terms of the Corporate Law Article 2 Section 16.
3) The Company has notified the Tokyo Stock Exchange that Kensho Kusumi, Hiroo Atsumi and Seiichi Hashimoto are external directors and Kouji Kuwahara and Akira Itou are external corporate auditors.

Offices

As of March 31, 2018

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

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

Research Facilities
Noda in Chiba Prefecture

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