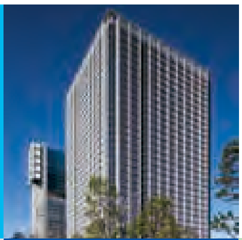
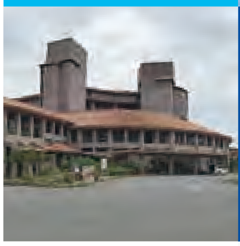
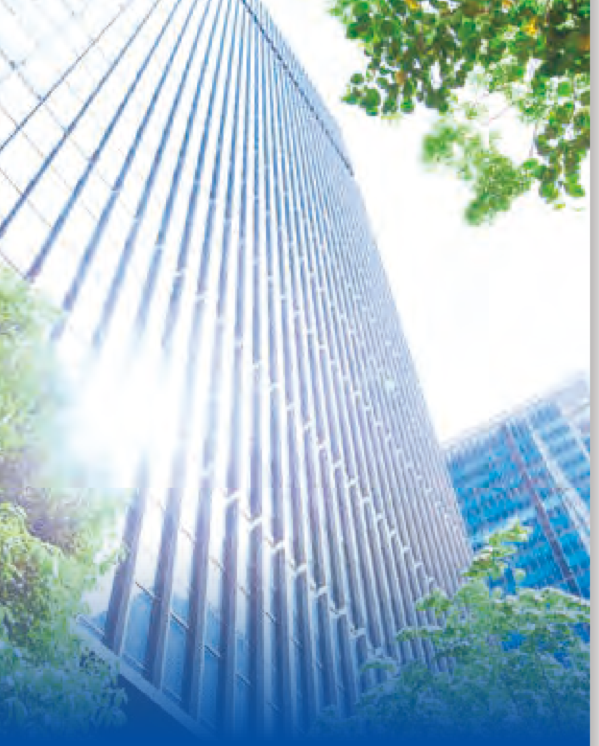
2015

ANNUAL REPORT





Hibiya Engineering, Ltd.

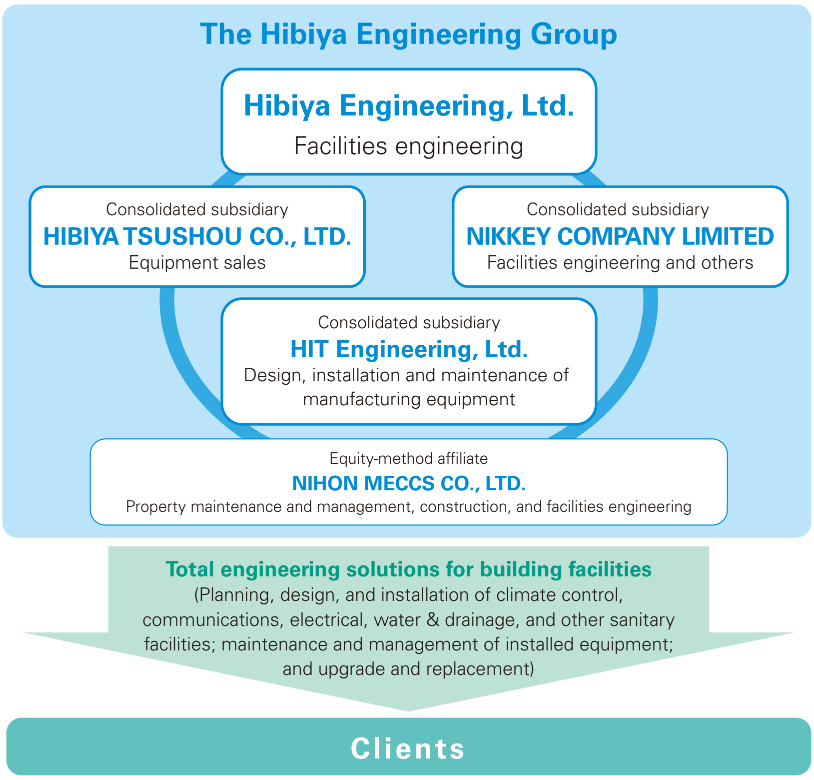


PROFILE

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.



As of March 31, 2015

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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, 2015. 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

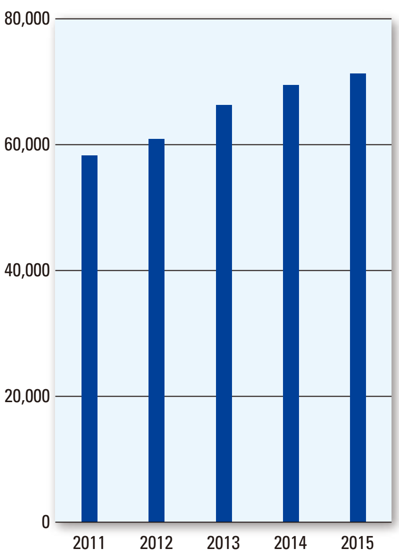
Hibiya Engineering, Ltd. and Consolidated Subsidiaries
Years ended March 31

	2011	2012	2013	2014	2015	2015
	Millions of yen					Thousands of U.S. dollars
Net Sales	¥58,300	¥60,919	¥66,322	¥69,466	**¥71,330**	**$593,576**
Net Income	3,014	1,657	1,806	2,216	**2,630**	**21,886**
Total Assets	76,765	76,442	79,428	83,532	**84,725**	**705,043**
Net Assets	53,188	53,368	55,166	57,069	**58,939**	**490,464**
	Yen					U.S. dollars
Per share:						
Net Assets	¥1,609.71	¥1,642.92	¥1,744.66	¥1,828.81	**¥1,912.49**	**$15.91**
Net Income	92.93	52.15	58.15	72.78	**87.62**	**0.73**
Cash Dividend (non-consolidated basis)	31.50	30.00	30.00	30.00	**32.00**	**0.27**

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, 2015, which was ¥120.17 to US$1.00.

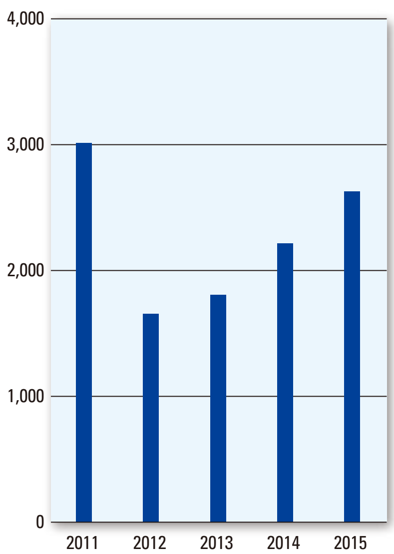
Net Sales

(¥ million)



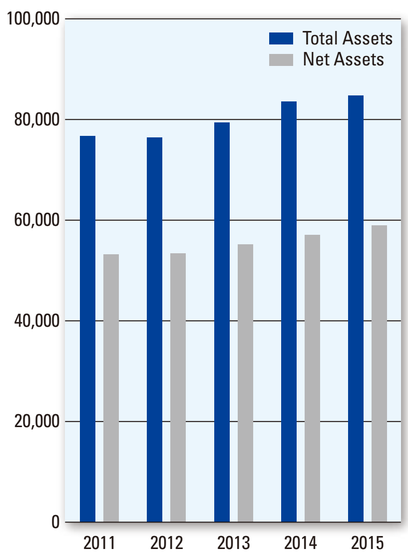
Net Income

(¥ million)



Total Assets & Net Assets

(¥ million)



A Message from the President

Haruki Nomura
President and Representative Director

Japan's economy slowly gained momentum during the fiscal year that ended in March 2016 following an extended period of difficulties caused by deflation. Exports, manufacturing output and capital expenditures all increased due to the favorable effects of the weaker yen, rising stock prices, government economic stimulus measures, cheaper crude oil and other factors.

Despite the improving economy, the operating environment in the construction industry remained challenging. Construction companies must deal with the rising cost of materials and equipment, the difficulty of recruiting workers and many other issues. On the positive side, infrastructure projects, primarily in the Tokyo area, are about to begin in association with the 2020 Tokyo Olympics and Paralympics.

Our Fourth Medium-term Management Plan ended in March 2014. During this plan, there was growth in orders and other significant accomplishments. But we did not reach the targets for earnings. In April 2014, we started the Fifth Medium-term Management Plan with the primary strategic objective of becoming a provider Life Cycle Total Solutions. To achieve this goal, we reinforced our organizational structure and upgraded sales capabilities with actions that included setting up four new divisions and departments. The Technology Coordination Department performs the comprehensive oversight of all our group's technologies. The E&S Business Division is building new business models centered on the theme of "energy and smart." The Systems Engineering Planning Department is responsible for offering customers even more advanced proposals involving technologies. And the Facility Services Department handles business activities for serving customers after we have completed a project.

In the past fiscal year, which was the first of the new medium-term plan, we achieved growth in sales and earnings. Demand is increasing for ways to extend the useful lives of buildings. We are meeting this demand by supplying ideas with significant added value that encompass the entire life cycle of buildings. The Hibiya Engineering Group has a strong commitment to achieving more growth of the building life cycle business.

The Hibiya Engineering Group will celebrate its 50th anniversary in July 2016. As we approach this milestone, we look forward to advancing to the next stage of our growth. We will do this by supplying services that precisely meet customers' needs for energy conservation, lowering CO_2 emissions, business continuity planning and other aspects of their operations. I believe that this progress will enable us to transform our group into a comprehensive engineering services organization.

Thank you for your support and understanding as we take actions aimed at achieving the goals of our medium-term plan and meeting the expectations of customers, shareholders and all other stakeholders.

Highlights of the fiscal year

Overview of the year ended March 31, 2015

During the fiscal year, which was the first year of the Fifth Medium-term Management Plan, orders received increased due to a focus on sales activities for Life Cycle Total Solutions. In addition, sales were higher for the fourth consecutive year and exceeded ¥70 billion for the first time since the fiscal year that ended in March 2001. Despite the challenging operating environment, earnings also increased because of initiatives to hold down declines in profitability by lowering the cost of sales and administrative expenses.

Orders received
¥73,105 million (up 1.0% year-on-year)
Net sales
¥71,330 million (up 2.7% year-on-year)
Operating income
¥1,984 million (up 7.7% year-on-year)
Net income
¥2,630 million (up 18.7% year-on-year)

Highlights of the fiscal year

We started using the Building Equipment Report, an original proposal tool that we developed, in order to offer Life Cycle Total Solutions, which is the primary objective of the Fifth Medium-term Management Plan. By integrating our advanced analytical technologies with our skill at creating proposals, this tool makes it possible to optimize the life cycles of customers' buildings.

In July 2014, we opened the Hibiya E&S Plaza, our first permanent display space for our products and services. Since then, we have been holding Hibiya E&S Seminars at the plaza to provide information about "energy and smart" measures and other subjects. These events facilitate interaction among people representing many industries. In addition, we use the plaza for employee training, classes for customers and other events.

We participated in many exhibitions nationwide as well as community activities. We will continue to take part in these types of activities with the goals of making more people aware of the Hibiya Engineering Group's technologies and contributing to progress in communities and regions throughout Japan.

Distribution of earnings to shareholders

Hibiya Engineering pays a dividend based on the consolidated dividend-on-equity (DOE) ratio in order to distribute earnings to shareholders with consistency. For the fiscal year that ended in March 2015, we paid interim and year-end dividends of ¥16, resulting in a ¥2 increase in the fiscal year dividend from the previous fiscal year to ¥32.

For the dividend for the fiscal year ending in March 2016, we are raising the DOE basis from 1.8% to 2.1%. Consequently, we plan to pay interim and year-end dividends of ¥20, which will increase the fiscal year dividend by ¥8 to ¥40. This dividend will raise the consolidated payout ratio to 60%, which is one goal of the Fifth Medium-term Management Plan.

To improve the return on equity and as one way to return earnings to shareholders, Hibiya Engineering purchases and retires treasury stock in a flexible manner. In the fiscal year that ended in March 2015, 455,800 shares of treasury stock were purchased at a total cost of ¥729 million. In the current fiscal year, as already announced, we plan to purchase up to 500,000 shares at a cost of not more than ¥800 million.

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

Fundamental Policy

Become a comprehensive engineering services organization that is a one-stop source of solutions for customers' needs

Strategies

- Become a source of Life Cycle Total Solutions
- Build a stronger infrastructure for business activities
- Place priority on safety and reliability

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

	FY3/16	Each FY
Orders received	¥74 billion	At least ¥70 billion
Net sales	¥74 billion	At least ¥70 billion
Operating income	¥2.5 billion	At least ¥2.5 billion
Net income	¥2 billion	At least ¥2 billion

The Building Facilities Report
A Service Package for Life Cycle Total Solutions*

*A sales format that provides the best possible ideas for every requirement by supplying value-added services that encompass the entire life cycle of a building

Creating Life Cycle Total Solutions is the central strategy of the Fifth Medium-term Management Plan. To accomplish this goal, we have started using a simple diagnostic tool called the Building Facilities Report.

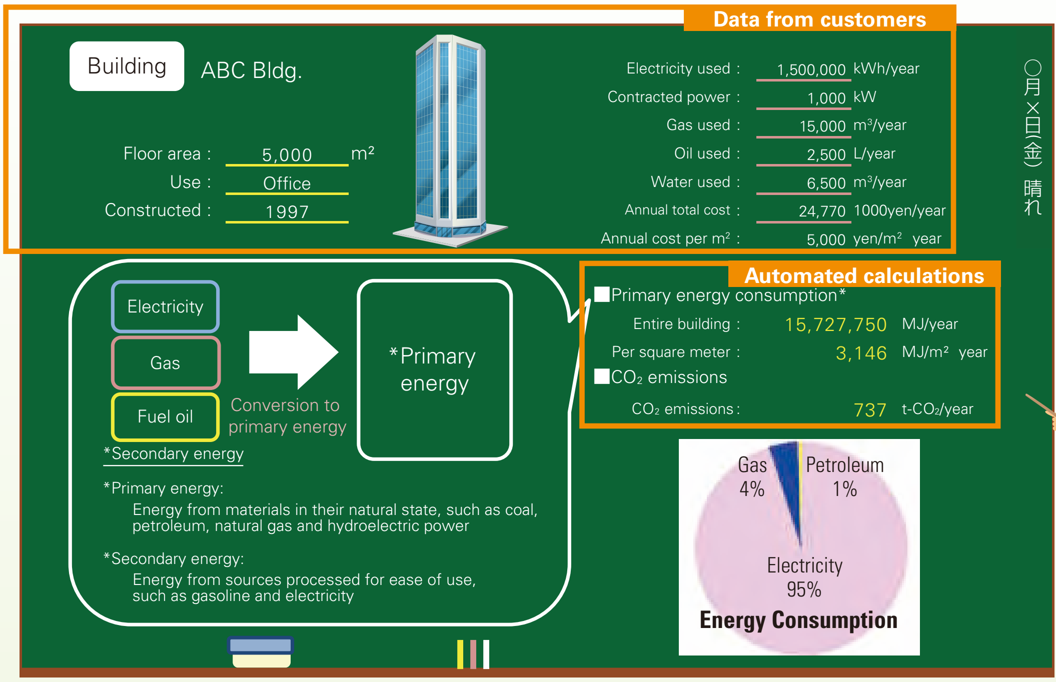
Inputting a building's size, age and other characteristics allows energy consumption comparisons with similar buildings as well as determining the proper timing for updating equipment. This information gives each customer an accurate understanding of the current condition of a building. We plan to use this report as a first contact point for supplying Life Cycle Total Solutions proposals to a diverse array of building owners.

The best proposals that combine exclusive Hibiya Engineering automated diagnoses and state-of-the-art technologies

Input building size, use, energy/water use and other information to –

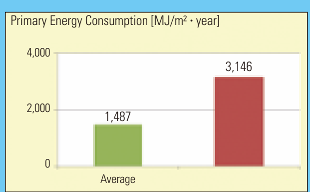
Perform an automated energy use comparison and forecast of equipment renewal timing

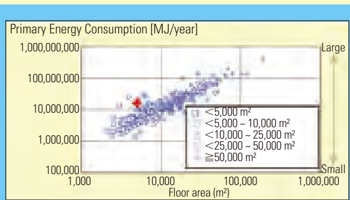
Offer the best proposal that incorporates Hibiya Engineering advanced diagnosis and analysis technologies



Automated diagnosis

Customer's annual primary energy consumption per m²





Visualization of energy used

+

Hibiya Engineering's advanced diagnosis and analysis technologies

Proposals

Operation briefing

Building life cycle optimization

Hibiya Engineering Will Celebrate Its 50th Anniversary in July 2016

1966~

Corporate

1966 Start of operations

Hibiya Engineering, Ltd.

The name was selected for two reasons:

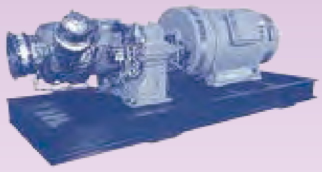
- The company was then located in the Hibiya district of Tokyo.
- The head office of Nippon Telegraph and Telephone Public Corporation (privatized in 1985), a major source of orders, was located beside Hibiya Park.

1977 Listed on second section of Tokyo Stock Exchange

1979 Opened the Singapore office

Technologies

1976 The HGT500 gas turbine generator



A compact, lightweight and environmentally friendly generator with a fast start-up

Projects

1966 No. 2 Marunouchi Telephone Exchange Building

The first order received by Hibiya Engineering

1990~

Corporate

1995 Acquired Hibiya Tsushou Co., Ltd.

1995 Listed on first section of Tokyo Stock Exchange

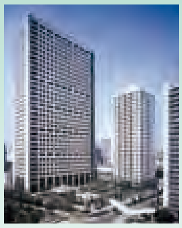
Technologies

1992 The floor outlet climate control system

Allows creating indoor spaces that are comfortable in many ways

Projects

1996 Gran Park Tower



A landmark building in Tokyo's Shibaura district

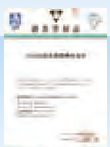
2000~

Corporate

2001 Started HIBIYA21, the company's first medium-term plan

2002 Acquired Nikkey Co., Ltd.

2004 Received ISO 9001 certification (quality management systems)



2009 Received ISO 14001 certification (environmental management systems)

Technologies

2007 The NASCA room access management system

An embedded contactless IC card reader

Projects

2003 Tohoku Rosai Hospital

The primary workplace accident and injury hospital for the six prefectures in Japan's Tohoku region

2010~

Corporate

2010 Acquired HIT Engineering, Ltd.

2014 Started the Fifth Medium-term Plan (April 2014 to March 2017)

2014 Received ISO 27001 certification (information security management)

2016 50th anniversary

Technologies

2012 Solar hybrid system

Uses solar energy to produce electricity and hot water simultaneously

Projects

2012 Tokyo Station Marunouchi Preservation and Restoration

One of the largest preservation and restoration projects ever undertaken in Japan

Topics III

Highlights of the fiscal year

First Quarter | Second Quarter

Hibiya E&S Seminar

Periodically creating a venue for pan-industry exchanges: HIBIYA E&S SEMINAR

Fourth seminar: April 15, 2014 (Tuesday)

Veglia Laboratories, Tokyo Saraya

"Intelligent energy conservation techniques for increasing office and plant productivity and reducing costs"

Fifth seminar: July 9, 2014 (Wednesday)

Shiseido, Tokyo Crude Drug Association

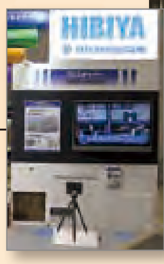
"Plant factories spreading, new possibilities for health, beauty and food culture"

Strawberry Plant factory

Exhibitions

- **May** Sixth Data Center Construction Operations Exhibit (Spring) [Tokyo]
- **June** Kyushu Eco-Fair 2014 [Kyushu]

- **July** Fifth Eco-Office, Eco-Plant Expo [Tokyo]
- **July** Smart Energy Japan 2014 in Osaka [Osaka]



On-site research support system using 3D scanners

Regional Contribution Activities

- **April** Cleaning activity [Nagoya]
- **June** Love Earth Clean Up 2014 [Kyushu]
- **June** Granny's Bike Endurance Race [Sapporo]
- **June** Trash Zero Cleanup Walk [Hiroshima]

- **July** Major cleanup Operation with Everyone [Tokyo]
- **July** Local cleaning (local contribution activity) [Hiroshima]
- **September** Environmental Beautification around Telwel Sendai Building [Tohoku]

Third Quarter

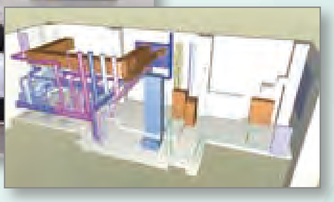
Fourth Quarter

At "Hibiya E&S Plaza," the Company's first permanent exhibition venue, we periodically host exhibitions to which are invited a wide range of industries, regulatory agencies, university academic persons and others.

Sixth seminar: October 21, 2014 (Tuesday)

NTT Facilities, Sherpa, Power Place

"BIM technology improves building life cycle value"



BIM model

Seventh seminar: February 3, 2015 (Tuesday)

Veglia Laboratories, Yanmar Energy System

"Full use of energy management business at buildings, plants and hospitals"

October Smart Community Tohoku 2014 [Tohoku]

November Messe Nagoya [Nagoya]

November Business Expo 2014, Hokkaido Technology and Business Exchange Conference [Sapporo]

November Eco Innovation Messe 2014 in Hiroshima [Hiroshima]

February JFMA Forum 2015 [Tokyo]

February Village of eco-experts at International Hotel and Restaurant Show [Tokyo]

Decorative illumination panel on exhibit

October Local cleaning (local contribution activity) [Hiroshima]

October Osaka Marathon 2014 "Cleanup" operation [Osaka]

November "Kinmarunohi" volunteer activity (preparing flower beds in parks) [Kyushu]

February Twenty-third Okinawa Marathon volunteers [Okinawa]

February Tokyo Marathon 2015 Volunteers [Tokyo]

February Cleaning activity in Sendai City ahead of the "Third UN World Conference on Disaster Reduction" [Tohoku]

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 establishment. 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.

Hibiya Engineering

For the environment

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

For customers

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

For shareholders and investors

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

For communities and society

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

For business partners

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

For employees

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

Corporate Governance

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

Board of Directors

There are now 11 directors, including two 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

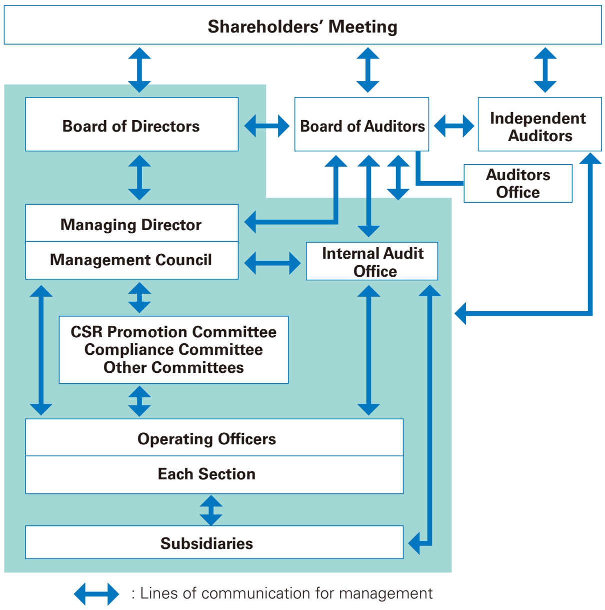
Hibiya Engineering uses the corporate auditor system and increased the number of external corporate auditors by one in June 2008. There are currently four corporate auditors, including three external auditors. Auditors attend meetings of the Board of Directors, Management Council and other important 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 transparency and soundness of the Hibiya Engineering Group.

Hibiya Engineering has a Compliance Committee chaired by the company's president that is responsible for company-wide 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.

Fiscal Year Major Project Completion

Legend: 1. Location 2. Use 3. Equipment installed 4. Floor area 5. Size 6. Completed

Natural Gas Cogeneration System at a Resort Hotel

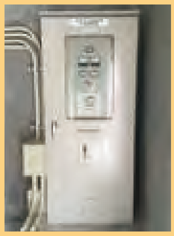
The Yuinchi Hotel Nanjo in Okinawa

The main entrance of The Yuinchi Hotel Nanjo

Gas tanks and the generator building

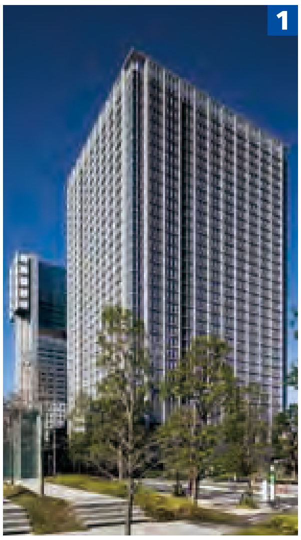
A proposal from Hibiya Engineering resulted in the installation of Okinawa's first natural gas cogeneration system at The Yuinchi Hotel Nanjo. The system uses natural gas that is part of the gases contained in hot spring water. Numerous Hibiya Engineering technologies and other expertise were utilized to ensure safety, comply with the Mine Safety Act and meet other requirements.

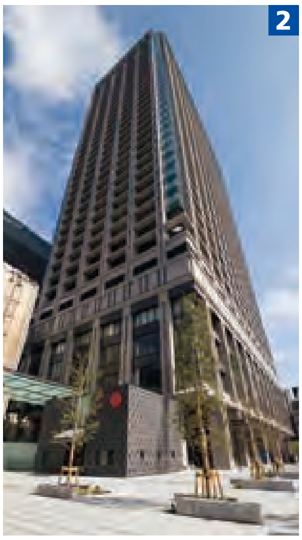
Generator



Control unit

The system produces enough electricity for about 100 houses.





1 Shinagawa Season Terrace

1. Minato-ku, Tokyo
2. Offices
3. Electrical systems
4. 205,786m^2
5. 32 floors, 4 underground levels
6. March, 2015

2 Tokyo Nihombashi Tower

1. Chuo-ku, Tokyo
2. Offices
3. Air conditioning
4. 132,494m^2
5. 35 floors, 4 underground levels
6. March, 2015

3 Aiiku Hospital

1. Minato-ku, Tokyo
2. Hospital
3. Air conditioning, plumbing and sanitation
4. 17,667m^2
5. 10 floors
6. October, 2014

FINANCIAL SECTION

CONTENTS

■ Overview

In the fiscal year ended March 2015, the Japanese economy recovered slowly as corporate earnings improved and consumer spending rebounded due to growing exports and government economic stimulus measures. But there were still some uncertainties about the outlook, including the effects of the drop in demand following the April 2014 consumption tax hike.

In the construction industry, public-works investments weakened slightly but private-sector capital expenditures recovered along with growth in earnings. The operating environment was challenging because of the higher cost of materials and labor and intense competition to capture orders.

Orders received and sales

The Hibiya Engineering Group started the Fifth Medium-term Management Plan in April 2014. One goal is to build a more powerful profit structure by becoming a provider of Life Cycle Total Solutions. This involves becoming a one-stop source of equipment and services that meet customers' diversifying needs by supplying outstanding solutions with substantial added value across the entire life cycle of buildings. A second goal is establishing a stronger base of operations by accumulating and utilizing information-related expertise and generating more synergies across the group. The current management plan also includes measures to benefit stakeholders by operating in a sound and safe manner. This includes upgrading CSR activities, maintaining a rigorous compliance program and increasing distributions to shareholders.

Due to these activities, orders received increased 1.0% to ¥73,105 million and sales increased 2.7% to ¥71,330 million.

Operating income and net income

Operating income was up 7.7% to ¥1,984 million and net income increased by 18.7% to ¥2,630 million. Net income per share increased from ¥72.78 to ¥87.62 and diluted net income per share increased from ¥72.43 to ¥87.16.

■ Balance Sheet and Cash Flows

Balance sheet

Assets

Total assets increased ¥1,193 million from the end of the previous fiscal year to ¥84,725 million as of March 31, 2015. Current assets increased ¥566 million to ¥44,520 million and noncurrent assets increased ¥627 million to ¥40,205 million.

Major changes in current assets were decreases of ¥2,759 million in cash and cash equivalents and ¥314 million in short-term investments and a ¥3,376 million increase in notes receivable, accounts receivable from completed construction contracts and other.

Noncurrent assets increased mainly because of a ¥399 million increase in the valuation of investment securities.

Liabilities

Liabilities decreased ¥677 million to ¥25,786 million as of March 31, 2015.

The decrease in liabilities was mainly the net result of a ¥451 million increase in income taxes payable and decreases of ¥1,272 million in notes payable, accounts payable for construction contracts and other and ¥330 million in bank loans.

Net assets

Net assets were ¥58,939 million at the end of the fiscal year mainly because of the contribution from net income of ¥2,630 million.

Return on equity

The return on equity increased from 4.1% in the previous fiscal year to 4.7%.

Cash flows

Net cash used in operating activities was ¥3,385 million, an increase of ¥2,070 million from the previous fiscal year. A decrease in notes and accounts payable-trade was the major cause of this increase.

Net cash provided by investing activities was ¥2,634 million, an increase of ¥2,996 million from the previous fiscal year. The main cause was a decrease in the purchase of investment securities.

Net cash used in financing activities was ¥2,008 million, an increase of ¥124 million from the previous fiscal year. The increase was mainly the result of an increase in purchase of treasury shares.

The result of these cash flows was a net decrease of ¥2,759 million in cash and cash equivalents to ¥4,864 million at the end of the fiscal year.

■ Segment information

In the construction segment, which accounted for 88.4% of consolidated sales, sales increased 3.0% to ¥63,107 million and operating income decreased 6.5% to ¥1,526 million.

In the equipment sales segment, segment sales decreased 3.7% to ¥5,155 million and operating income increased 35.4% to ¥211 million.

In the equipment manufacturing segment, segment sales increased 8.8% to ¥3,068 million and operating income increased 404.2% to ¥241 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, 2015.

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 one of its consolidated subsidiaries participate in the employee pension fund of the Tokyo Air-Conditioning and Plumbing Contractors Association. An affiliate accounted for by the equity method participates in the Tokyo Metropolis Construction Industry Employees' Pension Fund. If a decline in the financial condition of either of these funds results in a revision in benefits, depending on the nature of the revision, the Group's operating performance and financial position may be affected by an increase in retirement benefit expenses.

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 market based 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, 2015 and 2014

		Millions of yen		Thousands of U.S. dollars (Note 1)
		2015	2014	**2015**
Assets				
Current assets:				
Cash and cash equivalents	*(Note 3)*	**¥ 4,864**	¥ 7,623	**$ 40,476**
Notes receivable, accounts receivable from completed construction contracts and other	*(Note 3)*	**36,093**	32,717	**300,350**
Short-term investments	*(Note 3)*	**1,201**	1,515	**9,994**
Costs on uncompleted construction contracts and other		**952**	855	**7,922**
Deferred tax assets	*(Note 4)*	**608**	576	**5,059**
Other		**850**	703	**7,073**
Allowance for doubtful accounts		**(48)**	(35)	**(399)**
Total current assets		**44,520**	43,954	**370,475**
Property, plant and equipment:				
Buildings and structures		**1,497**	1,476	**12,457**
Land		**153**	152	**1,273**
Other		**952**	930	**7,923**
Total		**2,602**	2,558	**21,653**
Accumulated depreciation		**(2,069)**	(1,999)	**(17,217)**
Total property, plant and equipment		**533**	559	**4,436**
Investments and other assets:				
Investment securities	*(Note 3)*	**33,736**	33,337	**280,736**
Insurance funds		**2,855**	2,755	**23,758**
Investments in silent partnership	*(Note 3)*	**1,544**	1,255	**12,848**
Deferred tax assets	*(Note 4)*	**43**	161	**358**
Asset for retirement benefits	*(Note 6)*	**443**	398	**3,686**
Other		**1,051**	1,113	**8,746**
Total investments and other assets		**39,672**	39,019	**330,132**
Total assets		**¥84,725**	¥83,532	**$705,043**

See accompanying notes to consolidated financial statements.

		Millions of yen		Thousands of U.S. dollars (Note 1)
		2015	2014	**2015**
Liabilities and Net assets				
Current liabilities:				
Notes payable, accounts payable for construction contracts and other	*(Note 3)*	**¥19,170**	¥20,442	**$159,524**
Bank loans	*(Note 3)*	**—**	330	**—**
Income taxes payable	*(Note 4)*	**1,172**	721	**9,753**
Advances received on uncompleted construction contracts		**672**	1,003	**5,592**
Provision for bonuses		**977**	923	**8,130**
Provision for loss on construction contracts		**348**	242	**2,896**
Other		**1,705**	928	**14,188**
Total current liabilities		**24,044**	24,589	**200,083**
Long-term liabilities:				
Deferred tax liabilities	*(Note 4)*	**1,438**	1,194	**11,966**
Liability for retirement benefits	*(Note 6)*	**255**	607	**2,122**
Other		**49**	73	**408**
Total long-term liabilities		**1,742**	1,874	**14,496**
Total liabilities		**25,786**	26,463	**214,579**
Net assets				
Shareholders' equity:	*(Note 7)*			
Capital stock: Authorized – 96,500,000 shares in 2015 and 2014 Issued – 31,000,309 shares in 2015 and 2014		**5,753**	5,753	**47,874**
Capital surplus		**5,932**	5,932	**49,363**
Retained earnings		**41,872**	40,187	**348,440**
Treasury stock: 1,229,704 shares in 2015 and 785,800 shares in 2014		**(1,242)**	(525)	**(10,336)**
Total shareholders' equity		**52,315**	51,347	**435,341**
Accumulated other comprehensive income				
Net unrealized holding gains or losses on securities		**4,693**	4,031	**39,053**
Accumulated adjustments for retirement benefits		**(73)**	(121)	**(607)**
Total accumulated other comprehensive income		**4,620**	3,910	**38,446**
Subscription rights to shares		**139**	110	**1,157**
Minority interests		**1,865**	1,702	**15,520**
Total net assets		**58,939**	57,069	**490,464**
Total liabilities and net assets		**¥84,725**	¥83,532	**$705,043**

Consolidated Statements of Income

Hibiya Engineering, Ltd. and Consolidated Subsidiaries
Years ended March 31, 2015 and 2014

		Millions of yen		Thousands of U.S. dollars (Note 1)
		2015	2014	**2015**
Net sales		**¥71,330**	¥69,466	**$593,576**
Cost of sales		**62,653**	60,741	**521,370**
Gross profit		**8,677**	8,725	**72,206**
Selling, general and administrative expenses	*(Note 5)*	**6,693**	6,883	**55,696**
Operating income		**1,984**	1,842	**16,510**
Other income (expenses):				
Interest and dividend income		**255**	253	**2,122**
Interest expenses		**(3)**	(13)	**(25)**
Equity in earnings of affiliates		**654**	694	**5,442**
Gain on sales of investment securities		**1,072**	284	**8,921**
Gain on redemption of investment securities		**—**	274	**—**
Write off of goodwill		**—**	(43)	**—**
Other, net		**165**	111	**1,373**
Other income (expenses) - net		**2,143**	1,560	**17,833**
Income before income taxes and minority interests		**4,127**	3,402	**34,343**
Income taxes:	*(Note 4)*			
Income taxes-current		**1,251**	848	**10,410**
Income taxes-deferred		**130**	301	**1,082**
Total income taxes		**1,381**	1,149	**11,492**
Income before minority interests		**2,746**	2,253	**22,851**
Minority interests in income		**116**	37	**965**
Net income	*(Note 10)*	**¥ 2,630**	¥ 2,216	**$ 21,886**

		Yen		U.S. dollars (Note 1)
Per share of common stock:	*(Note 10)*	**2015**	2014	**2015**
Net assets		**¥1,912.49**	¥1,828.81	**$15.91**
Net income				
Basic		**87.62**	72.78	**0.73**
Diluted		**87.16**	72.43	**0.73**
Cash dividend applicable to the year	*(Note 7)*	**32.00**	30.00	**0.27**

See accompanying notes to consolidated financial statements.

Consolidated Statements of Comprehensive Income

Hibiya Engineering, Ltd. and Consolidated Subsidiaries
Years ended March 31, 2015 and 2014

		Millions of yen		Thousands of U.S. dollars (Note 1)
		2015	2014	**2015**
Income before minority interests		**¥2,746**	¥2,253	**$22,851**
Other comprehensive income:	*(Note 9)*			
Net unrealized holding gains or losses on securities		**715**	1,138	**5,950**
Adjustments for retirements benefits		**145**	—	**1,207**
Share of other comprehensive income of associates accounted for by using equity method		**(98)**	27	**(816)**
Total other comprehensive income		**762**	1,165	**6,341**
Comprehensive income		**3,508**	3,418	**29,192**
Comprehensive income attributable to:				
Owners of the parent		**3,335**	3,338	**27,752**
Minority interests		**173**	80	**1,440**

See accompanying notes to consolidated financial statements.

Consolidated Statements of Changes in Net Assets

Hibiya Engineering, Ltd. and Consolidated Subsidiaries
Years ended March 31, 2015 and 2014

	Number of shares of common stock	Shareholders' equity				
		Capital stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
	(Shares)	(Millions of yen)				
Balance at April 1, 2013	34,000,309	¥5,753	¥5,932	¥41,495	¥(2,649)	¥50,531
Net income	—	—	—	2,216	—	2,216
Dividend from surplus	—	—	—	(922)	—	(922)
Purchase of treasury stock	—	—	—	—	(501)	(501)
Disposal of treasury stock	—	—	—	(7)	30	23
Retirement of treasury stock	(3,000,000)	—	—	(2,595)	2,595	—
Net changes of items other than shareholders' equity	—	—	—	—	—	—
Balance at April 1, 2014	31,000,309	¥5,753	¥5,932	¥40,187	¥ (525)	¥51,347
Net income	—	—	—	2,630	—	2,630
Dividend from surplus	—	—	—	(939)	—	(939)
Purchase of treasury stock	—	—	—	—	(732)	(732)
Disposal of treasury stock	—	—	—	(6)	15	9
Net changes of items other than shareholders' equity	—	—	—	—	—	—
Balance at March 31, 2015	**31,000,309**	**¥5,753**	**¥5,932**	**¥41,872**	**¥(1,242)**	**¥52,315**

	Accumulated other comprehensive income			Subscription rights to shares	Minority interests	Total net assets
	Net unrealized holding gains or losses on securities	Accumulated adjustments for retirement benefits	Total Accumulated other comprehensive income			
	(Millions of yen)					
Balance at April 1, 2013	¥2,914	—	¥2,914	¥ 98	¥1,623	¥55,166
Net income	—	—	—	—	—	2,216
Dividend from surplus	—	—	—	—	—	(922)
Purchase of treasury stock	—	—	—	—	—	(501)
Disposal of treasury stock	—	—	—	—	—	23
Net changes of items other than shareholders' equity	1,117	(121)	996	12	79	1,087
Balance at April 1, 2014	¥4,031	¥(121)	¥3,910	¥110	¥1,702	¥57,069
Net income	—	—	—	—	—	2,630
Dividend from surplus	—	—	—	—	—	(939)
Purchase of treasury stock	—	—	—	—	—	(732)
Disposal of treasury stock	—	—	—	—	—	9
Net changes of items other than shareholders' equity	662	48	710	29	163	902
Balance at March 31, 2015	**¥4,693**	**¥ (73)**	**¥4,620**	**¥139**	**¥1,865**	**¥58,939**

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
	(Thousands of U.S. dollars (Note 1))				
Balance at April 1, 2014	$47,874	$49,363	$334,418	$ (4,377)	$427,278
Net income	—	—	21,886	—	21,886
Dividend from surplus	—	—	(7,814)	—	(7,814)
Purchase of treasury stock	—	—	—	(6,084)	(6,084)
Disposal of treasury stock	—	—	(50)	125	75
Net changes of items other than shareholders' equity	—	—	—	—	—
Balance at March 31, 2015	**$47,874**	**$49,363**	**$348,440**	**$(10,336)**	**$435,341**

	Accumulated other comprehensive income			Subscription rights to shares	Minority interests	Total net assets
	Net unrealized holding gains or losses on securities	Accumulated adjustments for retirement benefits	Total Accumulated other comprehensive income			
	(Thousands of U.S. dollars (Note 1))					
Balance at April 1, 2014	$33,544	$(1,007)	$32,537	$ 915	$14,163	$474,894
Net income	—	—	—	—	—	21,886
Dividend from surplus	—	—	—	—	—	(7,814)
Purchase of treasury stock	—	—	—	—	—	(6,084)
Disposal of treasury stock	—	—	—	—	—	75
Net changes of items other than shareholders' equity	5,509	400	5,909	242	1,357	7,507
Balance at March 31, 2015	**$39,053**	**$ (607)**	**$38,446**	**$1,157**	**$15,520**	**$490,464**

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Hibiya Engineering, Ltd. and Consolidated Subsidiaries
Years ended March 31, 2015 and 2014

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2015	2014	**2015**
Cash flows from operating activities:			
Income before income taxes and minority interests	**¥4,127**	¥ 3,402	**$34,343**
Depreciation and amortization	**152**	259	**1,265**
Amortization of goodwill	**—**	77	**—**
Increase (decrease) in allowance for doubtful accounts	**(89)**	114	**(741)**
Increase (decrease) in provision for retirement benefits	**—**	(379)	**—**
Decrease (increase) in asset for retirement benefits	**(84)**	(250)	**(699)**
Increase (decrease) in liability for retirement benefits	**(89)**	259	**(741)**
Increase (decrease) in provision for bonuses	**54**	21	**449**
Increase (decrease) in provision for loss on construction contracts	**106**	(11)	**882**
Interest and dividend income	**(255)**	(253)	**(2,122)**
Interest expenses	**3**	13	**25**
Loss (gain) on sales of investment securities	**(1,067)**	(284)	**(8,879)**
Loss (gain) on redemption of investment securities	**—**	(274)	**—**
Equity in (earnings) losses of affiliates	**(654)**	(694)	**(5,442)**
Decrease (increase) in notes and accounts receivable	**(3,375)**	(4,044)	**(28,085)**
Decrease (increase) in costs on uncompleted construction contracts and other	**(97)**	(96)	**(807)**
Increase (decrease) in notes and accounts payable	**(1,272)**	1,265	**(10,585)**
Increase (decrease) in advances received on uncompleted construction contracts	**(331)**	681	**(2,754)**
Other, net	**35**	(516)	**291**
Subtotal	**(2,836)**	(710)	**(23,600)**
Interest and dividend income received	**259**	263	**2,155**
Interest expenses paid	**(3)**	(13)	**(25)**
Income taxes paid	**(805)**	(855)	**(6,698)**
Net cash provided by (used in) operating activities	**(3,385)**	(1,315)	**(28,168)**
Cash flows from investing activities:			
Payments into time deposits	**—**	(300)	**—**
Proceeds from withdrawal of time deposits	**300**	600	**2,496**
Purchase of property, plant and equipment	**(64)**	(96)	**(533)**
Purchase of intangible assets	**(19)**	(25)	**(158)**
Purchase of investment securities	**(357)**	(3,510)	**(2,971)**
Proceeds from sales of investment securities	**1,610**	300	**13,398**
Proceeds from redemption of investment securities	**1,510**	3,000	**12,566**
Purchase of insurance funds	**(112)**	(99)	**(932)**
Proceeds from maturity of insurance funds	**11**	6	**92**
Payments for investments in silent partnership	**(300)**	(273)	**(2,496)**
Other, net	**55**	35	**457**
Net cash provided by (used in) investing activities	**2,634**	(362)	**21,919**
Cash flows from financing activities:			
Net increase (decrease) in short-term bank loans	**(330)**	(450)	**(2,746)**
Purchase of treasury stock	**(730)**	(501)	**(6,075)**
Proceeds from disposal of treasury stock	**0**	0	**0**
Cash dividend	**(939)**	(922)	**(7,814)**
Cash dividend paid to minority shareholders	**(6)**	(6)	**(50)**
Other, net	**(3)**	(5)	**(25)**
Net cash provided by (used in) financing activities	**(2,008)**	(1,884)	**(16,710)**
Net increase (decrease) in cash and cash equivalents	**(2,759)**	(3,561)	**(22,959)**
Cash and cash equivalents at beginning of period	**7,623**	11,184	**63,435**
Cash and cash equivalents at end of period	**¥4,864**	¥ 7,623	**$40,476**

See accompanying notes to consolidated financial statements.

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, 2015, which was ¥120.17 to U.S. $1. 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

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

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

(2) Securities

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

No trading securities and held-to-maturity debt securities have been owned by the Companies. Equity securities issued by subsidiaries 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 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 changed to cost of sales for the years ended March 31, 2015 and 2014 are ¥348 million ($2,896 thousand) and ¥242 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 using the special identification method. Inventories other than construction contracts are stated at cost using the special 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 (not including leased assets) is computed using the declining-balance method at rates based on their useful lives prescribed in the Japanese tax regulations.

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. 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 and open-end bond investment trusts 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 years and includes dividend to be paid after the fiscal year-end.

(12) Change in accounting policy

For the year ended March 31, 2015

(Application of the Accounting Standard for Retirement Benefits and related Guidance)

Effective from the year ended March 31, 2015, the Company and its consolidated domestic subsidiaries have applied the provisions under the main clause of article 35 of the Accounting Standard for Retirement Benefits (Accounting Standards Board of Japan (the "ASBJ") Statement No. 26, May 17, 2012) and the main clause of article 67 of the Guidance on Accounting Standard for Retirement Benefits (ASBJ Guidance No. 25, March 26, 2015) and accordingly reviewed the calculation methods for retirement benefit obligations and service cost. In calculating benefit obligations, the straight-line method is continued to be used for the method of attributing estimated retirement benefits to periods, while the method for determining the discount rate was changed from the method using the number of years approximate to the average remaining years of service of the employees to the method using a single weighted average discount rate that reflects the estimated periods and amount of benefit payment in each period. This change in the accounting policy has no impact on the consolidated financial statements.

For the year ended March 31, 2014

(Application of the Accounting Standard for Retirement Benefits and related Guidance)

Effective from the year ended March 31, 2014, the Company and its consolidated domestic subsidiaries have applied the Accounting Standard for Retirement Benefits (ASBJ Statement No. 26, May 17, 2012 (hereinafter, the "Statement No. 26")) and Guidance on Accounting Standard for Retirement Benefits (ASBJ Guidance No. 25, May 17, 2012 (hereinafter, the "Guidance No. 25")) except the article 35 of the Statement No. 26 and the article 67 of the Guidance No. 25 and actuarial gains and losses and past service costs that are yet to be recognized have been recognized and the difference between retirement benefit obligations and plan assets has been recognized as a liability for retirement benefits and an asset for retirement benefits.

In accordance with the article 37 of the Statement

No. 26, the effect of the change in accounting policies arising from initial application has been recognized in accumulated adjustments for retirement benefit in accumulated other comprehensive income.

As a result of the application, the asset for retirement benefits in the amount of ¥398 million and a liability for retirement benefits in the amount of ¥607 million were recognized and accumulated other comprehensive income were decreased by ¥121 million, at the end of the current fiscal year. Accordingly, net assets per share decreased by ¥4.02.

3. Financial instruments

(1) Overview

Information on financial instruments for the years ended March 31, 2015 and 2014 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.

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.

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.

(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 starts business with a 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 invest only in bonds with high ratings.

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 based on the safety 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, 2015 and 2014, book values, fair values and their differences were as follows. Items whose fair values were extremely difficult to be determined are not included in the following table.

		Millions of yen		
		2015		
		Book value	Fair value	Difference
Assets				
Cash and cash equivalents	(*1)	**¥ 4,864**	**¥ 4,864**	**¥—**
Notes receivable, accounts receivable from completed construction contracts and other	(*1)	**36,093**	**36,093**	**—**
Short-term investments	(*2)	**1,201**	**1,201**	**—**
Investment securities measured at fair value	(*2)	**15,260**	**15,260**	**—**
Investments not measured at fair value	(*3)	**18,476**	**—**	**—**
Investments in silent partnership	(*3)	**1,544**	**—**	**—**
Liabilities				
Notes payable, accounts payable for construction contracts and other		**¥19,170**	**¥19,170**	**¥—**

		Millions of yen		
		2014		
		Book value	Fair value	Difference
Assets				
Cash and cash equivalents	(*1)	¥ 7,623	¥ 7,623	¥—
Notes receivable, accounts receivable from completed construction contracts and other	(*1)	32,717	32,717	—
Short-term investments	(*2)	1,515	1,515	—
Investment securities measured at fair value	(*2)	15,387	15,387	—
Investments not measured at fair value	(*3)	17,950	—	—
Investments in silent partnership	(*3)	1,255	—	—
Liabilities				
Notes payable, accounts payable for construction contracts and other		¥20,442	¥20,442	¥—
Bank loans		330	330	—

		Thousands of U.S. dollars		
		2015		
		Book value	Fair value	Difference
Assets				
Cash and cash equivalents	(*1)	**$ 40,476**	**$ 40,476**	**$—**
Notes receivable, accounts receivable from completed construction contracts and other	(*1)	**300,350**	**300,350**	**—**
Short-term investments	(*2)	**9,994**	**9,994**	**—**
Investment securities measured at fair value	(*2)	**126,987**	**126,987**	**—**
Investments not measured at fair value	(*3)	**153,749**	**—**	**—**
Investments in silent partnership	(*3)	**12,848**	**—**	**—**
Liabilities				
Notes payable, accounts payable for construction contracts and other		**$159,524**	**—**	**$—**

(*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
	2015	2014	**2015**
Short-term investments	**¥ 1,201**	¥ 1,515	**$ 9,994**
Investment securities	**33,736**	33,337	**280,736**
Total	**¥34,937**	¥34,852	**$290,730**
Available-for-sale securities with fair value	**16,461**	16,902	**136,981**
Available-for-sale securities without fair value	**1,465**	1,485	**12,191**
Equity securities issued by subsidiaries and affiliates	**17,011**	16,465	**141,558**
Total	**¥34,937**	¥34,852	**$290,730**

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

As of March 31, 2015 and 2014, book values (fair values) and acquisition costs of available-for-sale securities with fair values were as follows:

	Millions of yen		
	2015		
	Book value	Acquisition cost	Difference
Securities whose book values (fair values) exceed their acquisition costs:			
Equity securities	**¥10,347**	**¥3,717**	**¥6,630**
Debt securities:			
Government and municipal bonds	**301**	**300**	**1**
Corporate bonds	**972**	**892**	**80**
Other bonds	**3,424**	**3,400**	**24**
Other	**—**	**—**	**—**
Sub-total	**¥15,044**	**¥8,309**	**¥6,735**
Securities whose book values (fair values) do not exceed their acquisition costs:			
Equity securities	**¥ 34**	**¥ 37**	**¥ (3)**
Debt securities:			
Other bonds	**1,383**	**1,400**	**(17)**
Other	**—**	**—**	**—**
Sub-total	**¥ 1,417**	**¥1,437**	**¥ (20)**
Total	**¥16,461**	**¥9,746**	**¥6,715**

	Millions of yen		
	2014		
	Book value	Acquisition cost	Difference
Securities whose book values (fair values) exceed their acquisition costs:			
Equity securities	¥ 9,338	¥ 3,529	¥5,809
Debt securities:			
Government and municipal bonds	304	300	4
Corporate bonds	946	892	54
Other bonds	2,829	2,810	19
Other	318	280	38
Sub-total	¥13,735	¥ 7,811	¥5,924
Securities whose book values (fair values) do not exceed their acquisition costs:			
Equity securities	¥ 106	¥ 111	¥ (5)
Debt securities:			
Other bonds	3,061	3,100	(39)
Other	—	—	—
Sub-total	¥ 3,167	¥ 3,211	¥ (44)
Total	¥16,902	¥11,022	¥5,880

	Thousands of U.S. dollars		
	2015		
	Book value	Acquisition cost	Difference
Securities whose book values (fair values) exceed their acquisition costs:			
Equity securities	$ 86,103	$30,931	$55,172
Debt securities:			
Government and municipal bonds	2,505	2,497	8
Corporate bonds	8,089	7,423	666
Other bonds	28,492	28,293	199
Other	—	—	—
Sub-total	$125,189	$69,144	$56,045
Securities whose book values (fair values) do not exceed their acquisition costs:			
Equity securities	$ 283	$ 308	$ (25)
Debt securities:			
Other bonds	11,509	11,650	(141)
Other	—	—	—
Sub-total	$ 11,792	$11,958	$ (166)
Total	$136,981	$81,102	$55,879

(b) Proceeds from sales, and gross realized gains and losses from the sale of available-for-sale securities for the years ended March 31, 2015 and 2014 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
Proceeds from sales			
Equity securities	¥1,270	¥300	$10,568
Other	340	—	2,830
Total	¥1,610	¥300	$13,398
Gross realized gains			
Equity securities	¥1,013	¥284	$ 8,430
Other	59	—	491
Total	¥1,072	¥284	$ 8,921
Gross realized losses			
Equity securities	¥ 5	¥ —	$ 42
Other	—	—	—
Total	¥ 5	¥ —	$ 42

(c) Securities with impairment losses

For available-for-sale securities with available fair values, impairment losses are recognized if the fair value declines by 30% or more 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 50% or more 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			
	2015			
	Within 1 year	1 to 5 years	5 to 10 years	Over 10 years
Cash and cash equivalents	¥ 4,864	¥ —	¥ —	¥ —
Notes receivable, accounts receivable from completed construction contracts and other	36,093	—	—	—
Short-term investments and investment securities				
Securities with maturities:				
(1) Government and municipal bonds	300	—	—	—
(2) Corporate bonds	—	400	—	500
(3) Other bonds	2,400	3,000	900	—
Investments in silent partnership	—	1,544	—	—
Total	¥43,657	¥4,944	¥900	¥500

	Millions of yen			
	2014			
	Within 1 year	1 to 5 years	5 to 10 years	Over 10 years
Cash and cash equivalents	¥ 7,623	¥ —	¥ —	¥ —
Notes receivable, accounts receivable from completed construction contracts and other	32,717	—	—	—
Short-term investments and investment securities				
Securities with maturities:				
(1) Government and municipal bonds	—	300	—	—
(2) Corporate bonds	—	400	—	500
(3) Other bonds	1,510	3,900	500	—
Investments in silent partnership	—	1,255	—	—
Total	¥41,850	¥5,855	¥500	¥500

	Thousands of U.S. dollars			
	2015			
	Within 1 year	1 to 5 years	5 to 10 years	Over 10 years
Cash and cash equivalents	**$ 40,476**	**$ —**	**$ —**	**$ —**
Notes receivable, accounts receivable from completed construction contracts and other	**300,350**	**—**	**—**	**—**
Short-term investments and investment securities				
Securities with maturities:				
(1) Government and municipal bonds	**2,496**	**—**	**—**	**—**
(2) Corporate bonds	**—**	**3,329**	**—**	**4,161**
(3) Other bonds	**19,972**	**24,965**	**7,489**	**—**
Investments in silent partnership	**—**	**12,848**	**—**	**—**
Total	**$363,294**	**$41,142**	**$7,489**	**$4,161**

(5) Derivative transactions

Derivative transactions to which hedge accounting is not applied

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

4. Income taxes

Taxes on income consist of corporation, enterprise and inhabitants taxes. The aggregate statutory tax rates on income before income taxes were approximately 35.6% and 38.0% for the years ended March 31, 2015 and 2014, respectively.

The actual effective tax rate in the accompanying 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 financial statement purposes for the years ended March 31, 2015 and 2014.

	2015	2014
Statutory tax rate	**35.6%**	38.0%
Non-deductible expenses	**1.0**	1.7
Non-taxable dividend income	**(0.7)**	(1.9)
Per capita inhabitant tax	**1.1**	1.3
Valuation allowance	**(0.5)**	0.7
Equity in earnings of affiliates	**(5.7)**	(7.8)
Adjustment of deferred tax assets and liabilities for enacted changes in tax laws and rates	**2.6**	1.2
Other	**0.1**	0.6
Effective tax rate	**33.5%**	33.8%

Significant components of the Companies' deferred tax assets and liabilities as of March 31, 2015 and 2014 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	2014	**2015**
Deferred tax assets:			
Loss on valuation of investment securities	**¥ 214**	¥ 259	**$ 1,781**
Enterprise taxes payable	**83**	64	**691**
Provision for bonuses	**322**	329	**2,680**
Provision for loss on construction contracts	**115**	86	**957**
Liability for retirement benefits	**638**	856	**5,309**
Net unrealized holding losses on securities	**7**	16	**58**
Other	**411**	508	**3,420**
Valuation allowance	**(444)**	(532)	**(3,695)**
Subtotal deferred tax assets	**¥ 1,346**	¥ 1,586	**$ 11,201**
Offset against deferred tax liabilities	**(695)**	(849)	**(5,784)**
Total deferred tax assets	**¥ 651**	¥737	**$ 5,417**
Current deferred tax assets	**608**	576	**5,059**
Non-current deferred tax assets	**43**	161	**358**
Deferred tax liabilities:			
Net unrealized holding gains on securities	**¥(2,049)**	¥(1,936)	**$(17,051)**
Other	**(84)**	(107)	**(699)**
Subtotal deferred tax liabilities	**¥(2,133)**	¥(2,043)	**$(17,750)**
Offset against deferred tax assets	**695**	849	**5,784**
Total tax liabilities	**¥(1,438)**	¥(1,194)	**$(11,966)**

Amendment to deferred tax assets and liabilities due to change in income tax rates

The Act on Partial Revision of the Income Tax Act (Act No. 9 of 2015) and the Act on Partial Revision of the Local Tax Act (Act No. 2 of 2015) were promulgated on March 31, 2015, and income tax rates are to be lowered from fiscal years beginning on or after April 1, 2015. Accordingly, the effective statutory tax rate used to measure deferred tax assets and liabilities will be changed from 35.6% to 33.1% for temporary differences expected to be reversed in the fiscal year beginning on April 1, 2015, and 32.3% for temporary differences expected to be reversed in the fiscal year beginning on or after April 1, 2016.

As a result of the change in the tax rates, deferred tax assets (net of deferred tax liabilities), net unrealized holding gains or losses on securities, and income taxes-deferred (debit) increased by ¥84 million ($699 thousand), ¥191 million ($1,589 thousand), and ¥107 million ($890 thousand), respectively.

5. Selling, general and administrative expenses

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

	Millions of yen		Thousands of U.S. dollars
	2015	2014	**2015**
Employees' salaries and allowances	**¥2,302**	¥2,214	**$19,156**
Provision for bonuses	**435**	385	**3,620**
Retirement benefit expenses	**207**	220	**1,723**
Provision of allowance for doubtful accounts	**9**	146	**75**
Depreciation	**108**	212	**899**
Rents	**991**	983	**8,247**
Research and development expenses	**104**	109	**865**

6. 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 of the consolidated subsidiaries participate in the Tokyo Air-Conditioning and Plumbing Contractors Employees' Pension Fund (Tokyo Kucho Eisei Koujigyo Kosei Nenkin Kikin) as a welfare pension fund system, 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. On January 1, 2015, the Companies obtained an approval from the Minister of Health, Labour and Welfare for an exemption from payments of benefit obligations for future employee services related to the substitutional portion of the welfare pension fund managed on behalf of the government.

Defined benefit plans (excluding plans applying the simplified method)

(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

	Millions of yen		Thousands of U.S. dollars
	2015	2014	**2015**
Funded retirement benefit obligations	**¥ 4,340**	¥ 4,530	**$ 36,116**
Plan assets	**(4,667)**	(4,455)	**(38,837)**
Net	**(327)**	75	**(2,721)**
Unfunded retirement benefit obligations	**139**	134	**1,157**
Net balance of liability and asset recorded on the consolidated balance sheets	**¥ (188)**	¥ 209	**$ (1,564)**
Liability for retirement benefits	**255**	607	**2,122**
Asset for retirement benefits	**(443)**	(398)	**(3,686)**
Net balance of liability and asset recorded on the consolidated balance sheets	**¥ (188)**	¥ 209	**$ (1,564)**

Note: Plans applying the simplified method are included.

(b) Reconciliation between retirement benefit obligations at beginning of period and end of period

	Millions of yen		Thousands of U.S. dollars
	2015	2014	**2015**
Retirement benefit obligation at beginning of period	**¥4,170**	¥4,351	**$34,701**
Current service costs	**194**	198	**1,614**
Interest costs	**63**	65	**524**
Actuarial gains and losses arising during period	**(105)**	(8)	**(874)**
Retirement benefits paid	**(343)**	(436)	**(2,854)**
Retirement benefit obligation at end of period	**¥3,979**	¥4,170	**$33,111**

(c) Reconciliation between plan assets at beginning of period and end of period (excluding plans applying the simplified method)

	Millions of yen		Thousands of U.S. dollars
	2015	2014	**2014**
Plan assets at beginning of period	**¥4,107**	¥4,024	**$34,177**
Expected return on plan assets	**52**	51	**433**
Actuarial gains and losses arising during period	**92**	(7)	**766**
Contribution from employer	**243**	263	**2,022**
Retirement benefit paid	**(195)**	(225)	**(1,623)**
Plan assets at end of period	**¥4,299**	¥4,106	**$35,775**

(d) Reconciliation between liabilities for retirement benefits of plans applying the simplified method at beginning of period and end of period

	Millions of yen		Thousands of U.S. dollars
	2015	2014	**2015**
Liability for retirement benefits at beginning of period	**¥144**	¥192	**$1,198**
Retirement benefit expenses	**21**	21	**175**
Retirement benefit paid	**(9)**	(33)	**(75)**
Contribution to plans	**(24)**	(36)	**(200)**
Liability for retirement benefits at end of period	**¥132**	¥144	**$1,098**

(e) The components of retirement benefit expenses

	Millions of yen		Thousands of U.S. dollars
	2015	2014	**2015**
Current service costs	**¥194**	¥198	**$1,614**
Interest costs	**62**	65	**516**
Expected return on plan assets	**(52)**	(51)	**(433)**
Amortization of actuarial gains and losses	**39**	52	**325**
Amortization of past service costs	**(12)**	(11)	**(100)**
Retirement benefit expenses applying the simplified method	**21**	22	**175**
Retirement benefit expenses under defined benefit plans	**¥252**	¥275	**$2,097**

(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
	2015	**2015**
Past service costs	**¥ (12)**	**$ (100)**
Actuarial gains and losses	**236**	**1,964**
Total	**¥224**	**$(1,864)**

(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
	2015	2014	**2015**
Unrecognized past service costs	**¥68**	¥ 80	**$ 566**
Unrecognized actuarial gains and losses	**(43)**	(279)	**(358)**
Total	**¥25**	¥(199)	**$(208)**

(h) Plan assets

i. Components of plan assets

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

	2015	2014
Debt securities	**40%**	45%
Equity securities	**5**	5
General account	**43**	38
Other	**12**	12
Total	**100%**	100%

Note: Retirement benefit trusts set up for defined benefit corporate pension plans constituted 49% and 54% of the total plan assets as of March 31, 2015 and 2014, 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 year ended March 31, 2014:

	2015	2014
Discount rate	**1.5%**	1.5%
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 of the consolidated subsidiaries participate in several contributory funded multi-employer 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 that should be accounted for in the same manner as defined contribution plans were ¥254 million ($2,114 thousand) and ¥262 million for the years ended March 31, 2015 and 2014, respectively. Information about the multi-employer plans was as follows:

	Millions of yen		Thousands of U.S. dollars
	As of March 31, 2014	As of March 31, 2013	As of March 31, 2014
Fair value of plan assets	**¥ 37,499**	**¥ 34,135**	**$ 312,050**
Benefit obligations under pension funding programs	**50,287**	**47,934**	**418,466**
Deficit	**¥(12,788)**	**¥(13,799)**	**$(106,416)**
Balance of actuarial past service costs	**(13,217)**	**(14,066)**	**$(109,986)**
Surplus	**429**	**267**	**3,570**
Ratio of total salaries of the Companies to total funds of plans (*1)	**12.3%**	**12.2%**	

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 ¥118 million ($982 thousand) and ¥109 million related to the amortization as expenses in the consolidated financial statements for the years ended March 31, 2015 and 2014, respectively.

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

7. 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)	Amount per share (Yen)	Amount per share (U.S. dollars)	Record date	Effective date
June 27, 2013	Annual shareholders' meeting	Common stock	**¥462**		**¥15.00**		March 31, 2013	June 28, 2013
November 8, 2013	Board of directors	Common stock	**¥460**		**¥15.00**		September 30, 2013	December 9, 2013
June 27, 2014	Annual shareholders' meeting	Common stock	**¥456**	**$3,795**	**¥15.00**	**$0.12**	March 31, 2014	June 30, 2014
November 7, 2014	Board of directors	Common stock	**¥483**	**$4,019**	**¥16.00**	**$0.13**	September 30, 2014	December 9, 2014

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)	Paid from	Amount per share (Yen)	Amount per share (U.S. dollars)	Record date	Effective date
June 26, 2015	Annual shareholders' meeting	Common stock	**¥479**	**$3,986**	Retained earnings	**¥16.00**	**$0.13**	March 31, 2015	June 29, 2015

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.

During the fiscal year ended March 31, 2014, the Company retired 3,000 thousand shares in accordance with the resolution of the Board of Directors. As a result, treasury stock decreased by ¥2,595 million and retained earnings also decreased by the same amount.

8. 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, 2015 and 2014 amounted to ¥38 million ($316 thousand) and ¥34 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
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
Number of options granted	58,500 common shares	53,600 common shares	52,600 common shares
Date of grant	October 1, 2009	July 26, 2010	August 8, 2011
Vesting condition	No provisions	No provisions	No provisions
Requisite service period	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*

Date of approval	June 28, 2012	June 27, 2013	June 27, 2014
Persons granted	9 directors of the Company 10 corporate officers of the Company	9 directors of the Company 10 corporate officers of the Company	9 directors of the Company 12 corporate officers of the Company
Number of options granted	45,600 common shares	38,000 common shares	25,800 common shares
Date of grant	July 23, 2012	July 22, 2013	July 22, 2014
Vesting condition	No provisions	No provisions	No provisions
Requisite service period	No provisions	No provisions	No provisions
Exercise period	July 24, 2012 - July 23, 2042*	July 23, 2013 - July 22, 2043*	July 23, 2014 - July 22, 2044*

* 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, 2015.

a) Number of stock options

Date of approval	June 26, 2009	June 29, 2010	June 29, 2010
Fiscal year ended March 31, 2015			
Non-vested	(Share)	(Share)	(Share)
April 1, 2014 – Outstanding	—	—	—
Granted	—	—	—
Forfeited	—	—	—
Vested	—	—	—
March 31, 2015 - Outstanding	—	—	—
Vested			
April 1, 2014 - Outstanding	12,900	29,100	34,700
Vested	—	—	—
Exercised	—	2,200	3,800
Forfeited	—	—	—
March 31, 2015 - Outstanding	12,900	26,900	30,900

Date of approval	June 28, 2012	June 27, 2013	June 27, 2014
Fiscal year ended March 31, 2015			
Non-vested	(Share)	(Share)	(Share)
April 1, 2014 – Outstanding	—	—	—
Granted	—	—	25,800
Forfeited	—	—	—
Vested	—	—	25,800
March 31, 2015 - Outstanding	—	—	—
Vested			
April 1, 2014 - Outstanding	37,600	38,000	—
Vested	—	—	25,800
Exercised	3,500	3,000	—
Forfeited	—	—	—
March 31, 2015 - Outstanding	34,100	35,000	25,800

b) Price information

Date of approval	June 26, 2009	June 29, 2010	June 29, 2011
Exercise price	¥1 per share ($0.01 per share)	¥1 per share ($0.01 per share)	¥1 per share ($0.01 per share)
Average exercise price	—	¥1,645 ($13.69)	¥1,639 ($13.64)
Fair value at grant date	¥686 ($5.71)	¥633 ($5.27)	¥594 ($4.94)

Date of approval	June 28, 2012	June 27, 2013	June 27, 2014
Exercise price	¥1 per share ($0.01 per share)	¥1 per share ($0.01 per share)	¥1 per share ($0.01 per share)
Average exercise price	¥1,638 ($13.63)	¥1,638 ($13.63)	—
Fair value at grant date	¥728 ($6.06)	¥904 ($7.52)	¥1,479 ($12.31)

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

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

b) Principal parameters and estimation method

Date of approval		June 27, 2014
Expected volatility of the underlying stock	(*1)	29.8%
Expected life of the option	(*2)	6 years
Expected dividend on stock	(*3)	¥30.0 ($0.25) per share
Risk-free interest rate during the expected option term	(*4)	0.20%

(*1) The volatility of the stock option is calculated based on the actual stock prices during five years from July 14, 2008 to July 14, 2014.

(*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.

9. Comprehensive income

Reclassification adjustments and income tax benefit (expense) on other comprehensive income for the years ended March 31, 2015 and 2014 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	2014	**2015**
Net unrealized holding gains or losses on securities:			
Gains (losses) arising during the period	**¥ 1,903**	¥2,017	**$ 15,836**
Reclassification adjustments	**(1,067)**	(354)	**(8,879)**
Sub-total, before tax	**¥ 836**	¥1,663	**$ 6,957**
Income tax benefit (expense)	**(121)**	(525)	**(1,007)**
Net unrealized holding gains or losses on securities	**¥ 715**	¥1,138	**$ 5,950**
Adjustments for retirements benefits gains or losses on securities:			
Gains (losses) arising during the period	**¥ 177**	¥ —	**$ 1,473**
Reclassification adjustments	**46**	—	**383**
Sub-total, before tax	**¥ 223**	¥ —	**$ 1,856**
Income tax benefit (expense)	**(78)**	—	**(649)**
Net unrealized holding gains or losses on securities	**¥ 145**	¥ —	**$ 1,207**
Share of other comprehensive income of associates accounted for using equity method:			
Gains (losses) arising during the period	**¥ (98)**	¥ 27	**$ (816)**
Total other comprehensive income	**¥ 762**	¥1,165	**$ 6,341**

10. Net income per share

Reconciliation of the differences between basic and diluted net income per share (“EPS”) for the years ended March 31, 2015 and 2014 was as follows:

	Millions of yen	Thousands of shares	Yen	U.S. dollars
	Net income	Weighted average number of shares	EPS	EPS
For the year ended March 31, 2015				
Basic EPS				
Net income available to common shareholders	**¥2,630**	**30,017**	**¥87.62**	**$0.73**
Effect of dilutive securities				
Stock acquisition rights	**—**	**160**	**—**	**—**
Diluted EPS				
Net income for computation	**¥2,630**	**30,177**	**¥87.16**	**$0.73**

	Millions of yen	Thousands of shares	Yen
	Net Income	Weighted average number of shares	EPS
For the year ended March 31, 2014			
Basic EPS			
Net income available to common shareholders	¥2,216	30,441	¥72.78
Effect of dilutive securities			
Stock acquisition rights	—	147	—
Diluted EPS			
Net income for computation	¥2,216	30,588	¥72.43

11. 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, 2015 and 2014 was as follows:

2015	Millions of yen					
	Construction	Equipment sales	Equipment manufacturing	Total	Adjustments (*1)	Consolidated
Net sales:						
Outside customers	**¥63,107**	**¥5,155**	**¥3,068**	**¥71,330**	**¥ —**	**¥71,330**
Intersegment	**6**	**4,638**	**688**	**5,332**	**(5,332)**	**—**
Total	**¥63,113**	**¥9,793**	**¥3,756**	**¥76,662**	**¥ (5,332)**	**¥71,330**
Segment income (*2)	**¥ 1,526**	**¥ 211**	**¥ 241**	**¥ 1,978**	**¥ 6**	**¥ 1,984**
Segment assets	**¥38,752**	**¥7,840**	**¥3,049**	**¥49,641**	**¥35,084**	**¥84,725**
Other items:						
Depreciation and amortization	**¥ 122**	**¥ 7**	**¥ 23**	**¥ 152**	**¥ —**	**¥ 152**
Increase in tangible and intangible fixed assets	**41**	**13**	**29**	**83**	**—**	**83**

2014	Millions of yen					
	Construction	Equipment sales	Equipment manufacturing	Total	Adjustments (*1)	Consolidated
Net sales:						
Outside customers	¥61,294	¥5,352	¥2,820	¥69,466	¥ —	¥69,466
Intersegment	1	4,383	483	4,867	(4,867)	—
Total	¥61,295	¥9,735	¥3,303	¥74,333	¥ (4,867)	¥69,466
Segment income (*2)	¥ 1,632	¥ 156	¥ 48	¥ 1,836	¥ 6	¥ 1,842
Segment assets	¥35,630	¥7,636	¥2,871	¥46,137	¥37,395	¥83,532
Other items:						
Depreciation and amortization	¥ 234	¥ 4	¥ 21	¥ 259	¥ —	¥ 259
Amortization of goodwill (*3)	77	—	—	77	—	77
Increase in tangible and intangible fixed assets	82	11	28	121	—	121

2015	Thousands of U.S. dollars					
	Construction	Equipment sales	Equipment manufacturing	Total	Adjustments (*1)	Consolidated
Net sales:						
Outside customers	**$525,148**	**$42,898**	**$25,530**	**$593,576**	**$ —**	**$593,576**
Intersegment	**50**	**38,595**	**5,725**	**44,370**	**(44,370)**	**—**
Total	**$525,198**	**$81,493**	**$31,255**	**$637,946**	**$ (44,370)**	**$593,576**
Segment income (*2)	**$ 12,699**	**$ 1,756**	**$ 2,005**	**$ 16,460**	**$ 50**	**$ 16,510**
Segment assets	**$322,477**	**$65,241**	**$25,372**	**$413,090**	**$291,953**	**$705,043**
Other items:						
Depreciation and amortization	**$ 1,016**	**$ 58**	**$ 191**	**$ 1,265**	**$ —**	**$ 1,265**
Increase in tangible and intangible fixed assets	**341**	**108**	**241**	**690**	**—**	**690**

(*1) The 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, 2015 and 2014 were ¥38,109 million ($317,126 thousand) and ¥40,117 million, respectively, mainly consisting of cash and cash equivalents, short-term investments, investment securities, etc. of the Company. Moreover, intersegment transaction eliminations included in the adjustments of segment assets as of March 31, 2015 and 2014 were ¥(3,025) million ($(25,173) thousand) and ¥(2,722) million, respectively.
(*2) Segment income is adjusted for consistency with operating income in the consolidated statements of income.
(*3) Amortization of goodwill of the construction segment in the amount of ¥77 million includes amortization of goodwill of ¥43 million recognized in "Write off of goodwill" under "Other expenses."

(Related Information)
Information by major customer for the years ended March 31, 2015 and 2014 was as follows:

2015	Net sales		
Name of customer	Millions of yen	Thousands of U.S. dollars	Related reportable segments
NTT FACILITIES, INC.	**¥11,698**	**$97,345**	Construction, Equipment sales, Equipment manufacturing

2014	Net sales	
Name of customer	Millions of yen	Related reportable segments
NTT FACILITIES, INC.	¥11,196	Construction, Equipment sales, Equipment manufacturing

12 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, 2015 and 2014 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	2014	**2015**
Current assets	**¥37,397**	¥33,078	**$311,201**
Non-current assets	**14,170**	13,983	**117,916**
Current liabilities	**12,303**	9,247	**102,380**
Long-term liabilities	**2,676**	2,733	**22,268**
Net assets	**36,587**	35,081	**304,460**
Net sales	**52,357**	50,751	**435,691**
Income before income taxes	**2,360**	2,319	**19,639**
Net income	**1,360**	1,418	**11,317**

KPMG

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, 2015 and 2014, 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 the 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 misstatements, whether due to fraud or error.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our 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, 2015 and 2014, and their financial performance and cash flows for the years then ended in accordance with accounting principles generally accepted in Japan.

Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2015 are presented solely for convenience. 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 Note1 to the consolidated financial statements.

KPMG AZSA LLC

July 29, 2015
Tokyo, Japan

Corporate Data

Investor Information

As of March 31, 2015

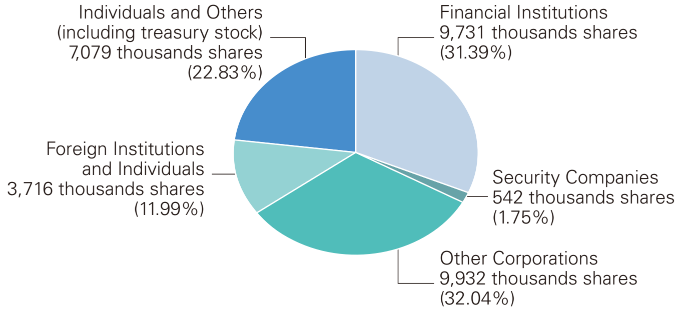
Total number of shares authorized	96,500,000 shares
Total number of shares issued	31,000,309 shares
Number of shareholders	2,687

Major Shareholders

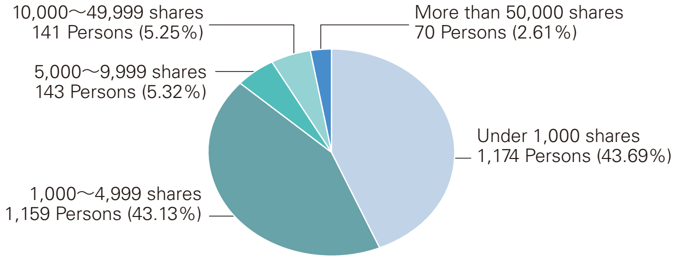
	Name of shareholders	Number of held thousands shares	Percentage of shares in issue(%)
1	Japan Trustee Services Bank, Ltd. (Trust account)	1,403	4.68
2	NTT Urban Development Co.	1,371	4.58
3	Hibiya Engineering Customer Stock Ownership Plan	1,196	3.99
4	The Master Trust Bank of Japan, Ltd. (Retirement benefit trust account, Hyakujushi Bank account)	900	3.00
5	Sumitomo Mitsui Banking Corporation	853	2.85
6	The Japan Telecommunications Welfare Associations	838	2.80
7	The Dai-ichi Mutual Life Insurance Company (Standing proxy: Trust & Custody Services Bank, Ltd.)	818	2.73
8	Sumitomo Realty & Development Co., Ltd.	723	2.42
9	CBNY DFA INTL SMALL CAP VALUE PORTFOLIO (Standing proxy: Citibank Japan Ltd.)	677	2.26
10	Resona Bank, Limited.	601	2.01

Notes
1) The list of major shareholders does not include 1,039,013 shares of treasury stock held by the Company.
2) The 1,039,013 shares of treasury stock held by the Company are not included in the calculation of the percentages of shares issued.
3) Brandes Investment Partners LP on January 29, 2015 (effective date of reporting obligation: December 9, 2014) filed a large shareholding report with the Kanto Local Finance Bureau. However, as of March 31, 2015, the Company could not confirm the name of the shareholder, the number of shares held effectively and other relevant information. Therefore, it is not reflected in the above data.
The Company's Change Report Pertaining to Report of Possession of Large Volume carries the following data:
Name: Brandes Investment Partners LP
Number of shares held: 2,201,600 shares (7.10% of the total shares outstanding)

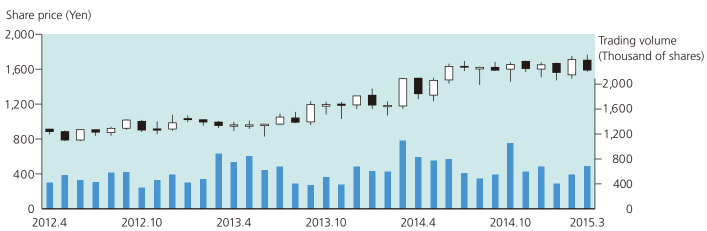
Share distribution by owner



Share distribution by size of holding



Monthly share prices and trading volume



Board of Directors

As of June 26, 2015

President and Representative Director	Haruki Nomura
Vice President and Representative Director	Shigeru Toyoda
Director	Tetsuya Kamachi
Director	Keisuke Shimoda
Director	Takayuki Nohara
Director	Shinichi Itou
Director	Fumiaki Ogura
Director	Yuuji Yamauchi
Director	Hiroshi Jitsukawa
Director	Kensho Kusumi
Director	Hiroo Atsumi
Standing Corporate Auditor	Kouji Kuwahara
Auditor	Yuuji Tatsumura
Auditor	Akira Itou
Auditor	Masamitsu Nakamura

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

Offices

As of March 31, 2015

Head Office
Sumitomo Fudosan Mita Twin Building East, 4-2-8, Shibaura, Minato-ku, Tokyo

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

Branches
Yokohama, Osaka, Shikoku, Nagoya, Hokuriku, Tohoku, Hiroshima, Kyushu, Sapporo

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

Research Facilities
Noda in Chiba Prefecture

HIBIYA
Hibiya Engineering, Ltd.

Hibiya Engineering, Ltd.

4-2-8 Shibaura, Minato-ku, Tokyo 108-0023, Japan
TEL +81-3-3454-1385　FAX +81-3-3452-4260
URL http://www.hibiya-eng.co.jp/

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