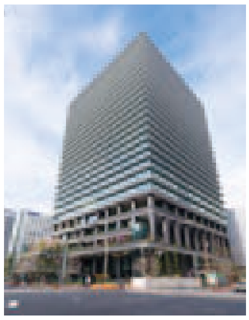
ANNUAL REPORT 2013





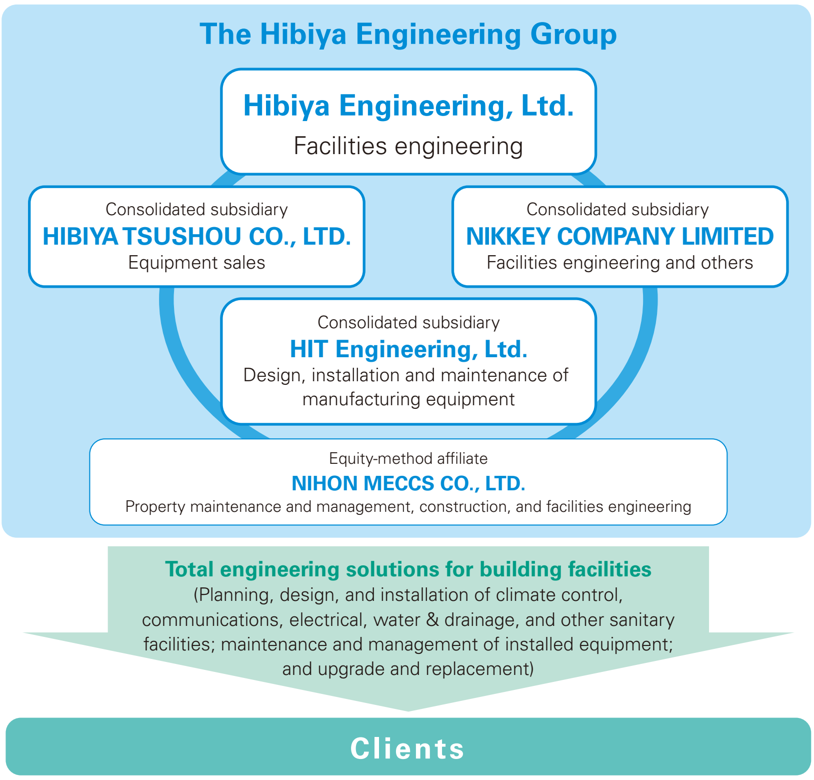
Hibiya Engineering, Ltd.

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, 2013

CONTENTS

Projections and Perspectives:

This Annual Report includes projections and descriptions of prospects regarding future plans, strategies and the operating performance of the Company. Such descriptions are not based on past facts, but rather on perspectives judged to be appropriate in view of assumptions and management convictions on the strength of information available to the Company as of March 31, 2013. 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.

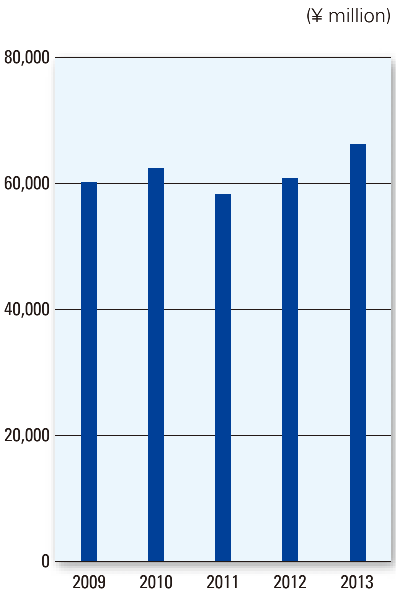
Consolidated Financial Highlights

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

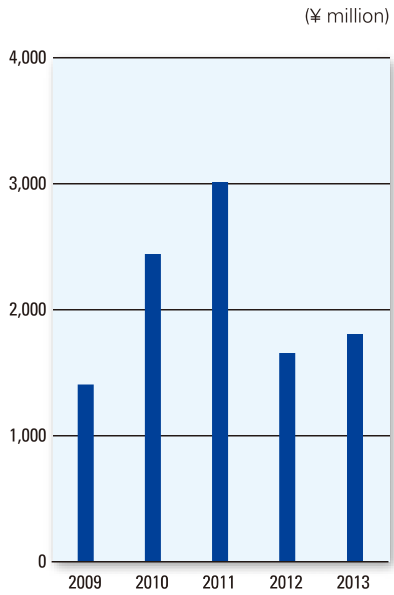
	2009	2010	2011	2012	2013	2013
	Millions of yen					Thousands of U.S. dollars
Net Sales	¥60,159	¥62,379	¥58,300	¥60,919	**¥66,322**	**$705,178**
Net Income	1,407	2,441	3,014	1,657	**1,806**	**19,203**
Total Assets	71,771	74,632	76,765	76,442	**79,428**	**844,530**
Net Assets	49,267	51,998	53,188	53,368	**55,166**	**586,561**
	Yen					U.S. dollars
Per share:						
Net Assets	¥1,435.82	¥1,544.43	¥1,609.71	¥1,642.92	**¥1,744.66**	**$18.55**
Net Income	39.77	73.56	92.93	52.15	**58.15**	**0.62**
Cash Dividend (non-consolidated basis)	18.50	24.50	31.50	30.00	**30.00**	**0.32**

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, 2013, which was ¥94.05 to US$1.00.

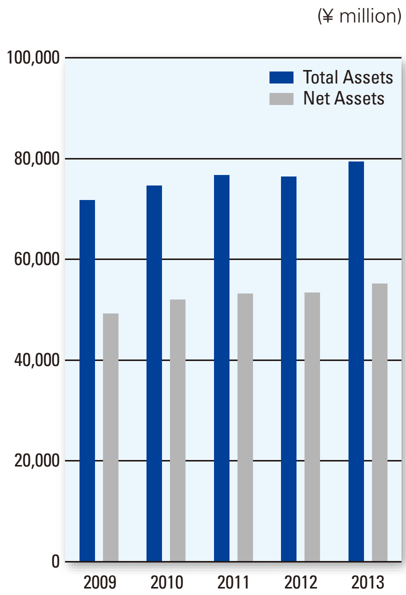
Net Sales



Net Income



Total Assets & Net Assets



A Message from the President

Haruki Nomura
President and Representative Director

Overview of the year ended March 31, 2013

During the past fiscal year, the direction of the global economy was uncertain but there were some signs of a recovery in Japan. One reason was demand associated Great East Japan Earthquake recovery activities. Another positive sign was a stock market rally and decline in the yen's value in response to expectations about the economic initiatives of the new Japanese government that was formed late in 2012.

National and local governments in Japan increased their efforts to deal with the shortage of electricity and other energy problems in the wake of the Fukushima nuclear power plant accident. Terms like "mega-solar," "smart grid" and "smart city" appeared frequently in newspapers. Effectively utilizing the sun, wind and other renewable energy sources has become a critical issue for Japan.

The fiscal year that ended in March 2013 was the second year of the Hibiya Engineering Group's Fourth Medium-term Management Plan. We took many actions during the year to achieve the goals of this plan. One theme is focusing on strategic market sectors associated with major trends: data centers, office buildings, manufacturing equipment, health and welfare facilities, academic facilities, and other sectors. We also used our strengths to increase the use of solution-based sales activities that are linked to customers' needs. In addition, we are making steady progress with smart businesses such as an energy business that includes renewable energy sources and an energy management system (EMS) that utilizes information and communication technologies (ICT).

There was also progress last year regarding strategic procurement activities, chiefly by the Procurement Strategy Division, and strengthening cost management measures. Upgrading construction safety and quality was another goal. For our workforce, we have a rotation program based on career plans, enhanced our specialist and rehiring systems to utilize the skills of engineers, and conducted training to improve our ability to perform solution-based sales activities.

Due to these activities, there was a 7.2% increase in orders received to ¥70,051 million that included a large increase in private-sector orders for the third consecutive year. Sales also posted a solid increase because of higher orders and other reasons, climbing 8.9% to ¥66,322 million. Operating income increased 17.7% to ¥2,017 million. Earnings fell short of our plan mainly because of intense competition. However, we succeeded in increasing earnings by cutting costs and taking other actions across the entire group to minimize the decline in the profit margin while lowering selling, general and administrative and other expenses.

Highlights of the fiscal year

Increasing orders received and launching new businesses are two goals of the current medium-term plan. We took many actions centered on strategic initiatives in the smart and energy businesses to accomplish these goals. For example, we developed innovative systems and entered new business fields.

In the energy business, one significant achievement is the development of a solar hybrid system that utilizes solar power generation and solar heat. We started a demonstration test with NTT Facilities in July 2012. This system makes effective use of solar energy to supply both electricity and hot water. Furthermore, we may use this technology in climate control systems in the future. Developing this system allows us to offer more proposals to customers. For instance, our system is eligible to receive subsidies from the project to promote solar thermal energy use by local governments.

Another highlight is ejector-type freezers. In 2012, we developed small freezer that uses a new method. After making modifications to commercialize this technology, we created a practical model with compact dimensions and stable control. Maintenance is easy because the freezer uses a simple construction based on the mist-spray principle. The freezer allows supplying air conditioning systems that can utilize unused sources of energy like heat output by a factory and heat from the sun.

In the smart business, we developed and started selling HA-BEMS, which is the Hibiya Active

The Fourth Medium-term Management Plan
(April 2011 – March 2014)

Fundamental Policy

- **Increase orders received while preserving profitability**
- **Achieve steady growth of newly launched businesses and seek more business opportunities**

Fundamental Strategies

Mega-trends: Cloud computing | Green innovation | Smart cities | Health care | Globalization | BCP

Hibiya Engineering strengths: **Technology for renovations using existing facilities**
Green engineering/ICT engineering skills/A broad-based value chain/Excellent safety and quality

Leverage strengths | Target growing markets

Priority domains, etc.

Leverage strengths		Target growing markets
Data centers	Office buildings	Smart city creation
Manufacturing equipment	Health care and welfare facilities	Health care domain
Academic facilities	U.S. military	Overseas expansion

Results to date

- With megatrends materializing, the Solutions and NTT Corporation businesses are growing orders received through steady development

Indicators for final year of Medium-term Plan

- Materialization of energy/smart business
- Creation of further synergies by group coordination
- Evolution into a comprehensive engineering services company

version of our exclusive Building and Energy Management System* (BEMS). The new system has the same electricity use visualization capability as the conventional BEMS. In addition, this strategic system goes one more step by enabling active control for smart electricity conservation. By collaborating with O-ENCE, a Hibiya Engineering equity and business alliance partner that operates and manages many public facilities, we are now offering ideas for conserving energy and electricity at numerous facilities. We plan to use HA-BEMS to increase orders received by analyzing energy use and creating energy conservation proposals that meet the needs of each customer.

Our receipt of an order at the Tagonishi Eco Model Town Project in the city of Sendai is an excellent illustration of a project involving the themes of "smart" and "energy." The project uses renewable energy, "smart" controls and other elements to create an environmentally responsible community that is pleasant and resistant to disasters. It includes public housing, stores and other facilities. Overall, the project is a symbol of earthquake recovery activity in this part of Japan. Hibiya Engineering is working with NTT Facilities and NTT East Japan to develop an EMS, install a solar power system and supply other facilities at this project.

Hibiya Engineering has technologies for temperature and humidity control, interior lighting control, and other requirements gained from our experience in designing and installing air conditioning and electrical systems. We have used this expertise to work with companies in other industries to enter new business fields. Designing and building plant factories relying completely on artificial light is one example. To increase orders received, we are selling these factories as a means of using space that is idle or underused while creating proposals for one-stop services backed by the entire Hibiya Engineering Group.

Hibiya Engineering participates in many business exhibitions in Tokyo and other areas of Japan. These events allow us to show others our technologies and other expertise and to form relationships with new customers.

In Vietnam, we started the Project to Promote Greater Use of Technologies to Combat Global Warming in Vietnam in 2011, a project of Japan's Ministry of Economy, Trade and Industry and other organizations. We provided assistance and technological consulting for the establishment of an energy service company (ESCO)** in Vietnam. We also supported the provision of ESCO services at a hotel in Vietnam. Many more hotel owners in Vietnam are interested in energy conservation and ESCO. We joined a team from several Japanese companies, including air conditioning manufacturers, to explain this technology and create proposals for conserving energy. Through activities like these, we are setting the stage for the growth of this business in the coming years.

* A building management system for achieving the best possible interior environment and energy use

** A company that provides a broad range of energy services and solutions

Outlook and goals for the fiscal year ending in March 2014

The expected growth in public-works projects in Japan, chiefly for earthquake recovery activity,

Collaboration with Public Facility Operating and Management Company

Hibiya Engineering Group
- Planning and installation for energy conservation
- Ideas for LED lighting and other energy-efficient equipment

O-ENCE Co.*
- Operation and management of public facilities

*Hibiya Engineering equity and business alliance partner

HA-BEMS proposals to conserve energy

Proposals using Hibiya Engineering technologies
- Solar thermal systems
- Solar hybrid systems, others

Building and equipment diagnostic service
- Life cycle cost proposals
- Assessments of facility aging
- Proposals for updates and other services

Public facilities

Needs for energy conservation, electricity conservation, cutting operating expenses and other actions is a positive sign for the operating environment. However, a full-scale recovery in private-sector capital expenditures is not likely to begin for some time. Intense competition, the rising cost of materials and labor, and other factors also point to a continuation in the current challenging market conditions.

On the other hand, there is enormous demand associated with energy and the "smart" technologies for skillfully controlling energy. The Hibiya Engineering Group has much expertise in the technological domains of air conditioning, electricity, hygiene and ICT. We will target our strategic market domains with the energy-conservation, renewable energy and other systems that we have developed. We will also use solution-based sales activities for strategic proposals using our technologies and collaborative sales activities with the NTT Group. Our group companies and alliance partners in other industries will further support these activities. Our objective is to build on our strategies and initiatives thus far. We are determined to make more progress in the smart and energy businesses and capture more high-grade construction projects in order to improve our efficiency, safety and quality.

The fiscal year ending in March 2014 is the third and final year of the Fourth Medium-term Management Plan. We will concentrate on increasing orders received and earnings so that we can reach the plan's goals: orders received of ¥73 billion, sales of ¥70 billion and operating income of ¥2.5 billion.

Distribution of earnings to shareholders

Dividends

Basic policy

- Distribute earnings to shareholders in a stable manner.
- Base dividends on the consolidated dividend-on-equity (DOE) ratio.

Year ending March 2014

- Dividend forecast is ¥30 per share (¥15 interim and year-end dividends)

Repurchase and retirement of stock

Basic policy

- Repurchase and retire stock with consistency and flexibility as part of measures to distribute earnings to shareholders.
- Repurchased stock will not be retired at this time based on the premise that stock will be used effectively in the future.

Year ending March 2014

- Repurchase authorization is 500,000 shares (¥500 million)

Message to shareholders

Hibiya Engineering is dedicated to meeting the needs of shareholders. Our basic stance is to distribute earnings in a stable manner by paying a dividend based on the dividend-on-equity (DOE) ratio and continuously repurchasing stock.

The Hibiya Engineering brand stands for the message "in line with the times and serious about technology." "In line with the times" means that we will always look to the future while responding with flexibility to the shifting demands of today.

We always stay on the highest road of advances in engineering. "Serious about technology" means that we will always show others the pride we have in our work as engineers. We will constantly take on the challenge of developing and using new technologies. Furthermore, we will check these technologies so that we remain a source of reliable products and services for customers. This message underpins the spirit and dedication of everyone who works at the Hibiya Engineering Group.

Hibiya Engineering is firmly committed to doing what is needed to meet the expectations of customers, shareholders and all other stakeholders. Thank you for your support and understanding as we continue to move forward toward our goals.

H. Nomura

Haruki Nomura
President and Representative Director

The Fourth Medium-term Management Plan (FY 3/2012 – FY 3/2014)

Basic strategies

- Further increase the use of solution-based sales that link customers' needs and Hibiya Engineering technologies and create packages that combine many technologies (services).
- Target major global trends and concentrate on "leveraging our strengths in the six priority domains" and "opportunities in three growing markets."

Consolidated performance (actual and forecast)

(¥ billion)

	FY3/2012 (Actual)	FY3/2013 (Actual)	FY3/2014 (Forecast)
Orders Received	65.3	70.0	73.0
Net Sales	60.9	66.3	70.0
Operating Income	1.7	2.0	2.5

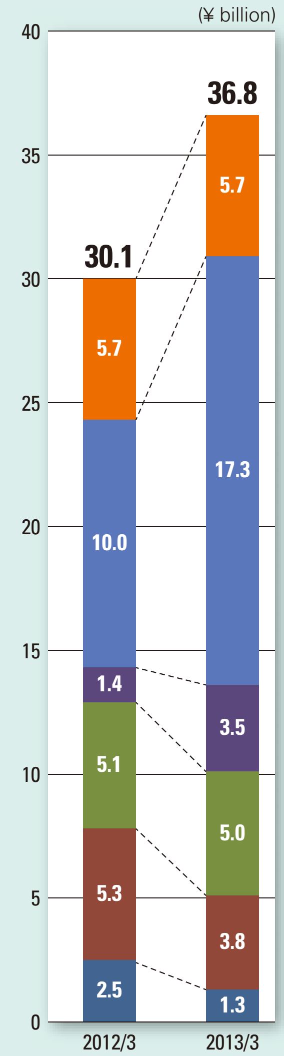
*The fiscal year ending in March 2014 is the final year of the Fourth Medium-term Management Plan

Capture orders by significantly enlarging the customer base by targeting mega-trends.

Increase orders in priority domains

Results

Priority domains	Initiatives	Results
Data centers ¥5.7 billion	Proposals business for DC operators Highlighting appeal of rich, ongoing and comprehensive construction project knowhow	NTT Group data center(s) Renewal of server room air-conditioning for local government (Hiroshima)
Office buildings ¥17.3 billion	Effective exploitation of existing channels to PM companies, real-estate companies, etc. Proposals business as linchpin for application of subsidies/assistance funds	Large scale building redevelopment projects (Tokyo) Installation of highly-efficient air-conditioning equipment (Hokkaido)
Manufacturing equipment ¥3.5 billion	Highlighting appeal of renewal energy utilization technologies owned by the company Proposals to gain access to energy diagnoses, etc.	Solar power generating equipment (Hokkaido, Iwate, etc.) Auto parts plant energy saving diagnosis (Ibaraki)
Health care and welfare facilities ¥5.0 billion	Business triggered by BCP/energy-saving exploitation technologies Exploiting subsidies and links with leasing companies	New construction of private sector hospitals (Shizuoka, Hyogo) Repair work on air-conditioning systems in medical university buildings (Tokyo)
Academic facilities ¥3.8 billion	Developing energy security businesses targeted at universities Emphasising appeal of project results and quality by continuous stream of orders	NTT Group training centers New build for national universities (Miyagi, Aichi, Kumamoto)
U.S. military ¥1.3 billion	Positive participation in large-scale construction projects exploiting Group's comprehensive strengths Expanding bases designated for exploiting results and experience	New build for educational facilities within Yokota base site Internal facilities within Zama, Iwakuni and other bases



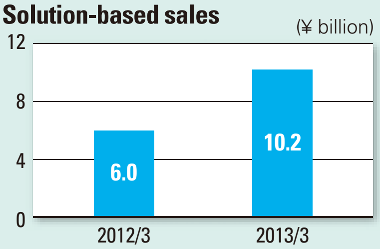
Focusing on solution-based sales activities

Eliciting customer needs with a operational style that discovers solutions strategies along with proposals that exploit the strengths of our company

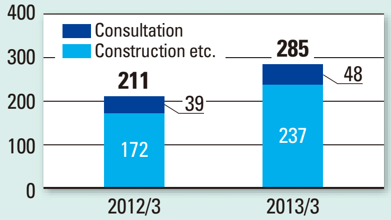
Results

Orders received: ¥10.2 billion
Sales proposals: 382
Consultation orders: 48
Construction orders: 237

Solution-based sales



Number of orders received



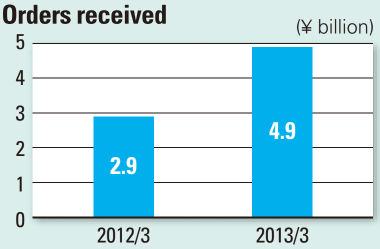
Collaborative sales activities with the NTT Group

Developing private sector markets by boosting information/data exchanges and coordinated business activities with all NTT group companies

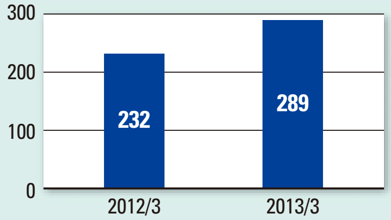
Results

Orders received: ¥4.9 billion / 289 orders

Orders received

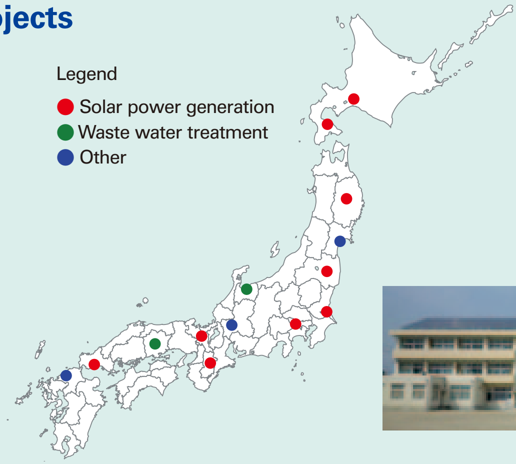


Number of orders received



Get new businesses off the ground

Main new business projects



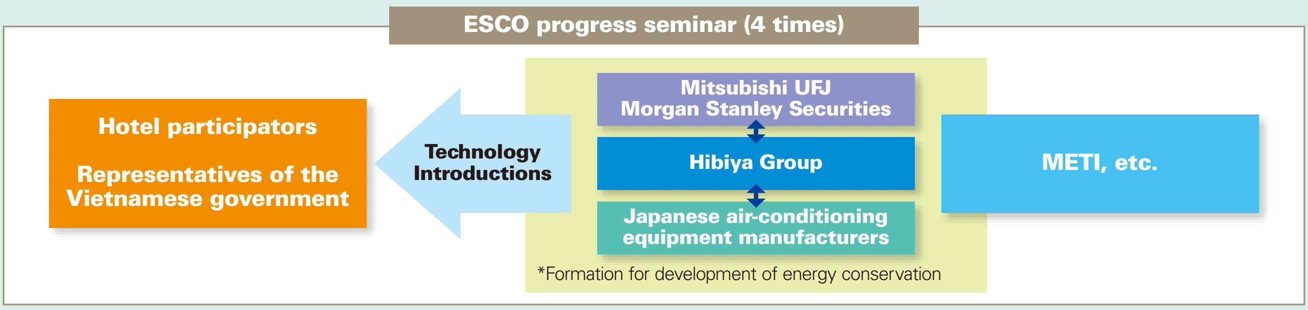
Expand overseas operations

Development of pilot business in Vietnam

- Completion of project aimed at combating global warming which we have been continuously engaged in since FY 2011 (Commissioned by METI and energy conservation developed by ESCO)
- Participated in ESCO development seminar (sponsored by Vietnamese government organizations, etc.)

Future initiatives etc.

- Continuous proposals for global warming countermeasures provided in Vietnam in FY2013 (METI / NEDO)
- Energy conservation business developed in collaboration with NTT Facilities



Highlighting Innovative Technologies Building a Sound Base for Growth

First Quarter

- P Established Procurement Strategy Division
- P Created the Energy Conservation Master qualification
- E Data Center Expo (May)
- E Kyushu Eco Fair 2012 (June)

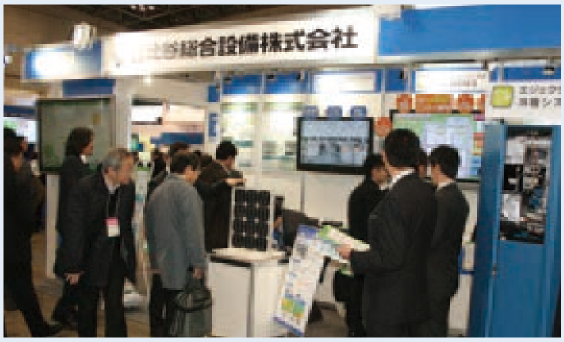
Legend
P Operations
T Technology
E Exhibitions
V Overseas

Second Quarter

- P Established Business Development Department
- T Started demonstration test of the solar hybrid system
⇒A practical version has been created
- E Eco Office and Factory Expo (July)
- V Held energy conservation seminar and field trips in Tokyo for Vietnamese government officials

Participation in 9 environmental-themed exhibitions throughout Japan

- Explained Hibiya Engineering's key technologies
- Held presentations and other events at exhibitions
- Used exhibitions for new approaches to prospective customers



Started test of the solar hybrid system ⇒ Implemented

- This system uses the sun to produce electricity and hot water
- Outstanding energy conversion and power generation efficiency
- Developed jointly with NTT Facilities

Practical implementation of ejector-type freezers

- A new type of freezer that uses the mist-spray principle (ejector type)
- First freezer of this type in Japan with a simple construction, compact size and packaged configuration
- Effectively uses waste heat from factories and other unused energy sources

at Exhibitions, Expanding Overseas and

Third Quarter

- E Design Engineering & Manufacturing Solutions Expo Osaka (October)
- E Messe Nagoya 2012 (November)
- E Eco Innovation Messe 2012 in Hiroshima (November)
- T Practical ejector-type freezer
- V Energy-conserving technology presentation at ESCO seminar (Vietnam)

Fourth Quarter

- E ENEX2013 (January)
- T Design and construction of artificial-light plant factory
- E Eco Expert Village at International Hotel and Restaurant Show (February)
- E JFMA Forum 2013 (March)
- T Full-scale launch of HA-BEMS

Design and construction of artificial-light plant factory

- Using Hibiya's climate control and illumination control technologies to enter a new business field (strawberry growing factory)
- Incorporates various technologies to artificially control the growing environment
- Uses alliances with agri-venture companies and university research institutes
- Now submitting proposals for building these plants to use underused or idle facilities

*Not an actual plant factory

Full-scale launch of Hibiya Active BEMS (HA-BEMS)

- An energy management system developed by Hibiya Engineering
- Smart-Save function facilitates the intelligent reduction in electricity use

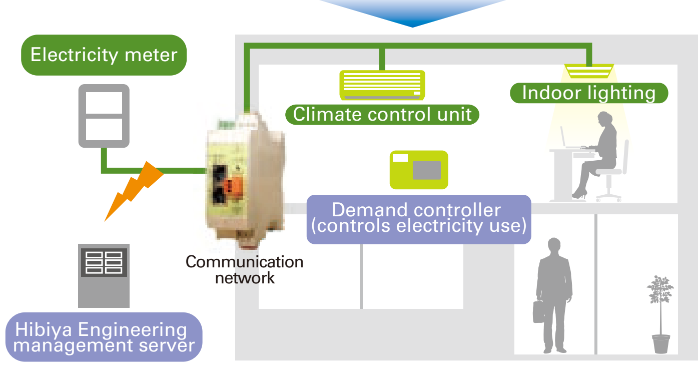
Smart-Save

- Watches out for excessive electricity use and automatically controls the temperature
- Automatic on/off based on a schedule with unrestricted settings

HA-BEMS

~ A smart electricity conservation method that is a step ahead of others ~

Visualization of energy use
+
Active and intelligent energy conservation



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.

For the environment

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

For customers

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

For shareholders and investors

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

Hibiya Engineering

For communities and society

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

For business partners

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

For employees

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

Corporate Governance

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

Board of Directors

There are now 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

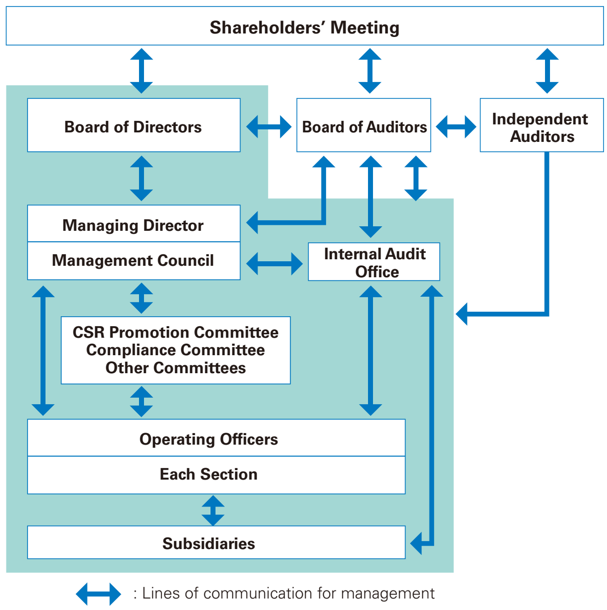
Hibiya Engineering uses the corporate auditor system and increased the number of external corporate auditors by one in June 2008. There are currently four corporate auditors, including three external auditors. Auditors attend meetings of the Board of Directors, Management Council and other important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

Advanced Technology for Historic Buildings

~Hibiya Engineering helps revitalize two buildings in Tokyo's Marunouchi district~

Advanced technologies have been used to give new life to two buildings in Tokyo while preserving their historic facades: the Marunouchi side of Tokyo Station and the former Tokyo Central Post Office. These two projects, which were completed at about the same time, give central Tokyo a new look. The buildings are certain to be popular among residents and tourists alike.


1


2

1 Tokyo Station, Marunouchi

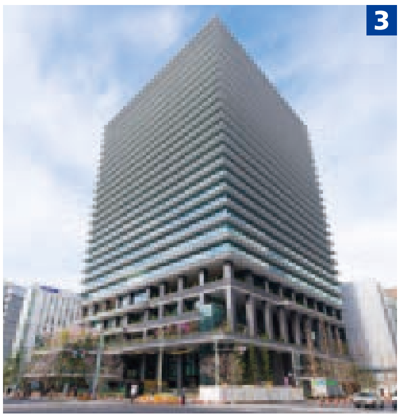
- **One of the largest building preservation and restoration projects ever undertaken in Japan**
- **Hibiya Engineering installed all plumbing and sanitation facilities**

Location: Chiyoda-ku, Tokyo
Project: Plumbing and sanitation
Building: 4 floors, 2 underground levels
Use: Station and hotel
Floor area: 42,584m^2
Completion: October 2012

2 JP Tower

- **The first Japan Post Group real estate project, designed to preserve the historic face of the former Tokyo Central Post Office**
- **Hibiya Engineering installed plumbing and sanitation facilities for the international conference hall, academic and cultural museum, and shopping area (KITTE)**

Location: Chiyoda-ku, Tokyo
Project: Plumbing and sanitation
Building: 38 floors, 4 underground levels
Use: Offices, stores
Floor area: 213,233m^2
Completion: May 2012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3 Tokyo Square Garden

Location: Chuo-ku, Tokyo
Project: Plumbing and sanitation
Building: 24 floors, 4 underground levels
Use: Offices
Floor area: 118,300m^2
Completion: March 2013

FINANCIAL SECTION

CONTENTS

■ Overview

In the fiscal year ended March 2013, expectations regarding the benefits of economic measures initiated by the new Japanese government late in 2012 produced signs of a recovery in some sectors of the Japanese economy as stock prices rose and the yen began to weaken.

In the construction industry, there was an increase in public-works investments because of the supplementary budget and other positive events. However, the operating environment remained challenging because of the rising cost of labor and intense price-based competition.

Orders received and sales

The Hibiya Engineering Group leveraged its strengths to target the six strategic market sectors and further expanded the use of solution-based sales activities. In addition, group companies used strategic procurement for materials to earn profits and took actions to upgrade safety and quality. Aggressive business activities also included steady progress with the energy business, such as for reusable energy sources, the "smart" business, which includes an energy management system that utilizes ICT, and growth outside Japan.

As a result, orders received increased 7.2% to ¥70,051 million and net sales increased 8.9% to ¥66,322 million.

Operating income

Operating income increased 17.7% to ¥2,017 million.

Net income

Net income increased 9.0% to ¥1,806 million and income taxes decreased from ¥1,287 million to ¥1,028 million. Net income per share before dilution increased from ¥52.15 to ¥58.15 and diluted net income per share increased from ¥51.97 to ¥57.90.

■ Balance Sheet and Cash Flows

Balance sheet

Assets

Total assets were ¥79,428 million, ¥2,986 million higher than at the end of the previous fiscal year. Total current assets increased ¥1,166 million to ¥43,600 million and non-current assets increased ¥1,820 million to ¥35,828 million.

Major changes in current assets were a decrease of ¥591 million in cash and cash equivalents and increases of ¥3,286 million in notes receivable, accounts receivable from completed construction contracts and other.

The increase in non-current assets was mainly the net result of decreases of ¥429 million in deferred tax assets and ¥239 million in Insurance funds and an increase of ¥2,684 million in investment securities due in part to growth in unrealized gains.

Liabilities

Liabilities increased ¥1,188 million to ¥24,262 million.

The main reason was a ¥352 million decrease in the provision for loss on construction contracts and increases of ¥682 million in notes payable, accounts payable for construction contracts and other and ¥387 million in deferred tax liabilities.

Net assets

Total net assets were ¥55,166 million at the end of the fiscal year, including a ¥776 million increase in treasury stock and a contribution from net income of ¥1,806 million.

Return on equity

The return on equity, based on net income, increased from 3.2% to 3.4%.

Cash flows

Net cash provided by operating activities was ¥164 million, up ¥140 million from one year earlier. The primary sources of cash were income before income taxes and minority interests of ¥2,964 million and an increase in notes and accounts payable-trade.

Net cash provided by investing activities was ¥992 million, ¥1,724million more than the negative cash flow in the previous fiscal year. This was mainly because payments for purchases of investment securities were less than proceeds from redemptions of investment securities and proceeds from maturities of insurance funds.

Net cash used in financing activities was ¥1,747 million, ¥52 million more than one year earlier. Purchases of treasury stock and cash dividend paid were the major uses of cash.

The result of these cash flows was a net decrease of ¥591 million in cash and cash equivalents to ¥11,184 million at the end of the fiscal year.

■ Segment information

In the core construction segment, which accounted for 86.9% of consolidated sales, sales increased 10.8% to ¥57,662 million and operating income increased 26.5% to ¥1,458 million.

In the equipment sales segment, sales decreased 1.1% to ¥5,718 million and operating income increased

16.4% to ¥340 million.

In the equipment manufacturing segment, sales decreased 5.2% to ¥2,942 million and operating income decreased 14.7% to ¥219 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, 2013.

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, 2013 and 2012

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2013	2012	**2013**
Assets			
Current assets:			
Cash and cash equivalents *(Note 4)*	**¥11,184**	¥11,775	**$118,915**
Notes receivable, accounts receivable from completed construction contracts and other *(Note 4)*	**28,674**	25,388	**304,880**
Short-term investments *(Notes 3 and 4)*	**1,500**	2,697	**15,949**
Costs on uncompleted construction contracts and other	**759**	1,146	**8,070**
Deferred tax assets *(Note 6)*	**672**	816	**7,145**
Other	**842**	639	**8,954**
Allowance for doubtful accounts	**(31)**	(27)	**(330)**
Total current assets	**43,600**	42,434	**463,583**
Property, plant and equipment:			
Buildings and structures	**1,450**	1,473	**15,417**
Land	**152**	152	**1,616**
Other	**883**	921	**9,389**
Total	**2,485**	2,546	**26,422**
Accumulated depreciation	**(1,927)**	(1,927)	**(20,489)**
Total property, plant and equipment	**558**	619	**5,933**
Investments and other assets:			
Investment securities *(Notes 3 and 4)*	**30,205**	27,521	**321,159**
Insurance funds	**2,661**	2,900	**28,293**
Investments in silent partnership *(Note 4)*	**1,000**	1,000	**10,633**
Deferred tax assets *(Note 6)*	**32**	461	**340**
Goodwill	**77**	111	**819**
Other	**1,295**	1,396	**13,770**
Total investments and other assets	**35,270**	33,389	**375,014**
Total assets	**¥79,428**	¥76,442	**$844,530**

See accompanying notes to consolidated financial statements.

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2013	2012	**2013**
Liabilities and Net assets			
Current liabilities:			
Notes payable, accounts payable for construction contracts and other *(Note 4)*	**¥19,176**	¥18,494	**$203,892**
Bank loans *(Notes 4 and 5)*	**780**	780	**8,293**
Income taxes payable *(Note 6)*	**719**	624	**7,645**
Advances received on uncompleted construction contracts	**322**	129	**3,424**
Provision for bonuses	**902**	870	**9,591**
Provision for loss on construction contracts	**253**	605	**2,690**
Other	**1,234**	1,059	**13,120**
Total current liabilities	**23,386**	22,561	**248,655**
Long-term liabilities:			
Deferred tax liabilities *(Note 6)*	**407**	20	**4,327**
Provision for retirement benefits *(Note 8)*	**379**	390	**4,030**
Other	**90**	103	**957**
Total long-term liabilities	**876**	513	**9,314**
Net assets			
Shareholders' equity *(Note 10)*:			
Capital stock: Authorized – 96,500,000 shares in 2013 and 2012 Issued – 34,000,309 shares in 2013 and 2012	**5,753**	5,753	**61,170**
Capital surplus	**5,932**	5,932	**63,073**
Retained earnings	**41,495**	40,635	**441,201**
Treasury stock: 3,366,761 shares in 2013 and 2,534,434 shares in 2012	**(2,649)**	(1,873)	**(28,166)**
Total shareholders' equity	**50,531**	50,447	**537,278**
Accumulated other comprehensive income			
Net unrealized holding gains or losses on securities	**2,914**	1,249	**30,984**
Total accumulated other comprehensive income	**2,914**	1,249	**30,984**
Subscription rights to shares	**98**	76	**1,042**
Minority interests	**1,623**	1,596	**17,257**
Total net assets	**55,166**	53,368	**586,561**
Total liabilities and net assets	**¥79,428**	¥76,442	**$844,530**

Consolidated Statements of Income

Hibiya Engineering, Ltd. and Consolidated Subsidiaries
Years ended March 31, 2013 and 2012

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2013	2012	**2013**
Net sales	**¥66,322**	¥60,919	**$705,178**
Cost of sales	**57,579**	52,415	**612,217**
Gross profit	**8,743**	8,504	**92,961**
Selling, general and administrative expenses *(Note 7)*	**6,726**	6,791	**71,515**
Operating income	**2,017**	1,713	**21,446**
Other income (expenses):			
Interest and dividend income	**224**	330	**2,382**
Interest expenses	**(13)**	(12)	**(138)**
Equity in earnings of affiliates	**369**	642	**3,923**
Gain on sales of investment securities, net	**—**	25	**—**
Gain on redemption of investment securities	**—**	181	**—**
Loss on valuation of investment securities	**—**	(15)	**—**
Gain on bargain purchase	**129**	—	**1,372**
Other, net	**238**	200	**2,530**
Other income (expenses) - net	**947**	1,351	**10,069**
Income before income taxes and minority interests	**2,964**	3,064	**31,515**
Income taxes *(Note 6)*:			
Income taxes-current	**803**	717	**8,538**
Income taxes-deferred	**225**	570	**2,392**
Total income taxes	**1,028**	1,287	**10,930**
Income before minority interests	**1,936**	1,777	**20,585**
Minority interests in income	**130**	120	**1,382**
Net income *(Note 13)*	**¥ 1,806**	¥ 1,657	**$ 19,203**

	Yen		U.S. dollars (Note 1)
Per share of common stock *(Note 13)*:	**2013**	2012	**2013**
Net assets	**¥1,744.66**	¥1,642.92	**$18.55**
Net income			
Basic	**58.15**	52.15	**0.62**
Diluted	**57.90**	51.97	**0.62**
Cash dividend applicable to the year *(Note 10)*	**30.00**	30.00	**0.32**

See accompanying notes to consolidated financial statements.

Consolidated Statements of Comprehensive Income

Hibiya Engineering, Ltd. and Consolidated Subsidiaries
Years ended March 31, 2013 and 2012

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2013	2012	**2013**
Income before minority interests	**¥1,936**	¥1,777	**$20,585**
Other comprehensive income *(Note 12)*:			
Net unrealized holding gains or losses on securities	**1,520**	129	**16,162**
Share of other comprehensive income of associates accounted for by using equity method	**182**	32	**1,935**
Total other comprehensive income	**1,702**	161	**18,097**
Comprehensive income	**3,638**	1,938	**38,682**
Comprehensive income attributable to:			
Owners of the parent	**3,471**	1,814	**36,906**
Minority interests	**167**	124	**1,776**

See accompanying notes to consolidated financial statements.

Consolidated Statements of Changes in Net Assets

Hibiya Engineering, Ltd. and Consolidated Subsidiaries
Years ended March 31, 2013 and 2012

	Number of shares of common stock	Shareholders' equity				Accumulated other comprehensive income	Subscription rights to shares	Minority interests	Total net assets
		Capital stock	Legal capital surplus	Retained earnings	Treasury stock	Net unrealized holding gains or losses on securities			
	(Shares)	(Millions of yen)							
Balance at April 1, 2011	34,000,309	¥5,753	¥5,932	¥40,233	¥(1,358)	¥1,093	¥57	¥1,478	¥53,188
Net income	—	—	—	1,657	—	—	—	—	1,657
Dividend from surplus	—	—	—	(1,253)	—	—	—	—	(1,253)
Purchase of treasury stock	—	—	—	—	(529)	—	—	—	(529)
Disposal of treasury stock	—	—	—	(2)	14	—	—	—	12
Net changes of items other than shareholders' equity	—	—	—	—	—	156	19	118	293
Balance at April 1, 2012	34,000,309	¥5,753	¥5,932	¥40,635	¥(1,873)	¥1,249	¥76	¥1,596	¥53,368
Net income	—	—	—	1,806	—	—	—	—	1,806
Dividend from surplus	—	—	—	(942)	—	—	—	—	(942)
Purchase of treasury stock	—	—	—	—	(792)	—	—	—	(792)
Disposal of treasury stock	—	—	—	(4)	16	—	—	—	12
Net changes of items other than shareholders' equity	—	—	—	—	—	1,665	22	27	1,714
Balance at March 31, 2013	**34,000,309**	**¥5,753**	**¥5,932**	**¥41,495**	**¥(2,649)**	**¥2,914**	**¥98**	**¥1,623**	**¥55,166**

	Shareholders' equity				Accumulated other comprehensive income	Subscription rights to shares	Minority interests	Total net assets
	Capital stock	Legal capital surplus	Retained earnings	Treasury stock	Net unrealized holding gains or losses on securities			
	(Thousands of U.S. dollars (Note 1))							
Balance at April 1, 2012	$61,170	$63,073	$432,057	$(19,915)	$13,280	$ 808	$16,970	$567,443
Net income	—	—	19,203	—	—	—	—	19,203
Dividend from surplus	—	—	(10,016)	—	—	—	—	(10,016)
Purchase of treasury stock	—	—	—	(8,421)	—	—	—	(8,421)
Disposal of treasury stock	—	—	(43)	170	—	—	—	127
Net changes of items other than shareholders' equity	—	—	—	—	17,704	234	287	18,225
Balance at March 31, 2013	**$61,170**	**$63,073**	**$441,201**	**$(28,166)**	**$30,984**	**$1,042**	**$17,257**	**$586,561**

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Hibiya Engineering, Ltd. and Consolidated Subsidiaries
Years ended March 31, 2013 and 2012

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2013	2012	**2013**
Cash flows from operating activities:			
Income before income taxes and minority interests	**¥ 2,964**	¥ 3,064	**$ 31,515**
Depreciation and amortization	**259**	254	**2,754**
Amortization of goodwill	**34**	34	**362**
Increase (decrease) in allowance for doubtful accounts	**(21)**	(29)	**(223)**
Increase (decrease) in provision for retirement benefits	**(11)**	(56)	**(117)**
Increase (decrease) in provision for bonuses	**32**	(243)	**340**
Increase (decrease) in provision for loss on construction contracts	**(352)**	(184)	**(3,743)**
Interest and dividend income	**(224)**	(330)	**(2,382)**
Interest expenses	**13**	12	**138**
Loss (gain) on sales of investment securities	**—**	(25)	**—**
Loss (gain) on redemption of investment securities	**—**	(181)	**—**
Loss (gain) on valuation of investment securities	**—**	15	**—**
Equity in (earnings) losses of affiliates	**(369)**	(642)	**(3,923)**
Gain on bargain purchase	**(129)**	—	**(1,372)**
Decrease (increase) in notes and accounts receivable	**(3,285)**	(720)	**(34,928)**
Decrease (increase) in costs on uncompleted construction contracts	**387**	66	**4,115**
Increase (decrease) in notes and accounts payable	**682**	928	**7,251**
Increase (decrease) in advances received on uncompleted construction contracts	**193**	(78)	**2,052**
Other, net	**470**	(679)	**4,998**
Subtotal	**643**	1,206	**6,837**
Interest and dividend income received	**235**	326	**2,499**
Interest expenses paid	**(13)**	(12)	**(138)**
Income taxes paid	**(701)**	(1,496)	**(7,454)**
Net cash provided by (used in) operating activities	**164**	24	**1,744**
Cash flows from investing activities:			
Payments into time deposits	**(600)**	—	**(6,380)**
Proceeds from withdrawal of time deposits	**500**	—	**5,316**
Purchase of property, plant and equipment	**(41)**	(136)	**(436)**
Purchase of intangible assets	**(25)**	(93)	**(266)**
Purchase of investment securities	**(1,900)**	(5,010)	**(20,202)**
Proceeds from sales of investment securities	**—**	422	**—**
Proceeds from redemption of investment securities	**2,700**	2,100	**28,708**
Purchase of insurance funds	**(100)**	(231)	**(1,063)**
Proceeds from maturity of insurance funds	**454**	339	**4,827**
Proceeds from withdrawal of investments in silent partnership	**—**	1,847	**—**
Other, net	**4**	30	**43**
Net cash provided by (used in) investing activities	**992**	(732)	**10,547**
Cash flows from financing activities:			
Purchase of treasury stock	**(792)**	(529)	**(8,421)**
Proceeds from disposal of treasury stock	**0**	0	**0**
Cash dividend paid	**(942)**	(1,253)	**(10,016)**
Cash dividend paid to minority shareholders	**(6)**	(6)	**(64)**
Other, net	**(7)**	(11)	**(74)**
Net cash provided by (used in) financing activities	**(1,747)**	(1,799)	**(18,575)**
Net increase (decrease) in cash and cash equivalents	**(591)**	(2,507)	**(6,284)**
Cash and cash equivalents at beginning of period	**11,775**	14,282	**125,199**
Cash and cash equivalents at end of period	**¥11,184**	¥11,775	**$118,915**

See accompanying notes to consolidated financial statements.

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, 2013, which was ¥94.05 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.

Goodwill is amortized on a straight-line basis over a period of 5 years.

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 gross 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.

(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. Contracts that commenced before April 1, 2009, whose contract amount is ¥100 million or more, schedule is more than 12 months and percentage of completion is 30% or more, are recognized by the percentage-of-completion method. The completed-contract method is applied to all other construction contracts.

(7) Costs on uncompleted construction contracts and other

Costs on uncompleted construction contracts are stated at cost using the specific identification method. Inventories of the consolidated subsidiaries are stated at cost using the specific identification method (Amounts shown on the consolidated balance sheets are determined by the method of reducing the book value due to decline in profitability).

(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.

Finance leases which commenced prior to April 1, 2008 and have been accounted for as operating leases, continue to be accounted for as operating leases with disclosure of certain "as if capitalized" information.

(9) Provision for retirement benefits

The Companies provide the provision for employees' severance and retirement benefits based on the estimated amounts of projected benefit obligation and the fair value of the plan assets at the year-end.

Prior 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, from the year in which they arise.

Actuarial differences are recognized in income or expense using 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, from the year in which they arise.

(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) Income taxes

The Companies compute the provision for income taxes based on the pretax income included in the consolidated statement of income and recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the financial statement basis and the tax basis of assets and liabilities.

(12) 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.

(13) Derivatives

The Companies state derivative financial instruments at fair value and recognize changes in the fair value as gains or losses. As of March 31, 2013 and 2012, the Companies did not hold derivative financial instruments.

(14) Notes receivable and notes payable maturing at fiscal year-end

Notes receivable and notes payable maturing at the fiscal year-end are settled on the date of clearance. As March 31, 2013 and 2012 were bank holidays, notes receivable and notes payable maturing on those dates which were not settled and were included in the ending balance of notes receivable and notes payable were as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	**2013**
Notes receivable	**¥ 61**	¥ 58	**$ 649**
Notes payable	**232**	299	**2,467**

(15) Change in accounting policy

(Change in depreciation method)

Effective for the year ended March 31, 2013, due to the revision of the Corporation Tax Act, the Companies changed their depreciation method to the method in accordance with the revised Corporation Tax Act for the property, plant and equipment acquired on or after April 1, 2012. The effect of this change on profit or loss for the year ended March 31, 2013 is immaterial.

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

"Accounting Standard for Retirement Benefits" (Accounting Standards Board of Japan ("ASBJ") Statement No. 26, issued on May 17, 2012) (the "Accounting Standard") and "Guidance on Accounting Standard for Retirement Benefits" (ASBJ Guidance No. 25, issued on May 17, 2012) (the "Guidance")

(a) Summary

Under the amended rule, actuarial gains and losses and past service costs that are yet to be recognized in profit or loss would be recognized within the net asset section, after adjusting for tax effects, and the deficit or surplus would be recognized as a liability or asset without any adjustments. For determining method of attributing expected benefit to periods, the Standard now allows to choose benefit formula basis, as well as straight-line basis. Method for determination of discount rate has also been amended.

(b) Effective dates

Effective for the end of annual periods ending on or after March 31, 2014. The Amendment relating to the method of attributing expected benefit to periods is effective from the beginning of annual periods ending on or after March 31, 2015.

(c) Effect of application of the standard

The Companies are currently in the process of determining the effects of these new standards on the consolidated financial statements.

3. Securities

(1) As of March 31, 2013 and 2012, book values (fair values) and acquisition costs of available-for-sale securities with available fair values were as follows:

(a) Available-for-sale securities

	Millions of yen		
	2013		
	Book value	Acquisition cost	Difference
Securities whose book values (fair values) exceed their acquisition costs:			
Equity securities	**¥ 7,394**	**¥ 3,480**	**¥3,914**
Debt securities:			
Government and municipal bonds	**301**	**300**	**1**
Corporate bonds	**1,441**	**1,390**	**51**
Other bonds	**2,917**	**2,626**	**291**
Other	**123**	**103**	**20**
Sub-total	**¥12,176**	**¥ 7,899**	**¥4,277**
Securities whose book values (fair values) do not exceed their acquisition costs:			
Equity securities	**¥ 139**	**¥ 162**	**¥ (23)**
Debt securities:			
Government and municipal bonds	—	—	—
Corporate bonds	—	—	—
Other bonds	**1,974**	**2,010**	**(36)**
Other	**177**	**180**	**(3)**
Sub-total	**¥ 2,290**	**¥ 2,352**	**¥ (62)**
Total	**¥14,466**	**¥10,251**	**¥4,215**

	Millions of yen		
	2012		
	Book value	Acquisition cost	Difference
Securities whose book values (fair values) exceed their acquisition costs:			
Equity securities	¥ 4,581	¥ 2,498	¥2,083
Debt securities:			
Government and municipal bonds	—	—	—
Corporate bonds	1,506	1,500	6
Other bonds	1,286	1,026	260
Other	110	102	8
Sub-total	¥ 7,483	¥ 5,126	¥2,357
Securities whose book values (fair values) do not exceed their acquisition costs:			
Equity securities	¥ 955	¥ 1,149	¥ (194)
Debt securities:			
Government and municipal bonds	290	300	(10)
Corporate bonds	398	401	(3)
Other bonds	3,734	3,910	(176)
Other	160	189	(29)
Sub-total	¥ 5,537	¥ 5,949	¥ (412)
Total	¥13,020	¥11,075	¥1,945

	Thousands of U.S. dollars		
	2013		
	Book value	Acquisition cost	Difference
Securities whose book values (fair values) exceed their acquisition costs:			
Equity securities	**$ 78,618**	**$ 37,002**	**$41,616**
Debt securities:			
Government and municipal bonds	**3,200**	**3,190**	**10**
Corporate bonds	**15,322**	**14,779**	**543**
Other bonds	**31,015**	**27,921**	**3,094**
Other	**1,308**	**1,095**	**213**
Sub-total	**$129,463**	**$ 83,987**	**$45,476**
Securities whose book values (fair values) do not exceed their acquisition costs:			
Equity securities	**$ 1,478**	**$ 1,722**	**$(244)**
Debt securities:			
Government and municipal bonds	**—**	**—**	**—**
Corporate bonds	**—**	**—**	**—**
Other bonds	**20,989**	**21,372**	**(383)**
Other	**1,882**	**1,914**	**(32)**
Sub-total	**$ 24,349**	**$ 25,008**	**$ (659)**
Total	**$153,812**	**$108,995**	**$44,817**

(2) The following summarizes book values of available-for-sale securities which are not included in the above table (1) since no readily determinable fair values were available.

	Millions of yen		Thousands of U.S. dollars
	2013	2012	**2013**
Unlisted equity securities	**¥1,489**	¥1,489	**$15,832**
Total	**¥1,489**	¥1,489	**$15,832**

(3) Proceeds from sales, and gross realized gains and losses from the sale of available-for-sale securities for the years ended March 31, 2013 and 2012 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	**2013**
Proceeds from sales			
Equity securities	**¥—**	¥422	**$—**
Other	**—**	—	**—**
Total	**¥—**	¥422	**$—**
Gross realized gains			
Equity securities	**¥—**	¥ 25	**$—**
Other	**—**	—	**—**
Total	**¥—**	¥ 25	**$—**
Gross realized losses			
Equity securities	**¥—**	¥ —	**$—**
Other	**—**	—	**—**
Total	**¥—**	¥ —	**$—**

(4) Securities with impairment losses

Impairment loss of ¥15 million was recognized for available-for-sale securities for the year ended March 31, 2012.

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.

(5) Investments in affiliates

The amounts of investments in affiliates were ¥15,749 million ($167,453 thousand) and ¥15,210 million as of March 31, 2013 and 2012, respectively.

4. Financial instruments

Information on financial instruments for the years ended March 31, 2013 and 2012 is as follows:

(1) 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.

The consolidated subsidiaries have entered into overdraft contracts with their banks for efficient procurement of working capital.

(2) 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.

Bank loans of the consolidated subsidiaries are exposed to interest rate risk that the burden of interest payments may increase due to the increase in the interest rate in future.

(3) 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.

(4) Fair values of financial instruments

As of March 31, 2013 and 2012, 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		
	2013		
	Book value	Fair value	Difference
(1) Cash and cash equivalents	**¥11,184**	**¥11,184**	**¥—**
(2) Notes receivable, accounts receivable from completed construction contracts and other	**28,674**	**28,674**	**—**
(3) Short-term investments and investment securities	**14,465**	**14,465**	**—**
Total	**¥54,323**	**¥54,323**	**¥—**
(1) Notes payable, accounts payable for construction contracts and other	**¥19,176**	**¥19,176**	**¥—**
(2) Bank loans	**780**	**780**	**—**
Total	**¥19,956**	**¥19,956**	**¥—**

	Millions of yen		
	2012		
	Book value	Fair value	Difference
(1) Cash and cash equivalents	¥11,775	¥11,775	¥—
(2) Notes receivable, accounts receivable from completed construction contracts and other	25,388	25,388	—
(3) Short-term investments and investment securities	13,520	13,520	—
Total	¥50,683	¥50,683	¥—
(1) Notes payable, accounts payable for construction contracts and other	¥18,494	¥18,494	¥—
(2) Bank loans	780	780	—
Total	¥19,274	¥19,274	¥—

	Thousands of U.S. dollars		
	2013		
	Book value	Fair value	Difference
(1) Cash and cash equivalents	**$118,915**	**$118,915**	**$—**
(2) Notes receivable, accounts receivable from completed construction contracts and other	**304,880**	**304,880**	**—**
(3) Short-term investments and investment securities	**153,802**	**153,802**	**—**
Total	**$577,597**	**$577,597**	**$—**
(1) Notes payable, accounts payable for construction contracts and other	**$203,892**	**$203,892**	**$—**
(2) Bank loans	**8,293**	**8,293**	**—**
Total	**$212,185**	**$212,185**	**$—**

Note 1: Method for calculating the fair value of financial instruments and matters relevant to securities

Assets:

(1) Cash and cash equivalents and (2) Notes receivable, accounts receivable from completed construction contracts and other

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

(3) Short-term investments and investment securities

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 bond securities.

Liabilities:

(1) Notes payable, accounts payable for construction contracts and other and (2) Bank loans

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

Note 2: Financial instruments whose fair values were extremely difficult to be determined were as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	**2013**
Unlisted equity securities	**¥17,239**	¥16,699	**$183,296**
Investments in silent partnership	**1,000**	1,000	**10,633**

These items are not included in "(3) Short-term investments and investment securities" because no quoted market prices were available and their fair values were extremely difficult to be determined.

Note 3: Redemption schedule of monetary receivables and maturities of securities with maturities were as follows:

	Millions of yen			
	2013			
	Within 1 year	1 to 5 years	5 to 10 years	Over 10 years
Cash and cash equivalents	**¥11,184**	**¥ —**	**¥—**	**¥ —**
Notes receivable, accounts receivable from completed construction contracts and other	**28,674**	**—**	**—**	**—**
Short-term investments and investment securities				
Securities with maturities:				
(1) Government and municipal bonds	**—**	**301**	**—**	**—**
(2) Corporate bonds	**500**	**406**	**—**	**534**
(3) Other bonds	**999**	**3,892**	**—**	**—**
Investments in silent partnership	**—**	**1,000**	**—**	**—**
Total	**¥41,357**	**¥5,599**	**¥—**	**¥534**

	Millions of yen			
	2012			
	Within 1 year	1 to 5 years	5 to 10 years	Over 10 years
Cash and cash equivalents	¥11,775	¥ —	¥ —	¥ —
Notes receivable, accounts receivable from completed construction contracts and other	25,388	—	—	—
Short-term investments and investment securities				
Securities with maturities:				
(1) Government and municipal bonds	—	290	—	—
(2) Corporate bonds	899	501	—	504
(3) Other bonds	1,798	3,252	470	—
Investments in silent partnership	—	1,000	—	—
Total	¥39,860	¥5,043	¥470	¥504

	Thousands of U.S. dollars			
	2013			
	Within 1 year	1 to 5 years	5 to 10 years	Over 10 years
Cash and cash equivalents	**$118,915**	**$ —**	**$—**	**$ —**
Notes receivable, accounts receivable from completed construction contracts and other	**304,880**	**—**	**—**	**—**
Short-term investments and investment securities				
Securities with maturities:				
(1) Government and municipal bonds	**—**	**3,200**	**—**	**—**
(2) Corporate bonds	**5,317**	**4,317**	**—**	**5,678**
(3) Other bonds	**10,622**	**41,382**	**—**	**—**
Investments in silent partnership	**—**	**10,633**	**—**	**—**
Total	**$439,734**	**$59,532**	**$—**	**$5,678**

5. Bank loans

Bank loans as of March 31, 2013 and 2012 were represented by overdraft and short-term notes, bearing weighted average interest rate of 1.513% for the years ended March 31, 2013 and 2012.

The Companies had no long-term debt as of March 31, 2013 and 2012.

For efficient procurement of working capital, two consolidated subsidiaries have entered into overdraft contracts with four financial institutions in the aggregate amount of ¥1,680 million ($17,863 thousand) as of March 31, 2013 and 2012. The unused borrowings of the consolidated subsidiaries as of March 31, 2013 and 2012 amounted to ¥1,050 million ($11,164 thousand).

6. Income taxes

Taxes on income consist of corporation, enterprise and inhabitants taxes. The aggregate statutory tax rates on income before income taxes were approximately 38.0% and 40.7% for the years ended March 31, 2013 and 2012, 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, 2013 and 2012.

	2013	2012
Statutory tax rate	**38.0%**	40.7%
Non-deductible expenses	**2.1**	2.9
Non-taxable dividend income	**(0.7)**	(1.4)
Per capita inhabitant tax	**1.5**	1.5
Valuation allowance	**0.8**	0.2
Equity in earnings of affiliates	**(4.7)**	(8.5)
Gain on bargain purchase	**(1.7)**	—
Adjustment of deferred tax assets and liabilities for enacted changes in tax laws and rates	**—**	7.3
Other	**(0.6)**	(0.7)
Effective tax rate	**34.7%**	42.0%

Significant components of the Companies' deferred tax assets and liabilities as of March 31, 2013 and 2012 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	**2013**
Deferred tax assets:			
Loss on valuation of investment securities	**¥ 415**	¥ 415	**$ 4,413**
Enterprise taxes payable	**66**	64	**702**
Provision for bonuses	**345**	333	**3,668**
Provision for loss on construction contracts	**96**	230	**1,021**
Provision for retirement benefits	**829**	839	**8,814**
Net unrealized holding losses on securities	**22**	142	**234**
Other	**393**	444	**4,178**
Valuation allowance	**(403)**	(372)	**(4,285)**
Total deferred tax assets	**¥ 1,763**	¥2,095	**$ 18,745**
Deferred tax liabilities:			
Net unrealized holding gains on securities	**¥(1,412)**	¥ (783)	**$(15,013)**
Other	**(54)**	(55)	**(574)**
Total deferred tax liabilities	**¥(1,466)**	¥ (838)	**$(15,587)**
Net deferred tax assets (liabilities)	**¥ 297**	¥1,257	**$ 3,158**

7. Selling, general and administrative expenses

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

	Millions of yen		Thousands of U.S. dollars
	2013	2012	**2013**
Employees' salaries and allowances	**¥2,332**	¥2,386	**$24,795**
Provision for bonuses	**398**	395	**4,232**
Retirement benefit expenses	**205**	196	**2,180**
Provision of allowance for doubtful accounts	**4**	(26)	**43**
Depreciation	**216**	222	**2,297**
Rents	**945**	945	**10,048**

Research and development expenses included in general and administrative expenses for the years ended March 31, 2013 and 2012 were ¥140 million ($1,489 thousand) and ¥164 million, respectively.

8. Provision for retirement benefits

The Company and one of the consolidated subsidiaries have established defined benefit plans: the employees' pension fund system, defined benefit pension plan, and lump-sum retirement plan. The other consolidated subsidiaries have established the defined benefit pension plan, lump-sum retirement plan and small and medium enterprise retirement allowance mutual aid system.

Provision for retirement benefits included in the liability section of the consolidated balance sheets as of March 31, 2013 and 2012 was as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	**2013**
Projected benefit obligation	**¥(4,880)**	¥(4,729)	**$(51,887)**
Fair value of plan assets	**4,361**	4,140	**46,369**
Funded status	**¥ (519)**	¥ (589)	**$ (5,518)**
Unrecognized prior service cost	**(92)**	(104)	**(978)**
Unrecognized actuarial differences	**333**	387	**3,540**
Prepaid pension expenses	**(101)**	(84)	**(1,074)**
Provision for retirement benefits	**¥ (379)**	¥ (390)	**$ (4,030)**

*1. The consolidated subsidiaries adopt the simplified method for calculating the projected benefit obligation.
*2. Fair value of plan assets includes retirement benefit trusts for lump-sum retirement plans.

Included in the consolidated statements of income for the years ended March 31, 2013 and 2012 were employees' retirement benefit expenses consisting of the following:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	**2013**
Service cost - benefits earned during the year	**¥252**	¥231	**$2,679**
Interest cost on projected benefit obligation	**63**	66	**670**
Expected return on plan assets	**(48)**	(48)	**(510)**
Amortization of prior service cost	**(12)**	(12)	**(128)**
Amortization of actuarial differences	**39**	97	**415**
Contribution to the employees' pension fund system	**157**	157	**1,669**
Retirement benefit expenses	**¥451**	¥491	**$4,795**

* The service cost includes retirement benefit expenses of the consolidated subsidiaries calculated by the simplified method.

Significant assumptions used for the years ended March 31, 2013 and 2012 were as follows:

	2013	2012
Discount rate	**1.5%**	1.5%
Expected rate of return on plan assets	**1.0%~1.5%**	1.0%~1.5%
Amortization period of prior service cost	**10 years**	10 years
Amortization period of actuarial differences	**10 years**	10 years

The expected amount of all retirement benefits to be paid is allocated equally to each service year using the estimated number of total service years.

The Company and one of the consolidated subsidiaries participate in several contributory funded multi-employer pension plans. Information about the multi-employer plans for which the required contributions to them are accounted for as the employees' retirement benefit expenses was as follows:

	Millions of Yen		Thousands of U.S. dollars
	2012	2011	2012
Funded status of the plans			
Fair value of plan assets	¥ 31,993	¥36,013	$ 340,170
Benefit obligations under pension funding programs	42,777	41,726	454,832
Deficit (*1)	¥(10,784)	¥ (5,713)	$(114,662)
Ratio of total salaries of the Companies to total funds of plans (*2)	11.8%	12.0%	

(As of March 31, 2012)

The net balance, the above deficit (*1), was mainly due to the deficit of ¥5,586 million ($59,394 thousand) carried forward from the year ended March 31, 2011 and the deficit of ¥5,198 million ($55,268 thousand) for the year ended March 31, 2012. The amounts of principal and interest of prior service cost were amortized equally over 4 years and 5 months.

The above ratio (*2) does not correspond to the actual contribution ratio by the Companies.

Pension system of the Tokyo Air-Conditioning & Plumbing Contractors Employees' Pension Fund (*Tokyo Kucho Eisei Koujigyo Kosei Nenkin Kikin*), in which the Company and one of the consolidated subsidiaries participate, was changed, and it was decided that the contributions to the fund would be raised and the level of benefits would be lowered from April 1, 2013. Accordingly, the Companies' contributions to the fund for the year ending March 31, 2014 is expected to increase by ¥107 million ($1,138 thousand).

(As of March 31, 2011)

The net balance, the above deficit (*1), was mainly due to the deficit of ¥2,054 million carried forward from the year ended March 31, 2010 and the deficit of ¥3,659 million for the year ended March 31, 2011. The amounts of principal and interest of prior service cost were amortized equally over 3 years and 2 months.

The above ratio (*2) does not correspond to the actual contribution ratio by the Companies.

As of March 31, 2011, plan assets of Tokyo Air-Conditioning & Plumbing Contractors Employees' Pension Fund, in which the Company and one of the consolidated subsidiaries participate, amounted to ¥36,013 million ($438,168 thousand). Although, of the amount, ¥3,751 million ($45,638 thousand) has been managed by AIJ Investment Advisors

Co., Ltd. under a discretionary investment contract and most of such contract assets are certainly expected to be impaired, this is not reflected in the amount of the plan assets as of March 31, 2011.

At present, a specific accounting treatment for the deficits carried forward under pension funding programs including the impaired plan assets is not determined.

9. Leases

As discussed in Note 2. (8), finance leases commenced prior to April 1, 2008 which do not transfer ownership of leased assets to lessees are accounted for as operating leases.

Assumed amounts of acquisition cost and accumulated depreciation as of March 31, 2013 and 2012 were as follows:

	Millions of yen		
	2013		
	Acquisition cost	Accumulated depreciation	Net book value
Equipment	**¥—**	**¥—**	**¥—**
Total	**¥—**	**¥—**	**¥—**

	Millions of yen		
	2012		
	Acquisition cost	Accumulated depreciation	Net book value
Equipment	¥23	¥21	¥2
Total	¥23	¥21	¥2

	Thousands of U.S. dollars		
	2013		
	Acquisition cost	Accumulated depreciation	Net book value
Equipment	**$—**	**$—**	**$—**
Total	**$—**	**$—**	**$—**

Lease payments relating to finance leases accounted for as operating leases in the accompanying consolidated financial statements and the related pro forma depreciation expense and interest expense for the years ended March 31, 2013 and 2012 were as follows:

	Millions of Yen		Thousands of U.S. dollars
	2013	2012	**2013**
Lease payments	**¥2**	¥9	**$22**
Depreciation expense	**2**	8	**22**
Interest expense	**0**	1	**0**

Pro forma depreciation expense is computed by the straight-line method over the respective lease term with no residual value.

The excess of the total lease payment over the acquisition cost is regarded as the interest expense and allocated to each period using the interest method.

Future minimum lease payments subsequent to March 31, 2013 and 2012 for finance leases currently accounted for as operating leases were as follows:

	Millions of Yen		Thousands of U.S. dollars
	2013	2012	**2013**
Due within one year	**¥—**	¥2	**$—**
Due after one year	**—**	1	**—**
Total	**¥—**	¥3	**$—**

10. 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:

2013

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 28, 2012	Annual shareholders' meeting	Common stock	**¥475**	**$5,051**	**¥15.00**	**$0.16**	March 31, 2012	June 29, 2012
November 9, 2012	Board of directors	Common stock	**¥467**	**$4,965**	**¥15.00**	**$0.16**	September 30, 2012	December 10, 2012

2012

Date of approval	Resolution approved by	Type of shares	Amount (Millions of yen)	Amount per share (Yen)	Record date	Effective date
June 29, 2011	Annual shareholders' meeting	Common stock	¥775	¥24.00	March 31, 2011	June 30, 2011
November 11, 2011	Board of directors	Common stock	¥478	¥15.00	September 30, 2011	December 9, 2011

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

2013

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 27, 2013	Annual shareholders' meeting	Common stock	**¥462**	**$4,912**	Retained earnings	**¥15.00**	**$0.16**	March 31, 2013	June 28, 2013

11. 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, 2013 and 2012 amounted to ¥33 million ($351 thousand) and ¥31 million, respectively.

2. Outline of stock options

(1) Summary of stock option plans

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

* Within 10 days from the day following the day on which a subscription holder loses his/her position as a director or corporate officer of the Company, he/she may exercise his/her stock option.

(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, 2013.

a) Number of stock options

Date of approval	June 26, 2009	June 29, 2010	June 29, 2011	June 28, 2012
Fiscal year ended March 31, 2013				
Non-vested	(Share)	(Share)	(Share)	(Share)
April 1, 2012– Outstanding Granted	—	—	—	—
Granted	—	—	—	45,600
Forfeited	—	—	—	—
Vested	—	—	—	45,600
March 31, 2013 – Outstanding	—	—	—	—
Vested				
April 1, 2012 – Outstanding	25,700	45,100	50,600	—
Vested	—	—	—	45,600
Exercised	4,800	7,000	6,800	—
Forfeited	—	—	—	—
March 31, 2013 - Outstanding	20,900	38,100	43,800	45,600

b) Price information

Date of approval	June 26, 2009	June 29, 2010	June 29, 2011	June 28, 2012
Exercise price	¥1 per share ($0.01 per share)	¥1 per share ($0.01 per share)	¥1 per share ($0.01 per share)	¥1 per share ($0.01 per share)
Average exercise price	¥902 ($9.59)	¥902 ($9.59)	¥902 ($9.59)	—
Fair value at grant date	¥686 ($7.29)	¥633 ($6.73)	¥594 ($6.32)	¥728 ($7.74)

(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 28, 2012
Expected volatility of the underlying stock (*1)	31.4%
Expected life of the option (*2)	5 years
Expected dividend on stock (*3)	¥30.0 ($0.32) per share
Risk-free interest rate during the expected option term (*4)	0.19%

(*1) The volatility of the stock option is calculated based on the actual stock prices during five years from July 16, 2007 to July 16, 2012.
(*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.

12. Comprehensive income

Reclassification adjustments and income tax benefit (expense) on other comprehensive income for the years ended March 31, 2013 and 2012 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	**2013**
Net unrealized holding gains or losses on securities:			
Gains (losses) arising during the period	**¥2,256**	¥237	**$23,987**
Reclassification adjustments	**—**	(191)	**—**
Sub-total, before tax	**¥2,256**	¥ 46	**$23,987**
Income tax benefit (expense)	**(736)**	83	**(7,825)**
Net unrealized holding gains or losses on securities	**¥1,520**	¥129	**$16,162**
Share of other comprehensive income of associates accounted for using equity method:			
Gains (losses) arising during the period	**¥ 182**	¥ 32	**$ 1,935**
Total other comprehensive income	**¥1,702**	¥161	**$18,097**

13. Net income per share

Reconciliation of the differences between basic and diluted net income per share (“EPS”) for the years ended March 31, 2013 and 2012 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, 2013				
Basic EPS				
Net income available to common shareholders	**¥1,806**	**31,059**	**¥58.15**	**$0.62**
Effect of dilutive securities				
Stock acquisition rights	**—**	**137**	**—**	**—**
Diluted EPS				
Net income for computation	**¥1,806**	**31,196**	**¥57.90**	**$0.62**

	Millions of yen	Thousands of shares	Yen
	Net Income	Weighted average number of shares	EPS
For the year ended March 31, 2012			
Basic EPS			
Net income available to common shareholders	¥1,657	31,780	¥52.15
Effect of dilutive securities			
Stock acquisition rights	—	110	—
Diluted EPS			
Net income for computation	¥1,657	31,890	¥51.97

14. 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 performs 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.

(Change in depreciation method)

Effective for the year ended March 31, 2013, due to the revision of the Corporation Tax Act, the Companies changed their depreciation method to the method in accordance with the revised Corporation Tax Act for the property, plant and equipment acquired on or after April 1, 2012. The effect of this change on profit or loss for the year ended March 31, 2013 is immaterial.

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, 2013 and 2012 was as follows:

2013	Millions of yen					
	Construction	Equipment sales	Equipment manufacturing	Total	Adjustments (*1)	Consolidated (*2)
Net sales:						
Outside customers	**¥57,662**	**¥ 5,718**	**¥2,942**	**¥66,322**	**¥ —**	**¥66,322**
Intersegment	**5**	**4,409**	**435**	**4,849**	**(4,849)**	**—**
Total	**¥57,667**	**¥10,127**	**¥3,377**	**¥71,171**	**¥ (4,849)**	**¥66,322**
Segment income	**¥ 1,458**	**¥ 340**	**¥ 219**	**¥ 2,017**	**¥ (0)**	**¥ 2,017**
Segment assets	**¥30,610**	**¥ 7,784**	**¥3,320**	**¥41,714**	**¥37,714**	**¥79,428**
Other items:						
Depreciation and amortization	**¥ 235**	**¥ 3**	**¥ 21**	**¥ 259**	**¥ —**	**¥ 259**
Amortization of goodwill	**34**	**—**	**—**	**34**	**—**	**34**
Increase in tangible and intangible fixed assets	**56**	**4**	**6**	**66**	**—**	**66**

2012	Millions of yen					
	Construction	Equipment sales	Equipment manufacturing	Total	Adjustments (*1)	Consolidated (*2)
Net sales:						
Outside customers	¥52,033	¥5,784	¥3,102	¥60,919	¥ —	¥60,919
Intersegment	3	3,541	441	3,985	(3,985)	—
Total	¥52,036	¥9,325	¥3,543	¥64,904	¥ (3,985)	¥60,919
Segment income	¥ 1,152	¥ 292	¥ 257	¥ 1,701	¥ 12	¥ 1,713
Segment assets	¥29,290	¥7,310	¥3,318	¥39,918	¥36,524	¥76,442
Other items:						
Depreciation and amortization	¥ 237	¥ 2	¥ 15	¥ 254	¥ —	¥ 254
Amortization of goodwill	34	—	—	34	—	34
Increase in tangible and intangible fixed assets	179	5	45	229	—	229

2013	Thousands of U.S. dollars					
	Construction	Equipment sales	Equipment manufacturing	Total	Adjustments (*1)	Consolidated (*2)
Net sales:						
Outside customers	**$613,100**	**$ 60,797**	**$31,281**	**$705,178**	**$ —**	**$705,178**
Intersegment	**53**	**46,880**	**4,625**	**51,558**	**(51,558)**	**—**
Total	**$613,153**	**$107,677**	**$35,906**	**$756,736**	**$ (51,558)**	**$705,178**
Segment income	**$ 15,502**	**$ 3,615**	**$ 2,329**	**$ 21,446**	**$ (0)**	**$ 21,446**
Segment assets	**$325,465**	**$ 82,765**	**$35,300**	**$443,530**	**$401,000**	**$844,530**
Other items						
Depreciation and amortization	**$ 2,499**	**$ 32**	**$ 223**	**$ 2,754**	**$ —**	**$ 2,754**
Amortization of goodwill	**362**	**—**	**—**	**362**	**—**	**362**
Increase in tangible and intangible fixed assets	**595**	**43**	**64**	**702**	**—**	**702**

(*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, 2013 and 2012 were ¥39,820 million ($423,392 thousand) and ¥38,521 million, respectively, mainly consisting of cash and cash equivalents, short-term investments, investment securities, etc. of the Company. Moreover, intersegment transaction eliminations included in the adjustments of segment assets as of March 31, 2013 and 2012 were ¥(2,106) million ($(22,392) thousand) and ¥(1,997) million, respectively.

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

(Related Information)

(1) Information by major customer for the years ended March 31, 2013 and 2012 was as follows:

2013 Name of customer	Net sales Millions of yen	Net sales Thousands of U.S. dollars	Related reportable segments
NTT FACILITIES, INC.	**¥10,222**	**$108,687**	Construction, Equipment sales, Equipment manufacturing
NIPPON TELEGRAPH AND TELEPHONE EAST CORPORATION	**¥ 8,267**	**$ 87,900**	Construction

2012 Name of customer	Net sales Millions of yen	Related reportable segments
NTT FACILITIES, INC.	¥9,876	Construction, Equipment sales, Equipment manufacturing
NIPPON TELEGRAPH AND TELEPHONE EAST CORPORATION	¥8,485	Construction

(2) Information about amortization and unamortized balance of goodwill by reportable segment as of and for the years ended March 31, 2013 and 2012 was as follows:

2013	Millions of yen				
	Construction	Equipment sales	Equipment manufacturing	Eliminations or Corporate	Total
Amortization of goodwill	**¥34**	**—**	**—**	**—**	**¥34**
Unamortized balance	**¥77**	**—**	**—**	**—**	**¥77**

2012	Millions of yen				
	Construction	Equipment sales	Equipment manufacturing	Eliminations or Corporate	Total
Amortization of goodwill	¥ 34	—	—	—	¥ 34
Unamortized balance	¥111	—	—	—	¥111

2013	Thousands of U.S. dollars				
	Construction	Equipment sales	Equipment manufacturing	Eliminations or Corporate	Total
Amortization of goodwill	**$362**	**—**	**—**	**—**	**$362**
Unamortized balance	**$819**	**—**	**—**	**—**	**$819**

(3) Information about gain on bargain purchase by reportable segment was as follows:
In equipment sales, Hibiya Tsushou Co., Ltd., the Company's consolidated subsidiary, acquired treasury stock during the year ended March 31, 2013. As a result, gain on bargain purchase of ¥129 million ($1,372 thousand) was recognized for the year ended March 31, 2013.

15. 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, 2013 and 2012 was as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	**2013**
Current assets	**¥32,831**	¥32,773	**$349,080**
Non-current assets	**14,043**	13,997	**149,314**
Current liabilities	**10,421**	11,474	**110,803**
Long-term liabilities	**2,828**	2,811	**30,069**
Net assets	**33,625**	32,485	**357,522**
Net sales	**50,528**	52,805	**537,246**
Income before income taxes	**1,309**	1,583	**13,918**
Net income	**778**	717	**8,272**

KPMG

Independent Auditor's Report

To the Board of Directors of Hibiya Engeineering, Ltd.

We have audited the accompanying consolidated financial statements of Hibiya Engeineering, Ltd. and its consolidated subsidiaries , which comprise the consolidated balance sheets as at March 31, 2013 and 2012, and the consolidated statements of income, statements of comprehensive income, statements of changes in net assets and statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material 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 Engeineering, Ltd.and its consolidated subsidiaries as at March 31, 2013 and 2012, 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, 2013 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 Note 1 to the consolidated financial statements.

KPMG AZSA LLC

July 31, 2013
Tokyo, Japan

Corporate Data

Investor Information

As of March 31, 2013

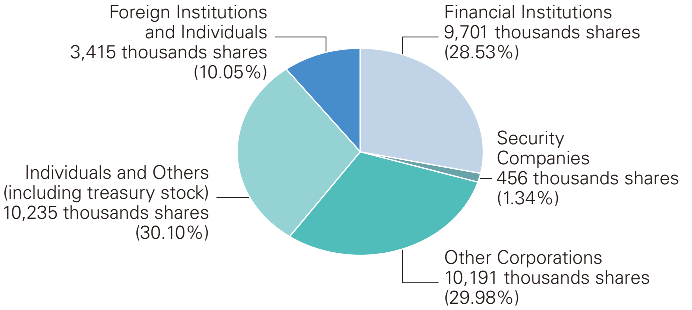
Total number of shares authorized	96,500,000 shares
Total number of shares issued	34,000,309 shares
Number of shareholders	3,043

Major Shareholders

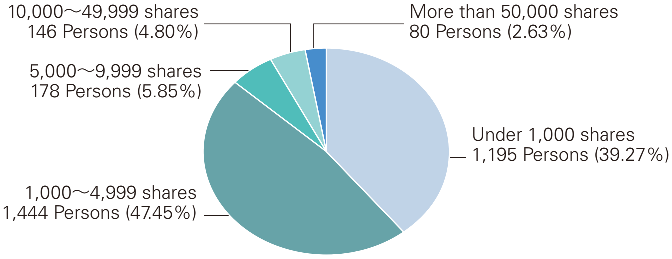
	Name of shareholders	Number of held thousands shares	Percentage of shares in issue(%)
1	Japan Trustee Services Bank, Ltd. (Trust account)	1,417	4.60
2	NTT Urban Development Co.	1,371	4.45
3	Hibiya Engineering Customer Stock Ownership Plan	1,126	3.65
4	The Master Trust Bank of Japan, Ltd. (Retirement benefit trust account, Hyakujushi Bank account)	900	2.92
5	Sumitomo Mitsui Banking Corporation	853	2.77
6	The Japan Telecommunications Welfare Associations	838	2.72
7	The Dai-ichi Mutual Life Insurance Company	818	2.65
8	CBNY DFA INTL SMALL CAP VALUE PORTFOLIO	709	2.3
9	Hibiya Engineering Employee Shareholding Association	681	2.21
10	Resona Bank, Limited	601	1.95

Notes
1) The list of major shareholders does not include 3,176,070 shares of treasury stock held by the Company.
2) The 3,176,070 shares of treasury stock held by the Company are not included in the calculation of the percentages of shares issued.

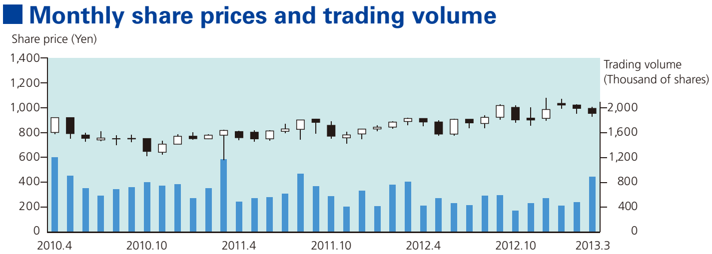
Share distribution by owner



Share distribution by size of holding



Monthly share prices and trading volume



Board of Directors

As of June 27, 2013

President and Representative Director	Haruki Nomura
Vice President and Representative Director	Shigeru Toyoda
Director	Morio Fukuki
Director	Hideo Noro
Director	Tetsuya Kamachi
Director	Masashi Shirasaki
Director	Keisuke Shimoda
Director	Shinichi Ito
Director	Takayuki Nohara
Director	Kensho Kusumi
Director	Hiroo Atsumi
Standing Corporate Auditor	Ken Yasuda
Auditor	Nobutoshi Kozuka
Auditor	Yoshinobu Yamaguchi
Auditor	Yuuji Tatsumura

Notes
1) Kensho Kusumi and Hiroo Atsumi are external directors under the terms of the Corporate Law Article 2 Section 15.
2) Ken Yasuda, Nobutoshi Kozuka and Yuuji Tatsumura 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 Ken Yasuda and Nobutoshi Kozuka are external corporate auditors.

Offices

As of March 31, 2013

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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

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