



2017 ANNUAL
REPORT



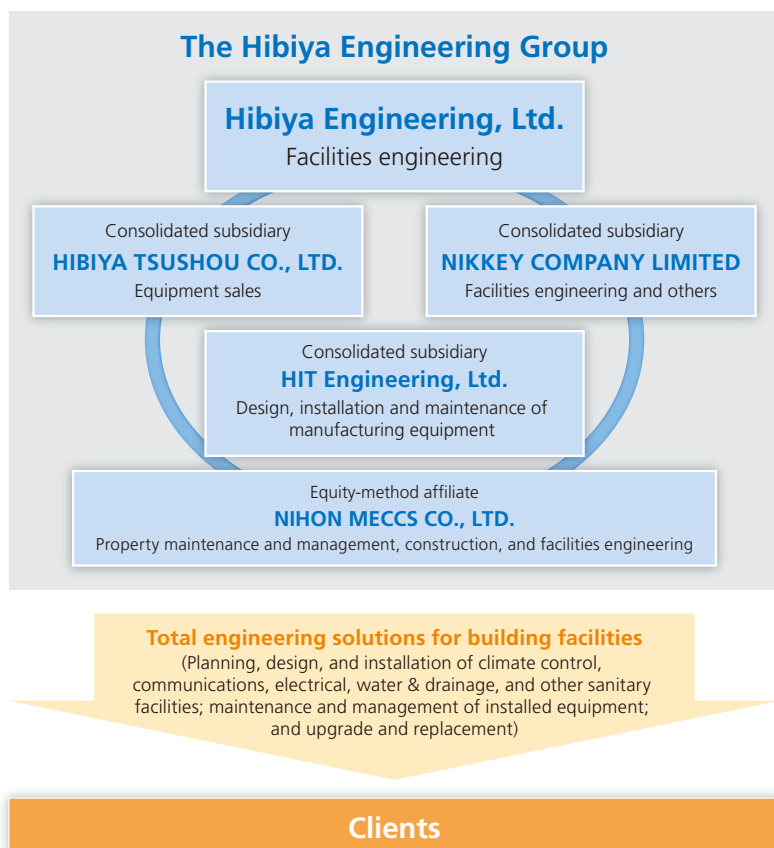
Hibiya Engineering, Ltd.

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.



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Projections and Perspectives:

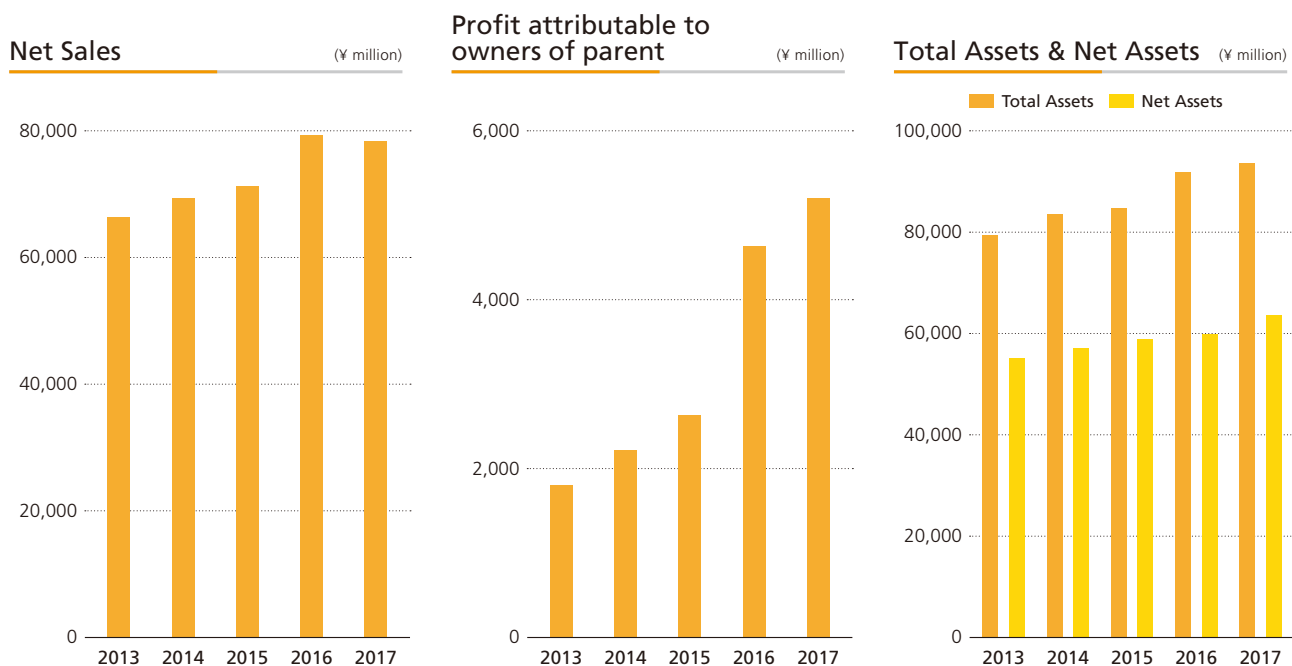
This Annual Report includes projections and descriptions of prospects regarding future plans, strategies and the operating performance of the Company. Such descriptions are not based on past facts, but rather on perspectives judged to be appropriate in view of assumptions and management convictions on the strength of information available to the Company as of March 31, 2017. 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

	2013	2014	2015	2016	2017	2017
	Millions of yen					Thousands of U.S. dollars
Net Sales	¥66,322	¥69,466	¥71,330	¥79,402	¥78,388	\$698,708
Profit attributable to owners of parent	1,806	2,216	2,630	4,642	5,207	46,412
Total Assets	79,428	83,532	84,725	91,900	93,662	834,852
Net Assets	55,166	57,069	58,939	59,947	63,720	567,964
	Yen					U.S. dollars
Per share:						
Net Assets	¥1,744.66	¥1,828.81	¥1,912.49	¥1,966.69	¥2,117.40	\$18.87
Profit attributable to owners of parent	58.15	72.78	87.62	156.88	178.49	1.59
Cash Dividend (non-consolidated basis)	30.00	30.00	32.00	40.00	50.00	0.45

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, 2017, which was ¥112.19 to US\$1.00.



A Message from the President



In Japan, the economy recovered slowly during the past fiscal year along with improvements in jobs and personal income, although some sectors of the economy remained sluggish. The U.S. economy was healthy but uncertainty about the European economy is increasing due to Britain's decision to leave the EU. In Asia, economies are rebounding. However, the global economy as a whole was somewhat lackluster because of rising geopolitical risk.

In Japan's construction industry, there are many public-works projects. Nevertheless, the operating environment remains uncertain because the outlook is for a higher cost of raw materials due to foreign exchange rate movements and an increase in the cost of labor because of Japan's shortage of workers. In addition, competition in the construction market is intense.

The Hibiya Engineering Group started its Sixth Medium-term Management Plan in April 2017. Continuing to enact reforms is one central goal. In particular, the plan calls for a focus on life cycle total solutions and building a competitive cost structure. There were many accomplishments in these two areas during the previous management plan. Another main objective of the new management plan is maintaining profitability while preserving the proper balance between social and economic changes and the interests of our stakeholders.

We will continue to use the technological resources of our group for improving the efficiency and quality of construction processes. We will also maintain a rigorous compliance system, use ICT to operate more efficiently and take other actions to build a stronger foundation for our business operations. Our objective is consistent, long-term growth as a comprehensive engineering services organization that is a one-stop source of products and services for all our customers' needs.

Our new management plan provides a sound roadmap for the actions needed to build an even stronger base for consistent and profitable growth. The entire Hibiya Engineering Group has a strong commitment to achieving the plan's goals in order to meet the expectations of our shareholders and all other stakeholders.

President and Representative Director
Yoshiharu Nishimura

Highlights of the Fiscal Year

Results of operations in the year ended March 31, 2017

The past fiscal year was the final year of the Fifth Medium-term Management Plan. The Hibiya Engineering Group achieved steady growth in its strategic business domains by reinforcing sales activities linked to life cycle total solutions. In addition, completions of large projects contributed to the fiscal year's sales and earnings. As a result, as in the prior fiscal year, sales and earnings met the targets of the fiscal year plan and the management plan. Furthermore, earnings benefited from strict profit management of new orders, more centralized purchasing and initiatives to streamline construction processes.

■ Orders received	¥77,365 million (up 0.6% year-on-year)
■ Net sales	¥78,388 million (down 1.3% year-on-year)
■ Operating profit	¥5,609 million (up 20.0% year-on-year)
■ Profit attributable to owners of parent	¥5,207 million (up 12.2% year-on-year)

Operating Highlights

Hibiya Engineering established the Haneda Safety Training Center by relocating its training center from the nearby city of Kawasaki to Tokyo's Ota-ku. Hands-on training facilities at the previous location have been upgraded and there are data center and other new training programs at the Haneda center. All these improvements allow people undergoing training to "see, touch and feel" using actual equipment in order to prevent accidents and reinforce awareness of the importance of safety.

Hibiya Engineering continues to hold Hibiya E&S Seminars for the purpose of supplying information about energy, "smart" business activities and other themes. A recent sem-

inar brought in people from other industries to examine the Internet of things, the outlook for Japan after 2020 and other topics.

Hibiya Engineering frequently participates in business exhibitions so that as many people as possible can see the outstanding technologies of the Hibiya Engineering Group. We are also involved with numerous community activities as part of our commitment to corporate citizenship.

Dividends and Stock Repurchases

Dividends are based on the consolidated dividend-on-equity (DOE) ratio from the standpoint of distributing earnings to shareholders consistently. Hibiya Engineering paid a year-end dividend of 25 yen per share, which includes a 5 yen commemorative dividend. With the interim dividend of 25 yen, which also includes a 5 yen commemorative dividend paid earlier in the fiscal year, the annual dividend was 50 yen. This includes 40 yen of ordinary dividend, the same as in the previous year, and a 10 yen commemorative dividend.

To improve the return on equity and as one way to return earnings to shareholders, Hibiya Engineering purchases and retires treasury shares in a flexible manner. In the fiscal year that ended in March 2017, 462,200 shares of treasury shares were purchased at a total cost of 759 million yen.

The new Sixth Medium-term Management Plan has the same basic policy for earnings distributions as in the previous plan. Based on the earnings goals of the new plan, we plan to pay a dividend of 60 yen (30 yen for both interim and year-end dividends) per share for the fiscal year ending in March 2018. This is 10 yen more than the 50 yen dividend, which includes a commemorative dividend, for the previous fiscal year.

As was announced earlier, Hibiya Engineering plans to purchase up to 500,000 shares of treasury shares at a cost of no more than 850 million yen.

The Fifth Medium-term Management Plan (April 2014 – March 2017)

Fundamental Strategic Objectives

Meet diversifying customer needs and their demands involving cost

Speed up corporate reforms

Accomplishments

Big increases in orders, sales and profitability

Consolidated Target of Each FY of The Fifth Medium-term Management Plan

	2015/3	2016/3	2017/3	Each FY
Orders received	¥73.1 billion	¥76.9 billion	¥77.3 billion	At least ¥70 billion
Net sales	¥71.3 billion	¥79.4 billion	¥78.3 billion	At least ¥70 billion
Operating profit	¥1.9 billion	¥4.6 billion	¥5.6 billion	At least ¥2.5 billion
Ordinary profit	¥3 billion	¥6.3 billion	¥6.9 billion	At least ¥3.3 billion
Profit attributable to owners of parent	¥2.6 billion	¥4.6 billion	¥5.2 billion	At least ¥2 billion

Feature: The Sixth Medium-term Management Plan

Hibiya Engineering has started its Sixth Medium-term Management Plan with the goal of continuing to develop as a comprehensive engineering services organization.

Fundamental

Invest in human resources and ICT to change how people work

Create even more advanced life cycle total solutions for customers

Priority domains

Data centers/
Information

Office buildings

Manufacturing/
Distribution

Education/
Medical welfare

Hotels/Resorts

Basic goal of the new plan

Take full advantage of improvements in the group's profit structure and construction skills and in market conditions

Continue progress with corporate reforms that produced benefits during the fifth plan



Maintain profitability with the proper balance between the needs of society and the demands of stakeholders

Central theme

Establish and strengthen corporate reforms for steady, long-term growth and progress with business operations.

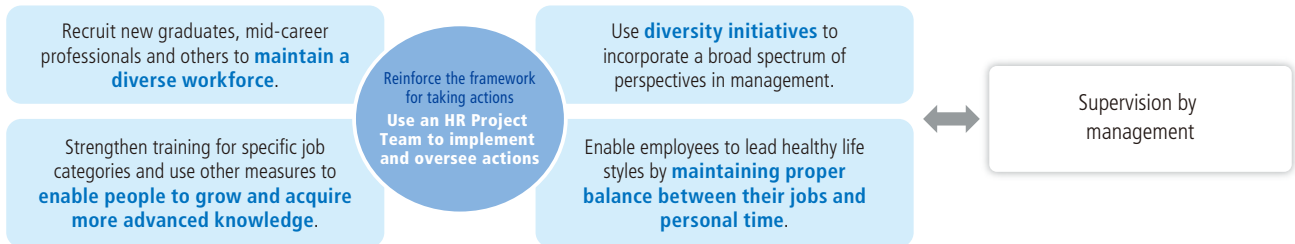
The goal is further development as a comprehensive engineering services organization that is a one-stop source of products and services for customers' needs. This requires creating the best possible solutions with substantial added value for the entire life cycle of a building, from planning to design, construction and operation.

Consolidated performance target for each fiscal year of the plan

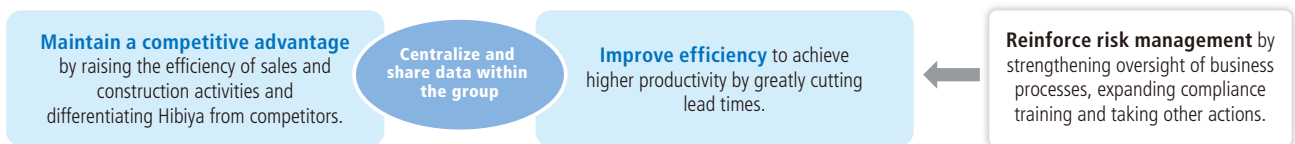
	The Fifth Medium-term Management Plan	The Sixth Medium-term Management Plan	2018/3 (Plan)
Orders received	At least ¥70 billion	At least ¥75 billion	¥75 billion
Net sales	At least ¥70 billion	At least ¥75 billion	¥75 billion
Operating profit	At least ¥2.5 billion	At least ¥4 billion	¥4 billion
Ordinary profit	At least ¥3.3 billion	At least ¥5 billion	¥5 billion
Profit attributable to owners of parent	At least ¥2 billion	At least ¥3 billion	¥3 billion
ROE	—	At least 5.0% Aim the stable achievement of 8.0%	5.0%

Strategy

1 Invest substantially in human resources to make the Hibiya Engineering Group an appealing organization that can recruit talented people.

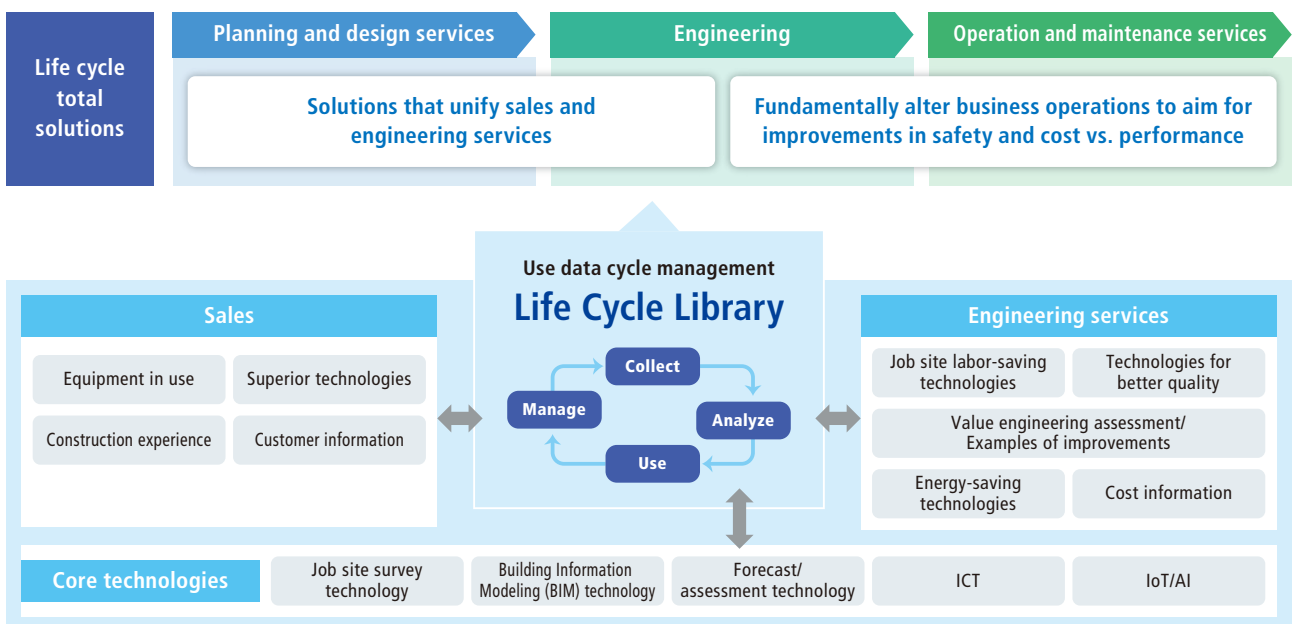


2 Use ICT extensively to reform business processes and reinforce management

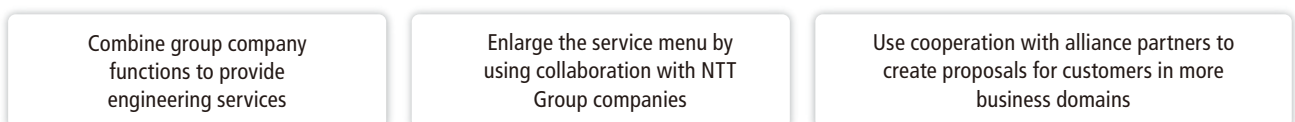


1 Upgrade and enlarge consistent-revenue businesses with initiatives centered on the life cycle library*

Create an environment for receiving orders for many more years by creating medium/long-term proposals that span the entire life cycle of customers' equipment



2 Build many service models by using interaction among group companies and alliances with other companies



*A database containing construction information and other knowledge at the Hibiya Engineering Group that gives the entire group access to this know-how.

The hot spring lodge of a local government has

The system taps previously unused energy to meet 60% of the lodge's lowering operating expenses as well as CO₂ emissions.

Shimada,

A healthy city of water and greenery and a place that brings together people, industry and culture



Aims to be a

Problem in need of a solution

The hot spring lodge was **releasing** large volumes of natural gas (86% methane) from the hot spring into the atmosphere

Hibiya's solution

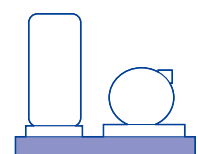
Implementation



Methane has a greenhouse effect more than 20 times higher than that of CO₂

New equipment

2 Compression



Compressor

Methane gas

1 Separation



Gas separator

Hot spring water

Hot spring well (artesian flow)

Methane gas is collected with the hot water

installed a Hibiya natural gas cogeneration system.

electricity demand,

Shizuoka

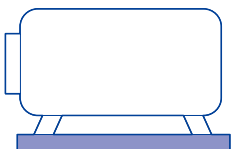
leader in the field of reusable energy

Lowers CO₂ emissions

Hibiya Engineering technologies and expertise

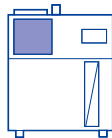
Natural gas cogeneration system that produces electricity and uses exhaust heat

3 Storage



Gas holder

4 Conversion to fuel



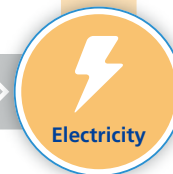
Cogeneration system can provide electricity during a power interruption

Kawane Onsen Hotel

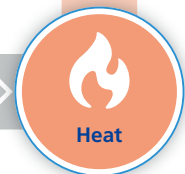


Electricity for the lodge (100kW)

Electricity for hot spring water supply (155kW)



Electricity



Heat

Generates electricity and heat

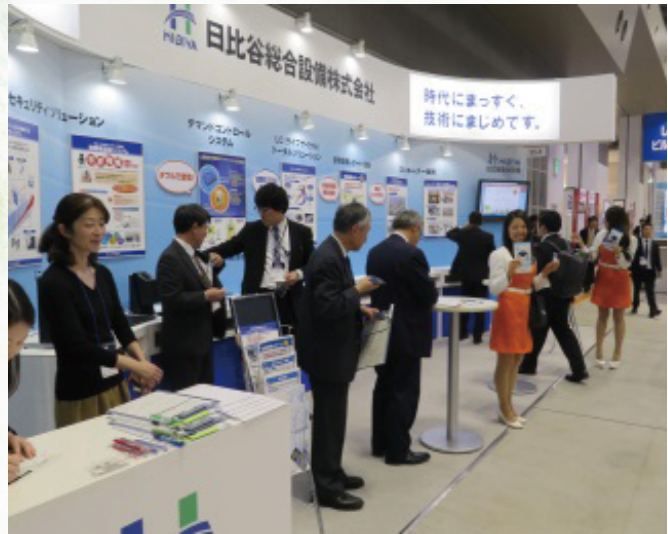
Hot spring water

Hibiya's natural gas cogeneration system at the Yuinchi Hotel Nanjo received a 2015 Cogeneration Award "Special Award" in the consumer category.



Topics2: Participation in Exhibitions

The entire Hibiya Engineering Group participates in many exhibitions to build ties with new customers and alliance partners and seek other ways to create more business opportunities.



A Hibiya Engineering booth at a trade fair

June 2016 Fukuoka International Center

Business Show & Eco Fair 2016



A 3D scanner

June 2016 Makuhari Messe

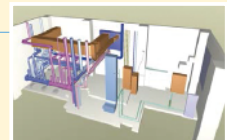
Data Center Expo (Fall)

July 2016 Grand Front Osaka

Smart Energy Japan2016

November 2016 AXES Sapporo

Business Expo 2016



A 3D model

September 2016 Tokyo Big Sight

Food Factory 2016



Smart save (electricity demand control unit)

December 2016 Tokyo Big Sight

Smart Building Expo

October 2016 Sendai International Center

Smart Community + IoT World Tohoku

February 2017 Hiroshima City Exhibition Hall

Business Fair Chugoku-Shikoku 2017

October 2016 Port Messe Nagoya

Messe Nagoya 2016

February 2017 Tokyo Big Sight

Energy Conservation Fair 2017

Topics3: The Hibiya E&S Seminar

Hibiya Engineering uses the Hibiya E&S Plaza, a showroom in the Kyobashi district of Tokyo, to hold seminars for interaction among companies in numerous industries.

What is the Hibiya E&S Seminar?

Hibiya Engineering holds these seminars at Hibiya E&S Plaza, its Tokyo showroom, to examine various themes involving the environment with other companies. After each seminar, there is time for audience members to meet people who gave presentations. This creates opportunities for new business relationships and matching companies with mutually complementary needs.



HIBIYA E&S PLAZA

1	October 2013	Only the best will survive in the new age of the solar energy business ■ NTT Facilities ■ Daiwa House Industry	8	June 2015	Community revitalization looking ahead to 2020 ■ Prefectures of Saga ■ Ehime and Kagawa ■ NTT Facilities ■ OSU Health Support Academy
2	December 2013	"Smart" is today's key word – More progress with energy-conservation ICT ■ NTT Facilities ■ Mersen Japan	9	September 2015	The effective use of solar, geothermal and exhaust heat ■ Sumitomo Chemical ■ Koken Boring Machine ■ Daika Polymer
3	February 2014	Healthy office environments help create outstanding companies ■ Development Bank of Japan ■ Finetech ■ Health Life Compass ■ CM Engineering	10	December 2015	Making the world smart, compact and resilient ■ VEGLIA Laboratories ■ Mitsubishi UFJ Lease & Finance
4	April 2014	Neat energy-conservation technologies for offices and factories that boost productivity and cut costs ■ VEGLIA Laboratories ■ Tokyo Saraya	11	March 2016	Can you protect the health of people who work in your offices? ■ Okamura Manufacturing ■ Seiwa Business ■ Japan EAP Systems
5	July 2014	Plant factories create new opportunities for health, beauty and the culture of food ■ Shiseido ■ Tokyo Crude Drugs Association	12*	June 2016	Ideas for utilizing currently unused energy to help create communities and facilities for a new age ■ Masaki Nakao, Professor at Osaka City University ■ Kokusai Kogyo ■ Science ■ Hibiya Engineering
6	October 2014	BIM technology increases the life cycle value of buildings ■ NTT Facilities ■ SHERPA ■ Powerplace	13*	December 2016	Environmental, data/communications and health care technologies to show the world in 2020! ■ Kawasaki City Industrial Promotion Foundation ■ CM Engineering ■ Sumitomo Heavy Industries Environment ■ Takaoka Toko ■ Nishin Systems ■ Hitachi Systems ■ Headwaters ■ Mitsubishi Electric Engineering ■ Mitsuya Laboratory ■ NYK Trading ■ Hibiya Engineering
7	February 2015	The growing use of energy management at buildings, factories and hospitals ■ VEGLIA Laboratories ■ Yanmar Energy System			

*Events held in the fiscal year that ended in March 2017

■ ■ Companies making presentations at seminars

The HIBIYA Vision

Hibiya Engineering announced a new corporate philosophy called the HIBIYA Vision in March 2006 when the company celebrated the 40th anniversary of its establish-

ment. Incorporating the input of a large number of executives and employees, the vision represents a strong commitment of everyone at the Hibiya Engineering Group.

Mission

We are devoted to fulfilling the following missions.

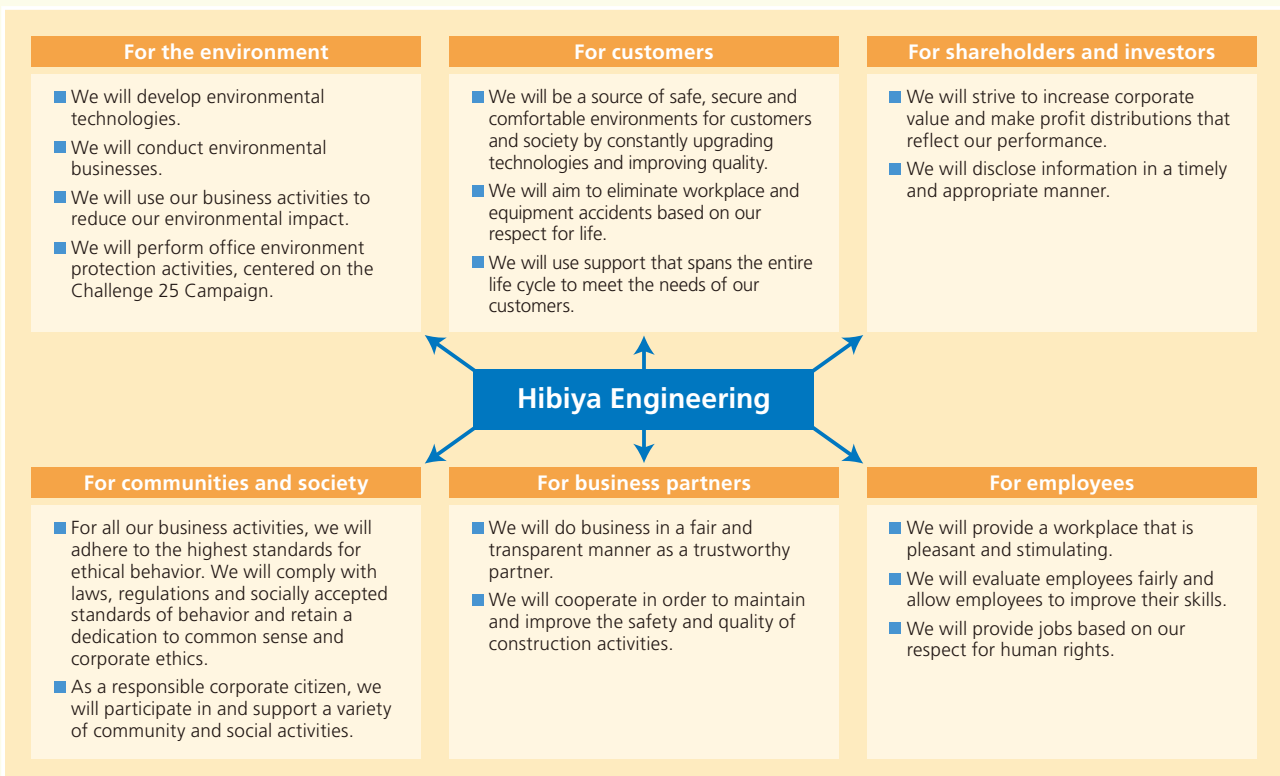
- Creating safe, secure and comfortable environments for customers and society by using light, water, air and information to give life to buildings
- Meeting customers' needs by providing life cycle support for buildings as an expert in the field of building management
- Contributing to the protection 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.



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

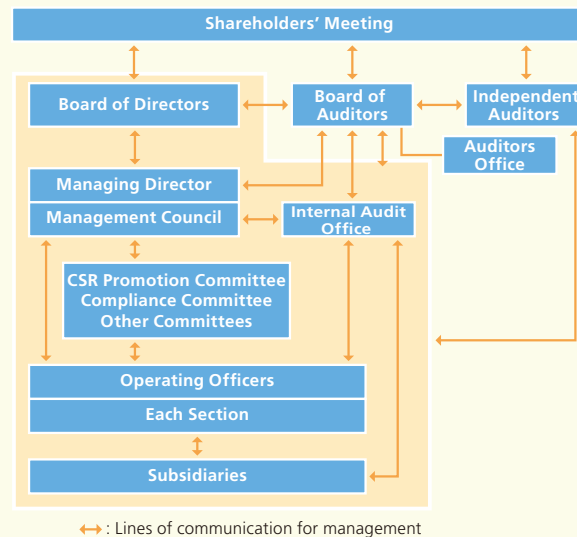
June 2008. There are currently four corporate auditors, including three external auditors. Auditors attend meetings of the Board of Directors, Management Council and other important meetings to ensure that business operations do not violate any laws. Corporate auditors also perform financial audits in 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.

■ Advisory Board

Hibiya Engineering established the Advisory Board in November 2008. The primary role of the board is to provide insight and suggestions concerning various problems involving management strategies as rapid changes occur in the operating environment.



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 trans-

parency 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 Project Completions of the Fiscal Year

Legend ▶▶ 1 Location 2 Use 3 Equipment installed 4 Floor area 5 Stories 6 Completed

Sumitomo Fudousan Azabu Juban Building



- | | | | |
|---|--|---|-------------------------------|
| 1 | Minato-ku, Tokyo | 4 | 41,261m ² |
| 2 | Office building | 5 | 10 floors, 2 penthouse levels |
| 3 | Air conditioning and sanitary facilities | 6 | January 2017 |

Kyobashi Edogrand



- | | | | |
|---|-------------------------------|---|--|
| 1 | Chuo-ku, Tokyo | 4 | 113,553m ² |
| 2 | Office, retail and other uses | 5 | 32 floors, 3 underground levels, 2-story rooftop structure |
| 3 | Sanitary facilities | 6 | October 2016 |

Tokyo Denki University, Tokyo Senju Campus, Building 5



- | | | | |
|---|---------------------|---|--------------------------------|
| 1 | Adachi-ku, Tokyo | 4 | 33,051m ² |
| 2 | School | 5 | 12 floors, 1 underground level |
| 3 | Sanitary facilities | 6 | January 2017 |

Okayama University Hospital, Central Outpatient Care Building



- | | | | |
|---|--|---|-------------------------------|
| 1 | Okayama, Okayama | 4 | 13,234m ² |
| 2 | Hospital | 5 | 7 floors, 1 underground level |
| 3 | Air conditioning and sanitary facilities | 6 | October 2016 |



FINANCIAL SECTION

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Management's Discussion and Analysis

■ Overview

In the fiscal year ended March 31, 2017, with the support of actions of the Japanese government and Bank of Japan, the Japanese economy continued to recover slowly. Capital expenditures also increased slowly as corporate earnings remained high. Consumer spending rebounded due to improvements in employment and personal income.

In the construction industry, the business climate was favorable because of redevelopment projects and growth in public-works projects associated with economic stimulus measures.

Orders received and Sales

The Hibiya Engineering Group continued to take actions aimed at becoming a provider of life cycle total solutions for buildings, which is the goal of the Fifth Medium-term Management Plan that started in April 2014. There were also activities to establish a competitive cost structure by streamlining construction processes and raising quality. Initiatives included centralizing purchasing and utilizing the group's advanced technologies. Rigorous safety quality management to eliminate accidents was another theme of the fiscal year. To build a stronger base of operations, group companies also conducted a thorough compliance program, increased the use of information and communication technologies (ICT) to operate more efficiently, and took other actions. The objective was to set the stage for the Hibiya Engineering Group's next stage of growth as the group celebrated its 50th anniversary in July 2016.

In the fiscal year that ended in March 2017, orders received increased 0.6% to ¥77,365 million and sales decreased 1.3% to ¥78,388 million.

Operating profit and Profit attributable to owners of parent

Operating profit increased 20.0% to ¥5,609 million, ordinary profit increased 10.0% to ¥6,976 million and profit attributable to owners of parent increased 12.2% to ¥5,207 million. Earnings per share increased from ¥156.88 in the previous fiscal year to ¥178.49 and diluted earnings per share was up from ¥156.01 to ¥177.48, respectively.

■ Balance Sheet and Cash Flows

Balance Sheet

Assets

Total assets increased ¥1,761 million from the end of the previous fiscal year to ¥93,662 million. Current assets increased ¥890 million to ¥56,229 million and noncurrent assets increased ¥870 million to ¥37,432 million.

Major changes in current assets were increase of ¥5,399

million in cash and deposits and decrease of ¥2,326 million in notes receivable, accounts receivable from completed construction contracts and other.

Noncurrent assets increased mainly because of a ¥638 million increase in investment securities due to purchase of investment securities.

Liabilities

Liabilities decreased ¥2,011 million to ¥29,942 million.

The decrease in liabilities was mainly due to decreases of ¥2,413 million in notes payable, accounts payable for construction contracts and other.

Net Assets

Net assets were ¥63,720 million at the end of the fiscal year mainly because of the contribution from profit attributable to owners of parent of ¥5,207 million.

Return on Equity

Return on equity rose from 8.1% in the previous fiscal year to 8.8%.

Cash Flows

Net cash provided by operating activities was ¥5,272 million, an improvement of ¥3,401 million compared with the previous fiscal year. A decrease in notes and accounts receivable-trade was a major reason for this improvement.

Net cash provided by investing activities was ¥2,225 million, an increase of ¥1,222 million from the previous fiscal year. The main reason was a decrease in the purchase of investment securities.

Net cash used in financing activities was ¥2,097 million, ¥306 million more than cash used in the previous fiscal year.

The result of these cash flows was a net increase of ¥5,400 million in cash and cash equivalents to ¥11,346 million at the end of the fiscal year.

■ Segment Information

Construction: Sales in this core business segment, which represents 88.1% of total sales, decreased 2.4% to ¥69,022 million and operating profit increased 20.7% to ¥4,898 million.

Equipment sales: Segment, sales increased 12.0% to ¥6,091 million and operating profit increased 43.1% to ¥317 million.

Equipment manufacturing segment: Segment sales decreased 0.2% to ¥3,275 million and operating profit decreased 1.6% to ¥383 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, 2017.

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, 2017 and 2016

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2016	2017
Assets			
Current assets:			
Cash and cash equivalents (Note 4)	¥ 11,346	¥ 5,946	\$ 101,132
Notes receivable, accounts receivable from completed construction contracts and other (Note 4)	41,103	43,429	366,370
Short-term investments (Note 4)	969	2,005	8,637
Costs on uncompleted construction contracts and other (Note 3)	711	888	6,337
Deferred tax assets (Note 5)	1,304	1,082	11,623
Other	813	2,036	7,247
Allowance for doubtful accounts	(17)	(47)	(152)
Total current assets	56,229	55,339	501,194
Property, plant and equipment:			
Buildings and structures	1,575	1,487	14,039
Land	94	153	838
Other	982	908	8,753
Total	2,651	2,548	23,630
Accumulated depreciation	(2,004)	(2,054)	(17,863)
Total property, plant and equipment	647	494	5,767
Investments and other assets:			
Investment securities (Note 4)	32,228	31,589	287,263
Insurance funds	1,618	1,540	14,422
Investments in silent partnership (Note 4)	1,723	1,734	15,358
Deferred tax assets (Note 5)	47	89	419
Asset for retirement benefits (Note 7)	70	100	624
Other	1,100	1,015	9,805
Total investments and other assets	36,786	36,067	327,891
Total assets	¥ 93,662	¥ 91,900	\$ 834,852

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2016	2017
Liabilities			
Current liabilities:			
Notes payable, accounts payable for construction contracts and other (Note 4)	¥ 20,826	¥ 23,239	\$ 185,632
Income taxes payable (Note 5)	2,115	2,434	18,852
Advances received on uncompleted construction contracts	158	220	1,408
Provision for bonuses	3,016	2,420	26,883
Provision for loss on construction contracts	315	98	2,808
Other	2,544	2,620	22,676
Total current liabilities	28,974	31,031	258,259
Long-term liabilities:			
Deferred tax liabilities (Note 5)	582	495	5,188
Liability for retirement benefits (Note 7)	340	389	3,031
Other	46	38	410
Total long-term liabilities	968	922	8,629
Total liabilities	29,942	31,953	266,888
Net assets			
Shareholders' equity: (Note 8)			
Capital stock:			
Authorized – 96,500,000 shares in 2017 and 2016	5,753	5,753	51,279
Issued – 31,000,309 shares in 2017 and 2016			
Capital surplus	5,932	5,932	52,875
Retained earnings	49,293	45,425	439,371
Treasury stock:			
2,072,671 shares in 2017 and 1,642,000 shares in 2016	(2,625)	(1,909)	(23,398)
Total shareholders' equity	58,353	55,201	520,127
Accumulated other comprehensive income			
Net unrealized holding gains or losses on securities	3,343	3,095	29,798
Deferred gains or losses on hedges	0	1	0
Accumulated adjustments for retirement benefits	(444)	(558)	(3,959)
Total accumulated other comprehensive income	2,899	2,538	25,839
Subscription rights to shares	181	163	1,613
Non-controlling interests	2,287	2,045	20,385
Total net assets	63,720	59,947	567,964
Total liabilities and net assets	¥ 93,662	¥ 91,900	\$ 834,852

See accompanying notes to consolidated financial statements.

Consolidated Statements of Income

Hibiya Engineering, Ltd. and Consolidated Subsidiaries
Years ended March 31, 2017 and 2016

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2016	2017
Net sales	¥ 78,388	¥ 79,402	\$ 698,708
Cost of sales	64,343	67,108	573,518
Gross profit	14,045	12,294	125,190
Selling, general and administrative expenses (Note 6)	8,436	7,618	75,194
Operating income	5,609	4,676	49,996
Other income (expenses):			
Interest and dividend income	241	247	2,148
Interest expenses	(2)	(1)	(18)
Equity in earnings of affiliates	998	1,206	8,896
Gain on sales of investment securities	—	1,258	—
Gain on sales of non-current assets	255	—	2,273
Loss on valuation of investment securities	—	(4)	—
Loss on insurance cancellation	—	(763)	—
Other, net	131	216	1,167
Other income (expenses) - net	1,623	2,159	14,466
Profit before income taxes	7,232	6,835	64,462
Income taxes: (Note 5)			
Income taxes-current	2,105	2,443	18,763
Income taxes-deferred	(270)	(436)	(2,407)
Total income taxes	1,835	2,007	16,356
Profit	5,397	4,828	48,106
Profit attributable to non-controlling interests	190	186	1,694
Profit attributable to owners of parent (Note 11)	¥ 5,207	¥ 4,642	\$ 46,412

	Yen		U.S. dollars (Note 1)
	2017	2016	2017
Per share of common stock: (Note 11)			
Net assets	¥ 2,117.40	¥ 1,966.69	\$ 18.87
Net income			
Basic	178.49	156.88	1.59
Diluted	177.48	156.01	1.58
Cash dividend applicable to the year (Note 8)	50.00	40.00	0.45

See accompanying notes to consolidated financial statements.

Consolidated Statements of Comprehensive Income

Hibiya Engineering, Ltd. and Consolidated Subsidiaries
Years ended March 31, 2017 and 2016

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2016	2017
Profit	¥ 5,397	¥ 4,828	¥ 48,106
Other comprehensive income: (Note 10)			
Net unrealized holding gains or losses on securities	305	(1,550)	2,719
Deferred gains or losses on hedges	(0)	1	(0)
Adjustments for retirements benefits	54	(415)	481
Share of other comprehensive income of associates accounted for by using equity method	59	(118)	526
Total other comprehensive income (loss)	418	(2,082)	3,726
Comprehensive income	5,815	2,746	51,832
Comprehensive income attributable to:			
Owners of parent	5,568	2,559	49,630
Non-controlling interests	247	187	2,202

See accompanying notes to consolidated financial statements.

Consolidated Statements of Changes in Net Assets

Hibiya Engineering, Ltd. and Consolidated Subsidiaries
As of March 31, 2017 and 2016

	Number of shares of common stock (Shares)	Shareholders' equity					Total shareholders' equity
		Capital stock	Capital surplus	Retained earnings	Treasury stock		
Balance at April 1, 2015	31,000,309	¥ 5,753	¥ 5,932	¥ 41,872	¥ (1,242)	¥ 52,315	
Profit attributable to owners of parent	—	—	—	4,642	—	4,642	
Dividend from surplus	—	—	—	(1,075)	—	(1,075)	
Purchase of treasury stock	—	—	—	—	(705)	(705)	
Disposal of treasury stock	—	—	—	(14)	38	24	
Net changes of items other than shareholders' equity	—	—	—	—	—	—	
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 March 31, 2017	31,000,309	¥ 5,753	¥ 5,932	¥ 49,293	¥ (2,625)	¥ 58,353	

	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			
Balance at April 1, 2015	¥ 4,693	—	¥ (73)	¥ 4,620	¥ 139	¥ 1,865	¥ 58,939
Profit attributable to owners of parent	—	—	—	—	—	—	4,642
Dividend from surplus	—	—	—	—	—	—	(1,075)
Purchase of treasury stock	—	—	—	—	—	—	(705)
Disposal of treasury stock	—	—	—	—	—	—	24
Net changes of items other than shareholders' equity	(1,598)	1	(485)	(2,082)	24	180	(1,878)
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 March 31, 2017	¥ 3,343	¥ 0	¥ (444)	¥ 2,899	¥ 181	¥ 2,287	¥ 63,720

	Shareholders' equity					Total shareholders' equity
	Capital stock	Capital surplus	Retained earnings	Treasury stock		
Balance at April 1, 2016	\$ 51,279	\$ 52,875	\$ 404,893	\$ (17,016)	\$ 492,031	
Profit attributable to owners of parent	—	—	46,412	—	46,412	
Dividend from surplus	—	—	(11,809)	—	(11,809)	
Purchase of treasury stock	—	—	—	(6,774)	(6,774)	
Disposal of treasury stock	—	—	(125)	392	267	
Net changes of items other than shareholders' equity	—	—	—	—	—	
Balance at March 31, 2017	\$ 51,279	\$ 52,875	\$ 439,371	\$ (23,398)	\$ 520,127	

	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			
Balance at April 1, 2016	\$ 27,587	\$ 9	\$ (4,974)	\$ 22,622	\$ 1,453	\$ 18,229	\$ 534,335
Profit attributable to owners of parent	—	—	—	—	—	—	46,412
Dividend from surplus	—	—	—	—	—	—	(11,809)
Purchase of treasury stock	—	—	—	—	—	—	(6,774)
Disposal of treasury stock	—	—	—	—	—	—	267
Net changes of items other than shareholders' equity	2,211	(9)	1,015	3,217	160	2,136	5,533
Balance at March 31, 2017	\$ 29,798	\$ (0)	\$ (3,959)	\$ 25,839	\$ 1,613	\$ 20,385	\$ 567,964

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Hibiya Engineering, Ltd. and Consolidated Subsidiaries
Years ended March 31, 2017 and 2016

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2016	2017
Cash flows from operating activities:			
Profit before income taxes	¥ 7,232	¥ 6,835	\$ 64,462
Depreciation and amortization	167	117	1,489
Increase (decrease) in allowance for doubtful accounts	(30)	(36)	(267)
Decrease (increase) in asset for retirement benefits	(32)	(65)	(285)
Increase (decrease) in liability for retirement benefits	92	(57)	820
Increase (decrease) in provision for bonuses	596	1,443	5,312
Increase (decrease) in provision for loss on construction contracts	217	(250)	1,934
Interest and dividend income	(241)	(247)	(2,148)
Interest expenses	2	1	18
Loss (gain) on sales of non-current assets	(255)	—	(2,273)
Loss (gain) on sales of investment securities	—	(1,258)	—
Loss (gain) on valuation of investment securities	—	4	—
Loss (gain) on cancellation of insurance contract	—	763	—
Equity in (earnings) losses of affiliates	(998)	(1,206)	(8,896)
Decrease (increase) in notes and accounts receivable	2,327	(7,337)	20,742
Decrease (increase) in costs on uncompleted construction contracts and other	177	64	1,578
Increase (decrease) in notes and accounts payable	(2,413)	4,069	(21,508)
Increase (decrease) in advances received on uncompleted construction contracts	(62)	(451)	(553)
Other, net	729	468	6,497
Subtotal	7,508	2,857	66,922
Interest and dividend income received	247	255	2,202
Interest expenses paid	(2)	(1)	(18)
Income taxes paid	(2,481)	(1,241)	(22,114)
Net cash provided by (used in) operating activities	5,272	1,870	46,992
Cash flows from investing activities:			
Purchase of property, plant and equipment	(185)	(40)	(1,649)
Proceeds from sales of property, plant and equipment	360	—	3,209
Purchase of intangible assets	(139)	(29)	(1,239)
Purchase of investment securities	(496)	(1,870)	(4,421)
Proceeds from sales of investment securities	—	1,553	—
Proceeds from redemption of investment securities	2,400	1,200	21,392
Purchase of insurance funds	(116)	(1,489)	(1,034)
Proceeds from maturity of insurance funds	37	2,096	330
Payments for investments in silent partnership	—	(500)	—
Proceeds from withdrawal of investments in silent partnership	330	—	2,941
Other, net	34	82	303
Net cash provided by (used in) investing activities	2,225	1,003	19,832
Cash flows from financing activities:			
Purchase of treasury stock	(760)	(705)	(6,774)
Proceeds from disposal of treasury stock	0	0	0
Cash dividend	(1,325)	(1,075)	(11,809)
Cash dividend paid to minority shareholders	(6)	(6)	(53)
Other, net	(6)	(5)	(56)
Net cash provided by (used in) financing activities	(2,097)	(1,791)	(18,692)
Net increase (decrease) in cash and cash equivalents	5,400	1,082	48,132
Cash and cash equivalents at beginning of period	5,946	4,864	53,000
Cash and cash equivalents at end of period	¥ 11,346	¥ 5,946	\$ 101,132

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Hibiya Engineering, Ltd. and Consolidated Subsidiaries
As of March 31, 2017 and 2016

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. Certain 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, 2017, or ¥112.19 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 Tshou 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 trading securities and 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, 2017 and 2016 are ¥315 million (\$2,808 thousand) and ¥98 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 liability and retirement benefit expenses as allowed under Japanese GAAP. Under the simplified method, 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) Change in accounting policy

For the year ended March 31, 2017

(Application of Practical Solution on a Change in Depreciation Method Due to Tax Reform 2016)

Following the revision to the Corporation Tax Act, the Company has applied the "Practical Solution on a Change in Depreciation Method Due to Tax Reform 2016" (ASBJ PITF No. 32, June 17, 2016) from the fiscal year ended March 31, 2017, and changed the depreciation method for facilities attached to buildings and

structures acquired on or after April 1, 2016 from the declining-balance method to the straight-line method.

This change in the accounting policy has an immaterial impact on profit and loss.

For the year ended March 31, 2016

(Application of Accounting Standard for Business Combinations, and others)

Effective from the fiscal year ended March 31, 2016, the Company has applied the "Accounting Standard for Business Combinations" (Accounting Standards Board of Japan (the "ASBJ") Statement No. 21, September 13, 2013), the "Accounting Standard for Consolidated Financial Statements" (ASBJ Statement No. 22, September 13, 2013), the "Accounting Standard for Business Divestitures" (ASBJ Statement No. 7, September 13, 2013), and others. As a result, the method of recording the amount of difference caused by changes in the Company's ownership interests in subsidiaries in the case of subsidiaries under ongoing control of the Company was changed to one in which it is recorded as capital surplus, and the method of recording acquisition-related costs was changed to one in which they are recognized as expenses for the fiscal year in which they are incurred. Furthermore, for business combinations carried out on or after the beginning of the fiscal year ended March 31, 2016, the accounting method was changed to one in which the reviewed acquisition cost allocation resulting from the finalization of the provisional accounting treatment is reflected in the consolidated financial statements for the fiscal year to which the date of business combination belongs. In addition, the presentation method for "net income" and other related items was changed, and the presentation of "minority interests" was changed to "non-controlling interests." To reflect these changes, the Company has reclassified certain accounts of the 2015 consolidated financial statements to conform to the 2016 presentation.

Application of the Accounting Standard for Business Combinations, and others. is in line with the transitional measures provided for in paragraph 58-2 (4) of the Accounting Standard for Business Combinations, paragraph 44-5 (4) of the Accounting Standard for Consolidated Financial Statements and paragraph 57-4 (4) of the Accounting Standard for Business Divestitures. The Company is applying the said standard, and others. prospectively from the beginning of the fiscal year ended March 31, 2016.

These changes in accounting policies have no impact on profit and loss.

(Additional information)

(Application of ASBJ Guidance on Recoverability of Deferred Tax Assets)

Effective from the fiscal year ended March 31, 2017, the Company has applied the "Guidance on Recoverability of Deferred Tax Assets" (ASBJ Guidance No. 26, March 28, 2016).

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)
	2017	2016	2017
Costs on uncompleted construction contracts	¥ 161	¥ 206	\$ 1,435
Merchandise and finished goods	283	353	2,522
Work in process	38	10	339
Raw materials	229	319	2,041
Total	¥ 711	¥ 888	\$ 6,337

4. Financial instruments

(1) Overview

Information on financial instruments for the years ended March 31, 2017 and 2016 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, 2017 and 2016, book values, fair values and their differences were as follows;

		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	¥ —

		Millions of yen		
		2016		
		Book value	Fair value	Difference
Assets				
Cash and cash equivalents	(*1)	¥ 5,946	¥ 5,946	¥ —
Notes receivable, accounts receivable from completed construction contracts and other	(*1)	43,429	43,429	—
Short-term investments	(*2)	2,005	2,005	—
Investment securities measured at fair value	(*2)	12,036	12,036	—
Investments not measured at fair value	(*3)	19,553	—	—
Investments in silent partnership	(*3)	2,020	—	—
Liabilities				
Notes payable, accounts payable for construction contracts and other		¥ 23,239	¥ 23,239	¥ —

		Thousands of U.S. dollars (Note 1)		
		2017		
		Book value	Fair value	Difference
Assets				
Cash and cash equivalents	(*1)	\$ 101,132	\$ 101,132	\$ —
Notes receivable, accounts receivable from completed construction contracts and other	(*1)	366,370	366,370	—
Short-term investments	(*2)	8,637	8,637	—
Investment securities measured at fair value	(*2)	103,648	103,648	—
Investments not measured at fair value	(*3)	183,615	—	—
Investments in silent partnership	(*3)	15,358	—	—
Liabilities				
Notes payable, accounts payable for construction contracts and other		\$ 185,632	\$ 185,632	\$ —

(*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
	2017	2016	(Note 1)
			2017
Short-term investments	¥ 969	¥ 2,005	\$ 8,637
Investment securities	32,228	31,589	287,263
Total	¥ 33,197	¥ 33,594	\$ 295,900
Available-for-sale securities with fair value	12,597	14,041	112,283
Available-for-sale securities without fair value	1,464	1,464	13,049
Equity securities issued by subsidiaries and affiliates	19,136	18,089	170,568
Total	¥ 33,197	¥ 33,594	\$ 295,900

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

As of March 31, 2017 and 2016, book values (fair values) and acquisition costs of available-for-sale securities with fair values were as follows:

	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
	Millions of yen		
	2016		
	Book value	Acquisition cost	Difference
Securities whose book values (fair values) exceed their acquisition costs:			
Equity securities	¥ 7,863	¥ 3,618	¥ 4,245
Debt securities:			
Government and municipal bonds	—	—	—
Corporate bonds	1,003	896	107
Other bonds	3,549	3,500	49
Other	—	—	—
Sub-total	¥ 12,415	¥ 8,014	¥ 4,401
Securities whose book values (fair values) do not exceed their acquisition costs:			
Equity securities	¥ 191	¥ 208	¥ (17)
Debt securities:			
Other bonds	1,435	1,500	(65)
Other	—	—	—
Sub-total	¥ 1,626	¥ 1,708	¥ (82)
Total	¥ 14,041	¥ 9,722	¥ 4,319
	Thousands of U.S. dollars (Note 1)		
	2017		
	Book value	Acquisition cost	Difference
Securities whose book values (fair values) exceed their acquisition costs:			
Equity securities	\$ 79,749	\$ 38,515	\$ 41,234
Debt securities:			
Government and municipal bonds	—	—	—
Corporate bonds	8,789	8,005	784
Other bonds	18,539	17,827	712
Other	—	—	—
Sub-total	\$ 107,077	\$ 64,347	\$ 42,730
Securities whose book values (fair values) do not exceed their acquisition costs:			
Equity securities	\$ 0	\$ 0	\$ 0
Debt securities:			
Other bonds	5,206	5,348	(142)
Other	—	—	—
Sub-total	\$ 5,206	\$ 5,348	\$ (142)
Total	\$ 112,283	\$ 69,695	\$ 42,588

(b) Proceeds from sales, and gross realized gains and losses from the sale of available-for-sale securities for the years ended March 31, 2017 and 2016 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2016	2017
Proceeds from sales			
Equity securities	¥ —	¥ 1,553	\$ —
Other	—	—	—
Total	¥ —	¥ 1,553	\$ —
Gross realized gains			
Equity securities	¥ —	¥ 1,258	\$ —
Other	—	—	—
Total	¥ —	¥ 1,258	\$ —

(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			
	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

	Millions of yen			
	2016			
	Within 1 year	1 to 5 years	5 to 10 years	Over 10 years
Cash and cash equivalents	¥ 5,946	¥ —	¥ —	¥ —
Notes receivable, accounts receivable from completed construction contracts and other	43,429	—	—	—
Short-term investments and investment securities				
Securities with maturities:				
(1) Government and municipal bonds	—	—	—	—
(2) Corporate bonds	—	400	—	500
(3) Other bonds	2,000	2,000	1,000	—
Investments in silent partnership	287	1,234	500	—
Total	¥ 51,662	¥ 3,634	¥ 1,500	¥ 500

	Thousands of U.S. dollars (Note 1)			
	2017			
	Within 1 year	1 to 5 years	5 to 10 years	Over 10 years
Cash and cash equivalents	\$ 101,132	\$ —	\$ —	\$ —
Notes receivable, accounts receivable from completed construction contracts and other	365,505	865	—	—
Short-term investments and investment securities				
Securities with maturities:				
(1) Government and municipal bonds	—	—	—	—
(2) Corporate bonds	3,565	—	—	4,457
(3) Other bonds	4,457	18,718	—	—
Investments in silent partnership	—	10,901	4,457	—
Total	\$ 474,659	\$ 30,484	\$ 4,457	\$ 4,457

(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 inhabitants taxes. The aggregate statutory tax rates on income before income taxes were approximately 30.9% and 33.1% for the years ended March 31, 2017 and 2016, 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, 2017 and 2016.

	2017	2016
Statutory tax rate	30.9%	33.1%
Non-deductible expenses	0.5	0.7
Non-taxable dividend income	(0.4)	(0.2)
Per capita inhabitant tax	0.6	0.7
Valuation allowance	—	0.1
Equity in earnings of affiliates	(4.3)	(5.8)
Tax credits for salary growth	(2.0)	(0.6)
Adjustment of deferred tax assets and liabilities for enacted changes in tax laws and rates	—	1.7
Other	(0.0)	(0.3)
Effective tax rate	25.4%	29.4%

Significant components of the Companies' deferred tax assets and liabilities as of March 31, 2017 and 2016 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2016	2017
Deferred tax assets:			
Loss on valuation of investment securities	¥ 200	¥ 200	\$ 1,783
Enterprise taxes payable	134	162	1,194
Provision for bonuses	931	749	8,298
Provision for loss on construction contracts	97	30	865
Liability for retirement benefits	713	627	6,355
Net unrealized holding losses on securities	5	26	45
Other	497	442	4,430
Valuation allowance	(414)	(424)	(3,690)
Sub-total	¥ 2,163	¥ 1,812	\$ 19,280
Less : deferred tax liabilities-describe	(812)	(641)	(7,238)
Total deferred tax assets	¥ 1,351	¥ 1,171	\$ 12,042
Current deferred tax assets	1,304	1,082	11,623
Non-current deferred tax assets	47	89	419
Deferred tax liabilities:			
Net unrealized holding gains on securities	¥ (1,357)	¥ (1,224)	\$ (12,096)
Other	(37)	88	(330)
Sub-total	¥ (1,394)	¥ (1,136)	\$ (12,426)
Less : deferred tax assets-describe	812	641	7,238
Total tax liabilities	¥ (582)	¥ (495)	\$ (5,188)

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)
	2017	2016	2017
Employees' salaries and allowances	¥ 2,472	¥ 2,377	\$ 22,034
Provision for bonuses	1,383	1,025	12,327
Retirement benefit expenses	220	193	1,961
Provision of allowance for doubtful accounts	(29)	29	(258)
Depreciation	125	75	1,114
Rents	1,048	1,002	9,341
Research and development expenses	148	141	1,319
Others	3,069	2,776	27,356
Total	¥ 8,436	¥ 7,618	\$ 75,194

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.

The Tokyo Air-Conditioning and Plumbing Contractors Employees' Pension Fund (*Tokyo Kucho Eisei Koujigyo Kosei Nenkin Kikin*), in which the Company and one of the consolidated subsidiaries had participated, received permission from the Ministry of Health, Labour and Welfare on January 1, 2015 for future portions of, and on July 1, 2016 for past portions of, the portion of pensions entrusted to the employees' pension fund to be returned to the state, and the fund has changed its scheme from an employees' pension fund plan to a defined benefit corporate pension plan effective that date.

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, 2017 and 2016 is as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	(Note 1) 2017
Funded retirement benefit obligations	¥ 4,780	¥ 4,844	\$ 42,606
Plan assets	(4,659)	(4,703)	(41,528)
Net	121	141	1,078
Unfunded retirement benefit obligations	149	148	1,329
Net balance of liability and asset recorded on the consolidated balance sheets	¥ 270	¥ 289	\$ 2,407
Liability for retirement benefits	340	389	3,031
Asset for retirement benefits	(70)	(100)	(624)
Net balance of liability and asset recorded on the consolidated balance sheets	¥ 270	¥ 289	\$ 2,407

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, 2017 and 2016 is as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	(Note 1) 2017
Retirement benefit obligation at beginning of period	¥ 4,488	¥ 3,979	\$ 40,004
Current service costs	232	196	2,068
Interest costs	15	60	134
Actuarial gains and losses arising during period	46	623	410
Retirement benefits paid	(303)	(369)	(2,701)
Past service cost	(53)	—	(473)
Retirement benefit obligation at end of period	¥ 4,425	¥ 4,489	\$ 39,442

- (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, 2017 and 2016 is as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2016	2017
Plan assets at beginning of period	¥ 4,329	¥ 4,299	\$ 38,586
Expected return on plan assets	55	54	490
Actuarial gains and losses arising during period	(40)	(69)	(357)
Contribution from employer	92	243	820
Retirement benefit paid	(148)	(198)	(1,318)
Plan assets at end of period	¥ 4,288	¥ 4,329	\$ 38,221

- (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, 2017 and 2016 is as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2016	2017
Liability for retirement benefits at beginning of period	¥ 129	¥ 132	\$ 1,150
Retirement benefit expenses	36	26	321
Retirement benefit paid	(15)	(10)	(134)
Contribution to plans	(17)	(19)	(151)
Liability for retirement benefits at end of period	¥ 133	¥ 129	\$ 1,186

- (e) The components of retirement benefit expenses for the years ended March 31, 2017 and 2016 is as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2016	2017
Current service costs	¥ 232	¥ 196	\$ 2,068
Interest costs	15	59	134
Expected return on plan assets	(55)	(54)	(490)
Amortization of actuarial gains and losses	125	106	1,114
Amortization of past service costs	(14)	(12)	(125)
Retirement benefit expenses applying the simplified method	36	26	321
Retirement benefit expenses under defined benefit plans	¥ 339	¥ 321	\$ 3,022

- (f) Adjustments for retirement benefits

Components of items recorded in adjustments for retirement benefits, before tax, are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2016	2017
Past service costs		¥ 39	\$ 348
Actuarial gains and losses		39	347
Total		¥ 78	\$ 695

- (g) Accumulated adjustments for retirements benefits

Components of items recorded in accumulated adjustments for retirement benefits, before tax, are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2016	2017
Unrecognized past service costs	¥ 95	¥ 56	\$ 847
Unrecognized actuarial gains and losses	(590)	(629)	(5,259)
Total	¥ (495)	¥ (573)	\$ (4,412)

(h) Plan assets

i. Components of plan assets

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

	2017	2016
Debt securities	29%	29%
Equity securities	5	5
General account	44	44
Cash and cash equivalents	12	11
Other	10	11
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, 2017 and 2016, 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, 2017 and 2016 are as follows:

	2017	2016
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 pension plans or 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 pension plans or corporate pension plans that should be accounted for in the same manner as defined contribution plans were ¥160 million (\$ 1,426 thousand) and ¥162 million for the years ended March 31, 2017 and 2016, respectively. Latest information about the multi-employer plans was as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	As of March 31, 2016	As of March 31, 2015	As of March 31, 2016
Fair value of plan assets	¥ 40,402	¥ 41,829	\$ 360,121
Benefit obligations under pension funding programs	51,357	53,355	457,768
Deficit	¥ (10,955)	¥ (11,526)	\$ (97,647)
Balance of actuarial past service costs	(12,029)	(12,693)	\$ (107,220)
Surplus	1,074	1,167	9,573
Ratio of total salaries of the Companies to total funds of xplans (*1)	12.3%	12.4%	

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 ¥112 million (\$ 998 thousand) and ¥118 million related to the amortization as expenses in the consolidated financial statements for the years ended March 31, 2017 and 2016, 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 26, 2015	Annual shareholders' meeting	Common stock	¥ 479		¥ 16.00		March 31, 2015	June 29, 2015
November 6, 2015	Board of directors	Common stock	¥ 596		¥ 20.00		September 30, 2015	December 9, 2015
June 29, 2016	Annual shareholders' meeting	Common stock	¥ 591	\$ 5,267	¥ 20.00	\$ 0.18	March 31, 2016	June 30, 2016
November 8, 2016	Board of directors	Common stock	¥ 734	\$ 6,542	¥ 25.00	\$ 0.22	September 30, 2016	December 5, 2016

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 29, 2017	Annual shareholders' meeting	Common stock	¥ 727	\$ 6,480	Retained earnings	¥ 25.00	\$ 0.22	March 31, 2017	June 30, 2017

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, 2017 and 2016 amounted to ¥48 million (\$428 thousand) and ¥47 million, respectively.

2. Outline of stock options

(1) Summary of stock option plans

Date of approval	June 26, 2009	June 29, 2010	June 29, 2011	June 28, 2012
Persons granted	9 directors of the Company 13 corporate officers of the Company	8 directors of the Company 11 corporate officers of the Company	9 directors of the Company 10 corporate officers of the Company	9 directors of the Company 10 corporate officers of the Company
Number of options granted	58,500 common shares	53,600 common shares	52,600 common shares	45,600 common shares
Date of grant	October 1, 2009	July 26, 2010	August 8, 2011	July 23, 2012
Vesting condition	No provisions	No provisions	No provisions	No provisions
Requisite service period	No provisions	No provisions	No provisions	No provisions
Exercise period	October 2, 2009 – October 1, 2039 *	July 27, 2010 – July 26, 2040 *	August 9, 2011 – August 8, 2041 *	July 24, 2012 – July 23, 2042 *
Date of approval	June 27, 2013	June 27, 2014	June 26, 2015	June 29, 2016
Persons granted	9 directors of the Company 10 corporate officers of the Company	9 directors of the Company 12 corporate officers of the Company	9 directors of the Company 12 corporate officers of the Company	8 directors of the Company 14 corporate officers of the Company
Number of options granted	38,000 common shares	25,800 common shares	30,500 common shares	32,000 common shares
Date of grant	July 22, 2013	July 22, 2014	July 21, 2015	July 25, 2016
Vesting condition	No provisions	No provisions	No provisions	No provisions
Requisite service period	No provisions	No provisions	No provisions	No provisions
Exercise period	July 23, 2013 – July 22, 2043 *	July 23, 2014 – July 22, 2044 *	July 22, 2015 – July 21, 2045 *	July 26, 2016 – July 25, 2046 *

* 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, 2017.

a) Number of stock options

Date of approval	June 26, 2009	June 29, 2010	June 29, 2011	June 28, 2012
Fiscal year ended March 31, 2016				
Non-vested	(Share)	(Share)	(Share)	(Share)
April 1, 2016 – Outstanding	—	—	—	—
Granted	—	—	—	—
Forfeited	—	—	—	—
Vested	—	—	—	—
March 31, 2017 – Outstanding	—	—	—	—
Vested				
April 1, 2016 – Outstanding	9,200	22,500	26,500	27,900
Vested	—	—	—	—
Exercised	3,300	4,500	4,400	5,300
Forfeited	—	—	—	—
March 31, 2017 – Outstanding	5,900	18,000	22,100	22,600

Date of approval	June 27, 2013	June 27, 2014	June 26, 2015	June 29, 2016
Fiscal year ended March 31, 2016				
Non-vested	(Share)	(Share)	(Share)	(Share)
April 1, 2016 – Outstanding	—	—	—	—
Granted	—	—	—	32,000
Forfeited	—	—	—	—
Vested	—	—	—	32,000
March 31, 2017 – Outstanding	—	—	—	—
Vested				
April 1, 2016 – Outstanding	29,200	22,100	30,500	—
Vested	—	—	—	32,000
Exercised	5,800	3,800	4,900	—
Forfeited	—	—	—	—
March 31, 2017 – Outstanding	23,400	18,300	25,600	32,000

b) Price information

Date of approval	June 26, 2009	June 29, 2010	June 29, 2011	June 28, 2012
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	¥1,506 (\$13.42)	¥1,506 (\$13.42)	¥1,506 (\$13.42)	¥1,506 (\$13.42)
Fair value at grant date	¥686 (\$6.11)	¥633 (\$5.64)	¥594 (\$5.29)	¥728 (\$6.49)

Date of approval	June 27, 2013	June 27, 2014	June 26, 2015	June 29, 2016
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	¥1,506 (\$13.42)	¥1,506 (\$13.42)	¥1,506 (\$13.42)	—
Fair value at grant date	¥904 (\$8.06)	¥1,479 (\$13.18)	¥1,544 (\$13.76)	¥1,508 (\$13.44)

(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, 2016	
Expected volatility of the underlying stock	(*1)	30.8%
Expected life of the option	(*2)	5 years
Expected dividend on stock	(*3)	¥40.0 (\$0.36) per share
Risk-free interest rate during the expected option term	(*4)	(0.35)%

(*1) The volatility of the stock option is calculated based on the actual stock prices during five years from July 18, 2011 to July 18, 2016.

(*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, 2017 and 2016 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	2016
Net unrealized holding gains or losses on securities:			
Gains (losses) arising during the period	¥ 459	¥ (1,141)	\$ 4,091
Reclassification adjustments	—	(1,254)	—
Sub-total, before tax	¥ 459	¥ (2,395)	\$ 4,091
Income tax benefit (expense)	(154)	845	(1,372)
Net unrealized holding gains or losses on securities	¥ 305	¥ (1,550)	\$ 2,719
Deferred gains or losses on hedges			
Gains (losses) arising during the period	¥ (0)	¥ 1	\$ (0)
Income tax benefit (expense)	0	0	0
Deferred gains or losses on hedges	¥ (0)	¥ 1	\$ (0)
Adjustments for retirements benefits gains or losses on securities:			
Gains (losses) arising during the period	¥ (26)	¥ (622)	\$ (232)
Reclassification adjustments	104	24	927
Sub-total, before tax	¥ 78	¥ (598)	\$ 695
Income tax benefit (expense)	(24)	183	(214)
Net unrealized holding gains or losses on securities	¥ 54	¥ (415)	\$ 481
Share of other comprehensive income of associates accounted for using equity method:			
Gains (losses) arising during the period	¥ 59	¥ (118)	\$ 526
Total other comprehensive income	¥ 418	¥ (2,082)	\$ 3,726

11. Net income per share

Reconciliation of the differences between basic and diluted net income per share ("EPS") for the years ended March 31, 2017 and 2016 were 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, 2016				
Basic EPS				
Net income available to common shareholders	¥ 5,207	29,173	¥ 178.49	\$ 1.59
Effect of dilutive securities				
Stock acquisition rights	—	165	—	—
Diluted EPS				
Net income for computation	¥ 5,207	29,338	¥ 177.48	\$ 1.58
For the year ended March 31, 2016				
Basic EPS				
Net income available to common shareholders	¥ 4,642	29,586	¥ 156.88	
Effect of dilutive securities				
Stock acquisition rights	—	165	—	
Diluted EPS				
Net income for computation	¥ 4,642	29,751	¥ 156.01	

12. Segment information

1. General information about reportable segments

Reportable segments are the constituent units of the Hibiya Engineering 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, 2017 and 2016 was as follows:

	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

	Millions of yen					
	2016					
	Construction	Equipment sales	Equipment manufacturing	Total	Adjustments (*1)	Consolidated
Net sales:						
Outside customers	¥ 70,682	¥ 5,438	¥ 3,282	¥ 79,402	¥ —	¥ 79,402
Intersegment	5	4,783	1,297	6,085	(6,085)	—
Total	¥ 70,687	¥ 10,221	¥ 4,579	¥ 85,487	¥ (6,085)	¥ 79,402
Segment income (*2)	¥ 4,057	¥ 221	¥ 389	¥ 4,667	¥ 9	¥ 4,676
Segment assets	¥ 45,379	¥ 8,943	¥ 3,661	¥ 57,983	¥ 33,917	¥ 91,900
Other items:						
Depreciation and amortization	¥ 84	¥ 6	¥ 27	¥ 117	¥ —	¥ 117
Increase in tangible and intangible fixed assets	36	1	33	70	—	70

	Thousands of U.S. dollars (Note 1)					
	2017					
	Construction	Equipment sales	Equipment manufacturing	Total	Adjustments (*1)	Consolidated
Net sales:						
Outside customers	\$ 615,224	\$ 54,292	\$ 29,192	\$ 698,708	\$ —	\$ 698,708
Intersegment	45	39,772	6,400	46,217	(46,217)	—
Total	\$ 615,269	\$ 94,064	\$ 35,592	\$ 744,925	\$ (46,217)	\$ 698,708
Segment income (*2)	\$ 43,658	\$ 2,826	\$ 3,414	\$ 49,898	\$ 98	\$ 49,996
Segment assets	\$ 371,076	\$ 86,059	\$ 32,205	\$ 489,340	\$ 345,512	\$ 834,852
Other items:						
Depreciation and amortization	\$ 1,212	\$ 53	\$ 214	\$ 1,479	\$ —	\$ 1,479
Increase in tangible and intangible fixed assets	4,109	45	143	4,297	—	4,297

(*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, 2017 and 2016 were ¥40,950 million (\$365,006 thousand) and ¥37,052 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, 2017 and 2016 were ¥2,186 million (\$19,485 thousand) and ¥3,135 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, 2017 and 2016 was as follows:

2017	Net sales		Related reportable segments
	Millions of yen	Thousands of U.S. dollars (Note 1)	
Name of customer			
NTT FACILITIES, INC.	¥ 11,549	\$ 102,941	Construction, Equipment sales, Equipment manufacturing
NIPPON TELEGRAPH AND TELEPHONE EAST CORPORATION	¥ 10,096	\$ 89,990	Construction

2016	Net sales		Related reportable segments
	Millions of yen		
Name of customer			
NTT FACILITIES, INC.	¥ 11,731		Construction, Equipment sales, Equipment manufacturing
NIPPON TELEGRAPH AND TELEPHON EAST CORPORATION	¥ 10,762		Construction

13. Related party transactions and balances

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, 2017 and 2016 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2016	2017
Current assets	¥ 42,671	¥ 43,413	\$ 380,346
Non-current assets	15,400	14,146	137,267
Current liabilities	14,230	15,855	126,838
Long-term liabilities	2,727	2,708	24,307
Net assets	41,114	38,997	366,468
Net sales	59,496	61,088	530,315
Income before income taxes	3,117	4,069	27,783
Net income	2,114	2,598	18,843

14. Significant Subsequent Events

(Significant Subsequent Events)

Sale of the shares of Nihon Meccs Corporation

On June 28, 2017, the Company subsequently sold a portion of shares of Nihon Meccs Corporation ("Meccs") as part of their repurchase commitments of their own shares. Information on number of shares sold to Meccs, cash consideration received from Meccs, gain recognized and ownership ratio of Meccs after the sale are listed below. The Company continues applying the equity method of accounting to operation results of Meccs after the sale.

1. Transaction detail

Meccs passed a resolution at its general meeting of shareholders held on June 28, 2017 to repurchase its own shares as part of Meccs' capital policy. The Company, in accordance with the resolution of Meccs' general meeting of shareholders, sold its shares to Meccs.

2. Business purpose and transactions with Nihon Meccs Corporation by the Company

Business purpose	Property maintenance and management, construction, and facilities engineering
Transactions with the Company	Cooperation in construction work for facilities engineering

3. Number of shares to be sold, sale value, gain on sale and shareholding ratio after sale

Number of shares to be sold	54,800 shares
Sale value	¥14.6 billion (\$ 130 million)
Gain on sale	¥4.3 billion (\$ 39 million)
Ownership ratio after sale	39.1%



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, 2017 and 2016, 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 audit. 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 judgement, 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, 2017 and 2016, and their financial performance and cash flows for the years then ended in accordance with accounting principles generally accepted in Japan.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 14 to the consolidated financial statements that on June 28, 2017, subsequent to year-end, Hibiya Engineering, Ltd. sold a portion of shares of Nihon Meccs Corporation, an equity method affiliate, as part of their repurchase commitments of their own shares.

Convenience Translation

The U.S. dollar amounts in the accompanying 2017 consolidated financial statements 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

August 8, 2017
Tokyo, Japan

KPMG AZSA LLC, a limited liability audit corporation incorporated under the Japanese Certified Public Accountants Law and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

Corporate Data

Investor Information

As of March 31, 2017

Total number of shares authorized	96,500,000 shares
Total number of shares issued	31,000,309 shares
Number of shareholders	2,685

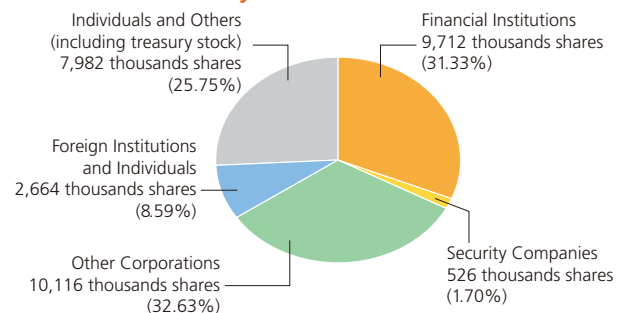
Major Shareholders

Name of shareholders	Number of held (thousands shares)	Percentage of shares in issue(%)
1 Japan Trustee Services Bank, Ltd. (Trust account)	1,499	4.83
2 NTT Urban Development Co.	1,371	4.42
3 Hibiya Engineering Customer Stock Ownership Plan	1,296	4.18
4 Sumitomo Realty & Development Co., Ltd.	979	3.15
5 The Master Trust Bank of Japan, Ltd. (Retirement benefit trust account, Hyakujushi Bank account)	900	2.90
6 Sumitomo Mitsui Banking Corporation	853	2.75
7 The Japan Telecommunications Welfare Associations	838	2.70
8 The Dai-ichi Mutual Life Insurance Company (Standing proxy: Trust & Custody Services Bank, Ltd.)	818	2.63
9 Resona Bank, Limited.	601	1.94
10 Kyoritsu Construction Co., Ltd.	594	1.91

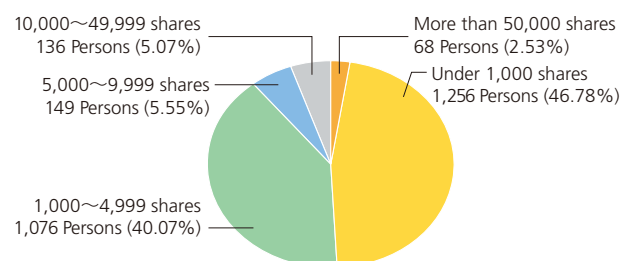
Notes

- Treasury stock held by the company: 1,881 thousand shares (6.07% of outstanding shares) – excluding the above large shareholder
- The number of the above shares held that is associated with business operations is as follows:
Japan Trustee Services Bank, Ltd.: 1,473 thousand shares
Japan Trustee Services Bank, Ltd. (Retirement Benefit Trust Account, The Hyakujushi Bank, Ltd. account): 900 thousand shares
(Assets placed in trust by The Hyakujushi Bank, Ltd.; the right to issue instructions for the exercise of voting rights is reserved by The Hyakujushi Bank, Ltd.)

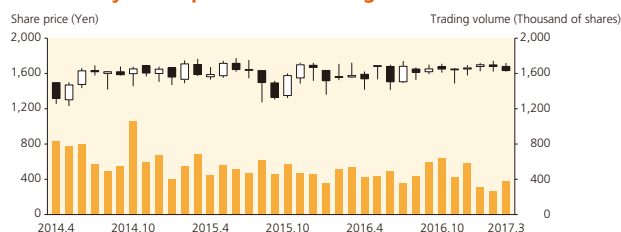
Share distribution by owner



Share distribution by size of holding



Monthly share prices and trading volume



Board of Directors

As of June 29, 2017

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	Yuuji Tatsumura
Auditor	Akira Itou
Auditor	Masamitsu Nakamura

Notes

- Kensho Kusumi, and Hiroo Atsumi and Seiichi Hashimoto are external directors under the terms of the Corporate Law Article 2 Section 15.
- Kouji Kuwahara, Yuuji Tatsumura and Akira Itou are external auditors under the terms of the Corporate Law Article 2 Section 16.
- 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, 2017

Head Office

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

Tokyo Main Office

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

Branches

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

Offices

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

Research Facilities

Noda in Chiba Prefecture



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