


ANNUAL REPORT 2011


Hibiya Engineering, Ltd.

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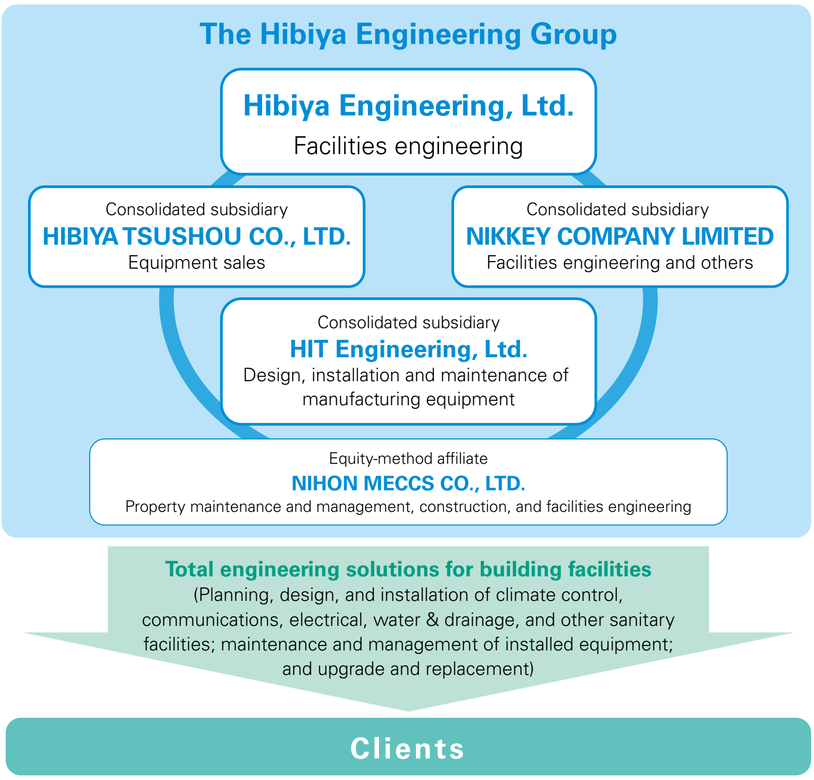
Projections and Perspectives:
This Annual Report includes projections and descriptions of prospects regarding future plans, strategies and the operating performance of the Company. Such descriptions are not based on past facts, but rather on perspectives judged to be appropriate in view of assumptions and management convictions on the strength of information available to the Company as of March 31, 2011. 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.

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, 2011

Consolidated Financial Highlights

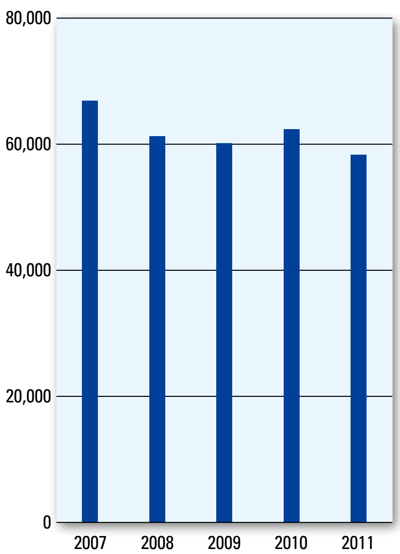
Hibiya Engineering, Ltd. and Consolidated Subsidiaries
Years ended March 31

	2007	2008	2009	2010	2011	2011
	Millions of yen					Thousands of U.S. dollars
Net Sales	¥66,898	¥61,222	¥60,159	¥62,379	**¥58,300**	**$701,143**
Net Income	1,356	904	1,407	2,441	**3,014**	**36,248**
Total Assets	81,034	75,086	71,771	74,632	**76,765**	**923,211**
Net Assets	54,465	52,290	49,267	51,998	**53,188**	**639,663**
	Yen					U.S. dollars
Per share:						
Net Assets	¥1,462.94	¥1,412.46	¥1,435.82	¥1,544.43	**¥1,609.71**	**$19.36**
Net Income	37.27	24.86	39.77	73.56	**92.93**	**1.12**
Cash Dividend (non-consolidated basis)	15.00	25.00	18.50	24.50	**31.50**	**0.38**

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, 2011, which was ¥83.15 to US$1.00.

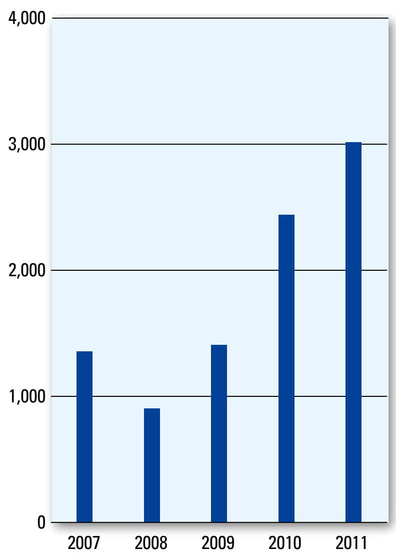
Net Sales

(¥ million)



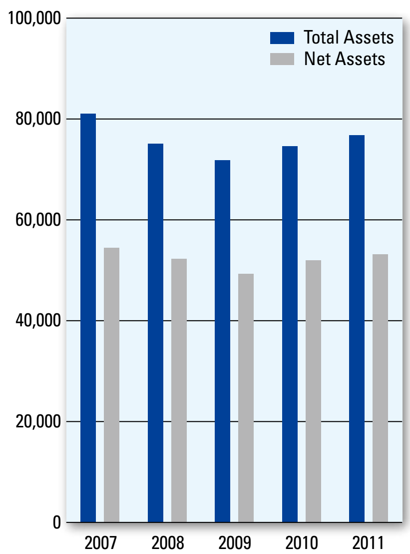
Net Income

(¥ million)



Total Assets & Net Assets

(¥ million)



More growth during the new medium-term plan where we are strongest by accurately targeting

Haruki Nomura
President and Representative Director

Earnings increased in the past fiscal year despite a challenging operating environment because of rigorous cost management and other measures to bolster profitability. ~Results of Operations~

I would like to begin my message by expressing my appreciation to shareholders and other investors for your support and understanding. In addition, I want to extend my heartfelt sympathies to the victims of the Great East Japan Earthquake of March 2011.

In 2010, there hopes for an economic recovery in Japan as the economy finally showed signs of an upturn following the so-called Lehman shock and Dubai shock. However, the outlook for the Japanese economy remained uncertain because of concerns about European currencies and the strength of the yen.

In Japan's construction industry, market conditions remained difficult in the private sector as the recovery in office building demand lost momentum and other signs of weakness emerged. In the public sector, governments are holding down public-works expenditures by using stricter standards for project approvals and taking other actions. As a result, Japan's construction market has been shrinking. Orders received from the NTT Group, which is our largest customer, continued as the replacement of HVAC systems with sophisticated multi-unit air-conditioning systems (MACS) and other projects offset the completion of most investments in NGN projects.

On a consolidated basis, orders received increased 4.5% to ¥59,280 million and sales decreased 6.5% to ¥58,300 million. Earnings improved as operating income increased 15.6% to ¥2,552 million and net income increased 23.5% to ¥3,014 million.

In the construction segment, sales decreased 8.2% to ¥48,920 million and operating income increased 4.0% to ¥1,873 million. In the equipment sales segment, sales decreased 8.2% to ¥6,221 million

in environmental solutions and other sectors market trends and customers' needs

and operating income was up 28.6% to ¥394 million. In the equipment manufacturing segment, sales rose 37.4% to ¥3,158 million and operating income was up 378.6% to ¥257 million.

On a non-consolidated basis, orders received increased 3.0% to ¥49,123 million but sales decreased 9.7% to ¥48,141 million. Operating income increased 3.6% to ¥1,864 million and net income increased 26.3% to ¥1,678 million.

Our performance in the past fiscal year in a difficult business climate was the result of numerous initiatives to become more profitable. Activities included a reexamination of many business processes and the strict oversight of costs. For business operations, we reinforced the Environmental Solutions Department to benefit from rising demand associated with the full enforcement of Japan's amended Law Concerning the Rational Use of Energy. This upgraded our ability to perform solution-based sales that begin with environmental consulting and diagnosis services or "energy visualization" services. In addition, we are using collaborative sales activities with the NTT Group to increase orders from the private and public sectors. In the past fiscal year, cooperation with NTT Facilities helped us capture a number of orders. One was an order for a public-private partnership (PPP) that involves outsourcing energy management operations at a Ministry of Foreign Affairs building.

To strengthen our group, HIT Engineering became a wholly owned subsidiary in June 2010 as part of our growth strategy of entering new business domains. In September 2010, we began participating in our first ESCO (energy service company) project. Furthermore, our Technology Research Center has started demonstration tests for solar thermal systems, a business sector with much growth potential.

The Hibiya Engineering Group has taken swift and extensive actions to help with reconstruction activities following the Great East Japan Earthquake in March 2011.

The most powerful earthquake ever recorded in Japan struck the Tohoku region at 2:46 on the afternoon of March 11, 2011. The magnitude 9.0 earthquake produced an enormous tsunami that caused severe and widespread damage along the coast of the Tohoku and Kanto regions.

Ten minutes after the earthquake hit, we formed a Disaster Response Headquarters that was supervised directly by me. We also set up an on-site emergency response unit at our Tohoku office. We collected information, worked on restoring business operations and took many other actions. The day after this disaster, about 10 employees of our head office and head office partner companies formed a group to transport equipment and materials to Sendai. The trucks we used were designated emergency vehicles. This was the beginning of our group's involvement in emergency repairs to NTT communications facilities and in other forms of assistance.

I visited the areas damaged by this disaster at the end of March. I was impressed at how highly motivated our employees were. Everyone had a strong sense of responsibility as well as pride regarding their participation in building and protecting the communication facilities that are a vital part of Japan's social infrastructure.

Reconstruction work was not limited to NTT Group communication facilities. We also received many requests for restoration work from Tohoku University and other schools as well as a diverse array of other companies and organizations. We responded to these requests as quickly as possible. Following this emergency assistance period, we established the Earthquake Recovery and Reconstruction Office within the Construction Management Division on May 1, 2011. This new unit is responsible for ensuring that we respond rapidly to the anticipated demand for repair and reconstruction work.

No buildings or facilities of the Hibiya Engineering Group were seriously damaged by the earthquake. Furthermore, there was no significant impact on our sales or earnings in the past fiscal year. But delays in the receipt of some large orders that we were expecting had a small negative effect on orders received.

Our Third Medium-term Management Plan, which covered four years, ended in March 2011 and we started the fourth medium-term plan the following month.

The past fiscal year was the final year of the four-year Third Medium-term Management Plan that we started in 2007. Rapid and dramatic changes in market conditions prevented us from achieving some numerical targets, such as sales and the number of customers. But there was progress with regard to entering new business fields and increasing earnings in our current businesses.

The Fourth Medium-term Management Plan is structured to build on the accomplishments of the previous plan. We incorporated concepts and strategies in this plan to make more headway regardless of economic conditions in building a strong foundation for our future.

In our core construction business, our primary objective is to increase the volume of business we receive from customers while preserving profitability. We will work aggressively to capture orders. When we accept projects with tight margins, we will closely supervise these projects while using value engineering and other cost-reduction methods to maximize earnings.

Another goal is to benefit from synergies created by the combination of new and established business operations. Our group will accurately identify major trends in order to enter business domains where we can fully leverage our strengths. We are determined to create many more opportunities for growth. Two examples are environmental engineering and the establishment of environments for data center operations.

To create another avenue for growth, we established the International Business Promotion Office in the head office Corporate Planning Department. Markets for our services are growing in emerging countries along with their economic expansion. The NTT Group and other companies of ours are pursuing global strategies. Feasibility studies and strategic planning for continuous overseas operations are two responsibilities of the new office. Providing assistance for individual overseas projects will be another role of this new unit.

The Hibiya Engineering Group includes three subsidiaries: Hibiya Tsushou, Nikkey and HIT Engineering. All companies are performing well in their respective market sectors. To improve the performance of our group as a whole, we are conducting extensive discussions about ways to generate more mutual synergies and produce other benefits. Activities include a meeting of company presidents that takes place about once each month.

In another addition to our organization, we formed an ICT Engineering Department at the Engineering Division of the head office in Tokyo. This department improves our ability to utilize information and communications technology (ICT) to devise proposals for customers in growing business domains. Creating this department enhances our ability to offer our customers solutions, too.

*See the special section about the medium-term management plan on page 6 for more information about this subject.

The operating environment will remain challenging due in part to uncertainty caused by the March 2011 earthquake. The Hibiya Engineering Group will continue to grow by leveraging strengths while identifying social needs and trends.

~Outlook for the Fiscal Year Ending in March 2012~

There is a significant risk of an economic downturn in Japan in the current fiscal year because of massive damage from the March 2011 earthquake. Electricity shortages and supply chain disruptions are two serious problems. Negative sentiment among companies and consumers is also holding back economic activity. As a result, a further contraction of the domestic market, a decline in

Japan's global competitive edge and other negative effects of the earthquake are expected.

In the construction industry, expenditures are expected to start increasing in the fiscal year's second half for reconstruction activities in earthquake-damaged areas. But the outlook also includes limited private-sector capital expenditures, falling public-works expenditures and more costly construction materials. Overall, conditions in the construction market will probably remain uncertain.

The Hibiya Engineering Group will draw in its aggregate strengths to assist with activities needed to recover from the unprecedented catastrophe that occurred in Japan last March. Communications facilities, a vital element of Japan's social infrastructure, will be a priority of ours. Our Disaster Reconstruction Promotion Office is taking the lead in making certain that we act quickly by working closely with members of the NTT Group.

In addition, the growing public awareness of the need to conserve energy, use less electricity and create business continuity plans is creating opportunities for us. We are determined to take the actions required to cater to all of these needs.

As I noted earlier, the fiscal year ending in March 2012 is the first year of the Fourth Medium-term Management Plan. During this three-year period, we will focus on fundamental strategies to make our strengths even more powerful. Our goal is to increase opportunities to capture orders from private-sector customers.

For consolidated performance, we forecast orders received of ¥67.0 billion, sales of ¥64.0 billion, operating income of ¥2.5 billion and net income of ¥2.4 billion. For non-consolidated performance, we forecast orders received of ¥54.7 billion, sales of ¥52.0 billion, operating income of ¥1.8 billion and net income of ¥1.2 billion.

Hibiya Engineering has a firm commitment to meeting the expectations of shareholders.

I want Hibiya Engineering to always be a company that is attractive to shareholders and other investors.

For the dividend payments, our policy has been to make payments equal to about 60% of non-consolidated net income, with a minimum annual dividend of ¥15 per share. Based on this policy, we paid a dividend of ¥31.50 per share for the fiscal year that ended in March 2011. This is the sum of an interim dividend of ¥7.50 and a year-end dividend of ¥24.00.

Repurchasing stock is another way that we return earnings to shareholders. In the past fiscal year, we purchased 695,900 shares at a cost of ¥523 million. As we have already announced, we plan to purchase up to 500,000 shares during the current fiscal year.

We have decided to change our dividend policy starting with the fiscal year ending in March 2012. This decision reflects our desire to increase the stability of earnings distributions to shareholders. Under the new policy, we have replaced the non-consolidated payout ratio with the consolidated net assets payout ratio (dividend on equity) as the basis for determining our dividend.

As the first year of our new medium-term plan, the current fiscal year will be a time to further upgrade our group's strengths and lay the groundwork for more growth. Our group has numerous capabilities and technologies that give us an edge in today's challenging operating environment. The soundness of our management is another key advantage. The Hibiya Engineering Group is dedicated to utilizing and refining these strengths in order to continue to meet the expectations of shareholders and other investors.

Haruki Nomura
President and Representative Director

A new medium-term management plan

Our Fourth Medium-term Management Plan, a three-year plan that goes from April 2011 to March 2014, builds on accomplishments of the third plan to establish a foundation for our next stage of growth.

1 Accomplishments of the Third Medium-term Management Plan

The Hibiya Engineering Group focused its resources on the Third Medium-term Management Plan during the four-year period that started in April 2007. Three strategic objectives were at the heart of this plan: business domain expansion, higher earnings in existing businesses, and the growth of new businesses.

We had to cope with a sharp downturn in market conditions during this plan because of the Lehman shock and other events. In our established business domains, we were unable to reach the plan's numerical targets. Orders and sales both fell short of our growth targets. But we did succeed in making significant progress regarding earnings. One reason was our aggressive use of solution-based sales activities and collaborative sales activities with the NTT Group. The volume of orders with a higher degree of added value increased as a result. Earnings benefited from extensive measures to cut costs, too.

We were unable to reach our goal for new businesses either. However, there was much progress with measures to lay the groundwork for growth in the future. The environmental solutions business expanded. We captured orders that use energy-conservation diagnosis technology by working with other companies and taking other actions. We upgraded our maintenance capabilities. There were initiatives for solar thermal systems and the wastewater treatment business. HIT Engineering, which has expertise

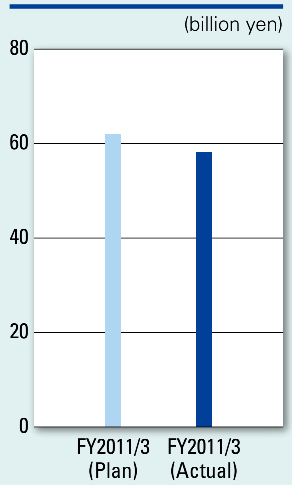
Results of the Third Medium-term Management Plan

(billion yen)

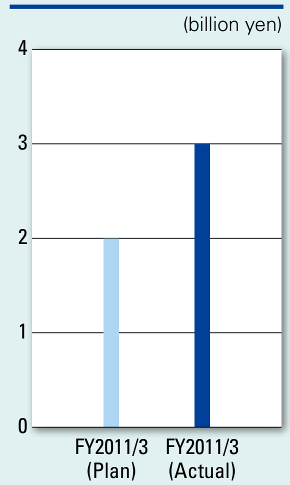
	Fiscal year ended March 2011	
	Plan*	Actual
Net Sales	62.0	58.3
Operating income	2.0	2.5
Ordinary income	3.2	4.2
Net income	2.0	3.0
Operating margin	3.2%	4.4%
ROE	4.0%	5.9%

*Figures of the plan are the numbers initially announced on 14 May 2010 for FY2011/3.

Net Sales



Net Income



to advance to the next stage of growth

March 2011 marked the completion of Hibiya Engineering's Third Medium-term Management Plan, which covered a period of four years. The following month, we embarked on our Fourth Medium-term Management Plan, a three-year plan that ends in March 2014. We currently face challenges posed by a difficult operating environment along with an uncertain outlook due to the Great East Japan Earthquake and other factors. Our goal is to earn a reputation among customers as the "best partner" by accurately targeting their needs as well as market trends. We believe this is the best way to make more headway toward a new phase of growth.

in the pharmaceuticals industry, became a wholly owned subsidiary. All in all, the past four years was a time of many achievements that will create new opportunities for the Hibiya Engineering Group.

Even during a challenging period when Japan's construction market contracted, we remained profitable during the Third Medium-term Management Plan while entering many business domains with excellent prospects for growth. This is why the completion of this plan is a major milestone for ongoing measures to generate renewed growth for the Hibiya Engineering Group.

2 The Fourth Medium-term Management Plan

The central objective of the Fourth Medium-term Management Plan is to increase orders received while transforming seeds of growth from the previous plan into actual growth. Accomplishments of the past plan form a powerful base for reaching this goal. Furthermore, our actions will be guided by the basic philosophy of the Hibiya Vision. We want to earn recognition among our customers as their "best partner." And we want to be a company that constantly takes on challenges involving new technologies and business fields.

Fundamental policy

Current businesses

Increase orders received while preserving profitability

- **Significant expansion of client base**
- **Build a business framework that produces the greatest possible amount of earnings**

New businesses

Achieve steady growth of newly launched businesses and seek more business opportunities

- **Capture synergies between new and current businesses**
- **Target more opportunities in new business domains and consider starting operations outside Japan**

Our primary strategy is to offer customers packages that combine many technologies (services). Solution-based sales that match our technologies with customers' needs are the starting point. We plan to use this approach to provide everything from diagnostic and consulting services to the installation and maintenance of various types of equipment.

Numerous mega-trends are emerging that present attractive opportunities. Examples include cloud computing[*1], smart cities[*2] and "green innovation" (businesses that use environmental technologies). The Hibiya Engineering Group will capitalize on these opportunities by leveraging technologies and other strengths to accurately meet customers' needs. We are targeting six priority domains: data centers, office buildings, production equipment, health care and welfare facilities, academic facilities, and U.S. military facilities. We are also focusing on three growing market sectors: smart city creation, health care and overseas operations.

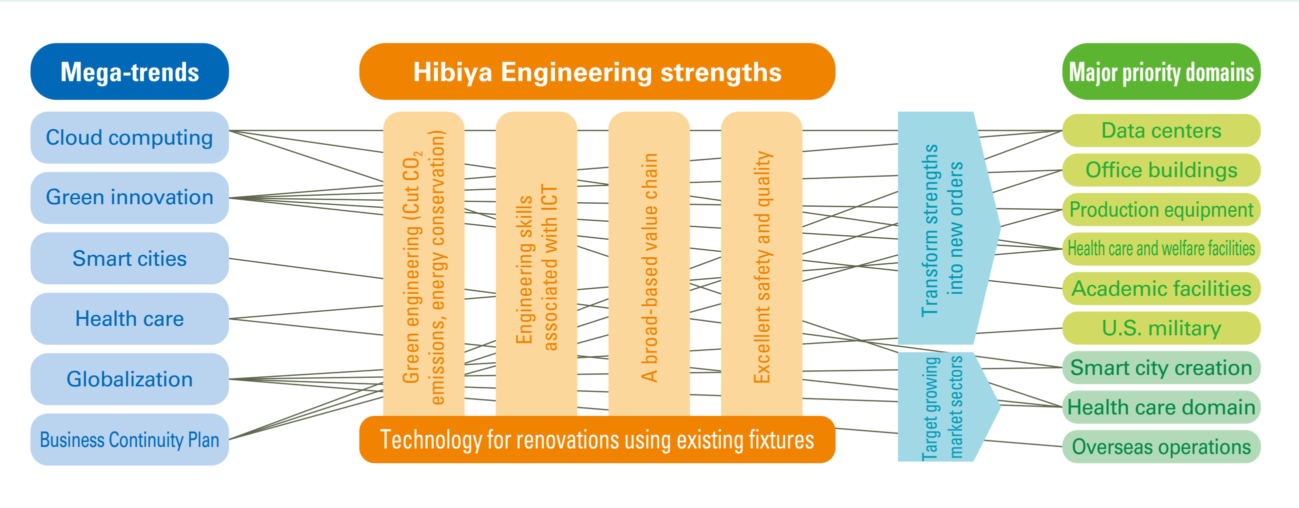
We are determined to take the Hibiya Engineering Group to a new stage of growth. Capturing synergies between new and current businesses will be a major contributor to this growth. Our plans also include driving growth by increasing the level of cooperation among group companies.

In the final year of this medium-term plan, which ends in March 2014, our goals are consolidated sales of at least ¥70 billion, at least ¥2.5 billion for operating income, ¥3.5 billion for ordinary income and ¥2.0 billion for net income, and an ROE of 4.5% or more.

*1 Cloud computing is a method for using computers that relies on the Internet and other networks.
*2 Smart cities are next-generation environmental cities with a minimal environmental impact due to the use of renewable energy like solar and wind power generation, smart grids and other advanced technologies.

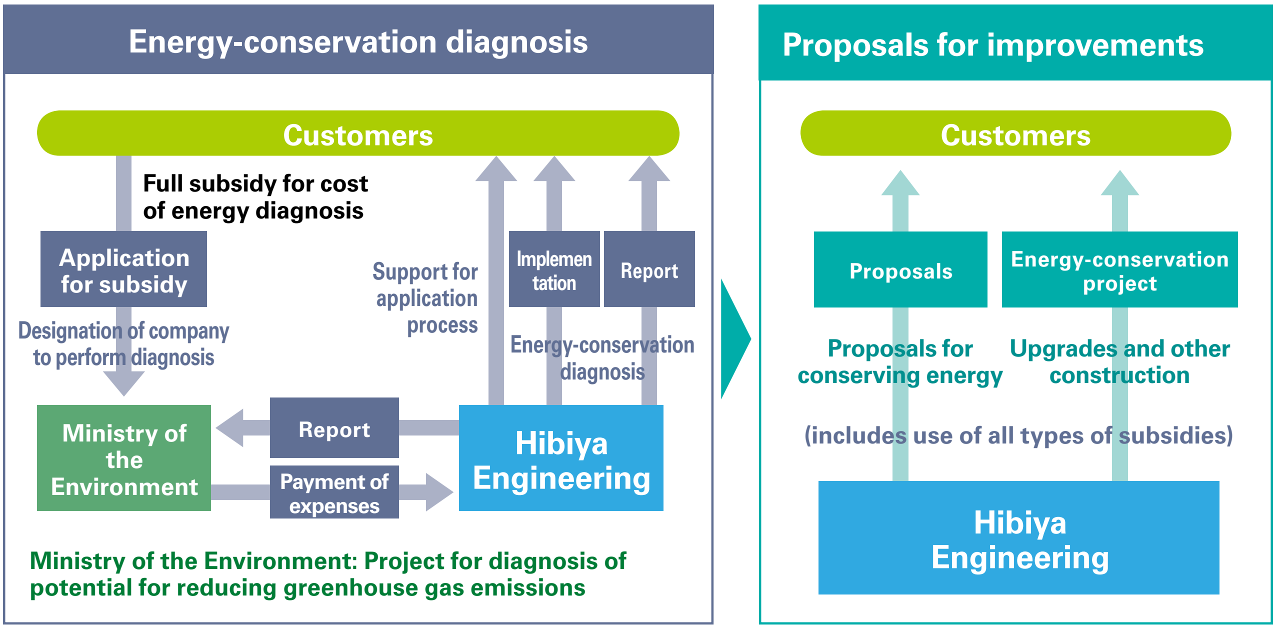
Fundamental strategies

- **Make more progress with solution-based sales that link customers' needs with Hibiya Engineering technologies and offer more packaged services that combine many technologies (services).**
- **Target major trends by leveraging Hibiya Engineering's strengths to focus on "six domains where these strengths can be translated into sales and earnings" and "three growing fields."**
- **Upgrade consulting sales skills, earn profits by making production activities more efficient and advanced, enhance safety and quality, refine the skills of employees and take other actions to build a stronger foundation for growth.**
- **Execute a financial strategy centered on even more stable profit distributions to shareholders and further improvements in the productive use of assets.**



TOPICS 1 Solutions Business Sales Activities in the Environmental Sector

Create opportunities to capture orders by using businesses that provide support for energy-conservation diagnoses



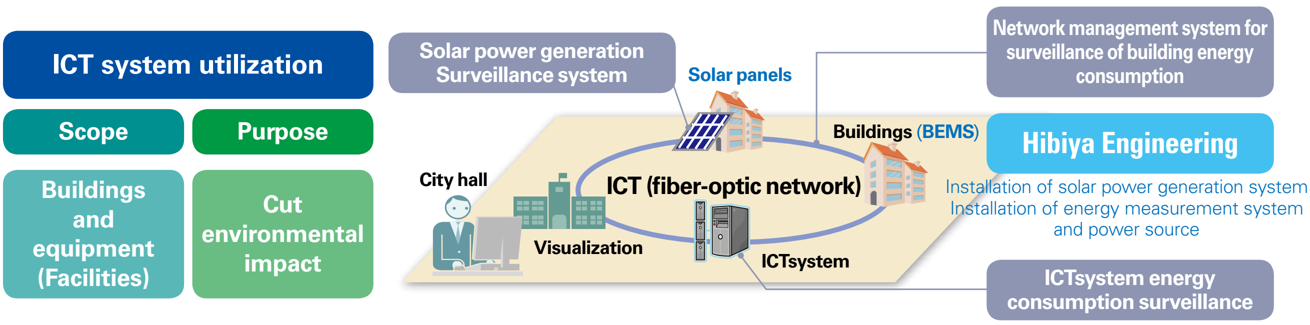
TOPICS 2 Collaboration with NTT for environmental impact reduction using ICT

Construction order for Kurihara Green Project of Ministry of Internal Affairs and Communications at city of Kurihara in Miyagi prefecture

The Kurihara Project is a demonstration test for “creating communities that use ICT to reduce the environmental burden.” Hibiya Engineering received an order from NTT Facilities, a member of the project consortium, for the installation of solar power generation equipment and other items.

Project consortium

Representative: Tohoku University Members: NTT East, NTT Facilities, Hitachi East Japan Solutions



Fiscal Year Major Project Completion

An Environmentally Responsible Training Center

NTT East Training Center Building 5

Building 5 of the NTT East Training Center is part of this company's renovation plan for the center. This project involved demolishing the existing building and replacing it with a six-story training structure that uses mainly prestressed concrete.

The building incorporates many advanced technologies for conserving energy. Examples include an "eco duct" that uses a stairway in an atrium, vegetation on the roof, see-through solar power generation, a light shelf, and trench geothermal heating and cooling that employs an existing trench for joint use. All these advances greatly reduce the building's environmental impact. Almost all interior spaces have movable soundproof partitions that can also be used as white boards and screens. The resulting flexibility to match a variety of training formats is a major feature of this innovative building.

Cool - Heat Pit
(Trench Geothermal Heating and Cooling)

The entire building uses an existing trench to take advantage of the stability of the underground temperature for cooling during the summer and heating during the winter. This reduces energy consumption by improving the efficiency of the building's HVAC system.

Eco Duct

A natural ventilation system that uses an atrium stairway allows heat to escape during the summer.

Training facility

NTT East Training Center Building 5

1. Chofu City, Tokyo
2. Training center
3. Air conditioning, plumbing and sanitation
4. 9,532 square meters
5. 6 floors
6. November 2010

Office building

Sumitomo Fudosan Iidabashi First Tower

1. Bunkyo-ku, Tokyo
2. Offices
3. Air conditioning, plumbing and sanitation
4. 78,398 square meters
5. 34 floors, 3 underground levels
6. April 2010

Office building

Next Site Yokohama Yamashita Building

1. Yokohama, Kanagawa Prefecture
2. Offices
3. Air conditioning, plumbing and sanitation, electrical systems
4. 6,125 square meters
5. 10 floors
6. June 2010

Photo: Nozomu Shimao, SS Tokyo Co., Ltd.

Office building

Toyosu Cubic Garden

1. Koto-ku, Tokyo
2. Offices
3. Air conditioning
4. 98,552 square meters
5. 14 floors, 1 underground level
6. March 2011

Hospital

Nagoya City West Medical Center

1. Nagoya, Aichi Prefecture
2. Hospital
3. Plumbing and sanitation
4. 43,000 square meters
5. 8 floors, 1 underground level
6. March 2011

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

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

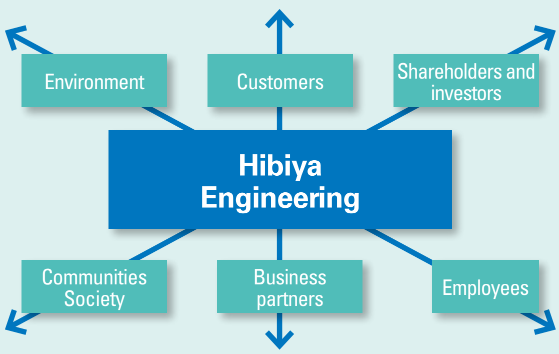
- We will develop environmental technologies.
- We will conduct environmental businesses.
- We will use our business activities to reduce our environmental impact.
- We will perform office environment protection activities, centered on the Challenge 25 Campaign.

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.



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 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.

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.

Corporate Governance

Hibiya Engineering is always working on improving its corporate governance to maintain a suitable and sound framework for business operations and an appropriate auditing system.

Board of Directors

The number of directors was increased by one in June 2011 in order to strengthen the management of the Hibiya Engineering Group. 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

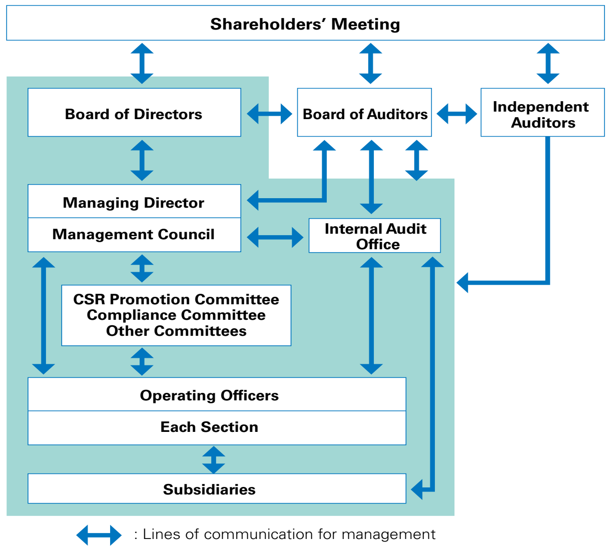
Corporate auditors perform audits with the two full-time staff members of the Internal Audit Office and other employees. Audits are conducted periodically to monitor the status of business operations, including at subsidiaries. Audit results are reported to the representative directors.

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.

Members of the Advisory Board (6)

- Individuals from outside the group: 2
- External directors: 2
- President and vice president of Hibiya Engineering



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.

FINANCIAL SECTION

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Overview

In the fiscal year ended March 31, 2011, there was a recovery in some sectors of the Japanese economy because of the government's emergency economic stimulus measures. The economic picture remained negative overall because of high unemployment, low personal income, the yen's strength and deflation. In addition, there are concerns about the impact of the Great East Japan Earthquake.

In the construction industry, the operating environment continued to be difficult. Government budget cuts reduced public-works investments and private-sector construction demand is soft as companies hold down capital expenditures.

Orders and sales

In this environment, the Hibiya Engineering Group conducted proposal-based solution sales in fields like energy conservation and strengthened cooperative ties with customers to capture and increase orders. Furthermore, to make current business operations more profitable, group companies continued to take steps to establish a construction system with higher productivity and to cut the cost of construction. There were also many initiatives to maintain and improve safety and quality, including the establishment of a training center that uses first-hand experience. Making Toyama Koei Co., Ltd. (now HIT Engineering, Ltd.) a subsidiary and other actions have further strengthened the group's business operations.

As a result, orders received increased 4.5% from the previous fiscal year to ¥59,280 million. Sales decreased 6.5% to ¥58,300 million.

Operating income

Actions taken to reduce costs and improve gross profit on completed construction contracts resulted in a 15.6% increase in operating income to ¥2,552 million.

Net income

Income taxes increased from ¥1,137 million to ¥1,215 million. Net income increased 23.5% to ¥3,014 million. Net income per share before dilution increased from ¥73.56 to ¥92.93 and diluted net income per share increased from ¥73.49 to ¥92.71.

Balance sheet and Cash flow

Balance sheets

Assets

Total assets increased ¥2,133 million from the end of the previous fiscal year to ¥76,765 million. This was the result of a ¥4,810 million increase in current assets to ¥43,627 million and a ¥2,677 million decrease in noncurrent assets to ¥33,138 million.

Major changes in current assets were increases of ¥2,132 million in cash and cash eqnivalents, ¥727 million in notes receivable, accounts receivable from completed construction contracts and other and ¥1,584 million in short-term investment securities.

The major change in noncurrent assets was a ¥2,451 million decrease in investment securities mainly because of the reclassification of some investment securities to current assets and a decline in unrealized capital gains.

Liabilities

Liabilities increased ¥943 million to ¥23,577 million. Advances received on uncompleted construction contracts decreased ¥497 million but there were increases of ¥570 million in notes payable, accounts payable for construction contracts and other, ¥352 million in income taxes payable and ¥438 million in the provision for loss on construction contracts.

Net assets

Net assets totaled ¥53,188 million at the end of the fiscal year mainly because valuation difference on available-for-sale securities decreased ¥646 million and net income of ¥3,014 million.

Return on equity

The return on equity, based on net income, increased from 5.0% to 5.9%.

Cash flows

Net cash provided by operating activities increased ¥518 million to ¥2,138 million. Cash was used by an increase in notes and accounts receivable-trade and a decrease in advances received on uncompleted construction contracts, but cash was provided by income before income taxes and minority interests of ¥4,376 million and an increase in notes and accounts payable-trade.

Net cash provided by investing activities increased ¥650 million to ¥1,337 million. The main reason was that proceeds from sales and redemptions of securities were greater than purchases of reinvestments and insurance funds.

Net cash used in financing activities increased ¥228 million to ¥1,343 million. This was attributable mainly to the purchase of treasury stock and cash dividend paid.

The result of these cash flows was a net increase of ¥2,132 million in cash and cash equivalents to ¥14,282 million at the end of the fiscal year.

Segment information

In the core construction segment, which accounted for 83.9% of consolidated sales, sales decreased 8.2% to

¥48,921 million and operating income increased 4.0% to ¥1,873 million.

In the equipment sales segment, sales decreased 8.2% to ¥6,221 million and operating income increased 28.6% to ¥395 million.

In the equipment manufacturing segment, sales increased 37.4% to ¥3,158 million and operating income increased 378.6% to ¥257 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, 2011.

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
Years ended March 31, 2011 and 2010

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2011	2010	**2011**
Assets			
Current assets:			
Cash and cash equivalents *(Note4)*	**¥14,282**	¥12,150	**$171,762**
Notes receivable, accounts receivable from completed construction contracts and other	**24,668**	23,941	**296,669**
Short-term investment securities *(Note 3)*	**2,135**	551	**25,676**
Costs on uncompleted construction contracts and other	**1,212**	1,213	**14,576**
Deferred tax assets *(Note 6)*	**1,115**	752	**13,410**
Other	**271**	246	**3,258**
Allowance for doubtful accounts	**(56)**	(36)	**(673)**
Total current assets	**43,627**	38,817	**524,678**
Property, plant and equipment:			
Buildings and structures	**1,388**	1,397	**16,693**
Land	**152**	156	**1,828**
Leased assets	**32**	23	**385**
Other	**886**	851	**10,655**
Total	**2,458**	2,427	**29,561**
Accumulated depreciation	**(1,866)**	(1,768)	**(22,441)**
Total property, plant and equipment	**592**	659	**7,120**
Intangible assets:			
Goodwill	**145**	—	**1,744**
Leased assets	**4**	7	**48**
Other	**483**	601	**5,809**
Total intangible assets	**632**	608	**7,601**
Investments and other assets:			
Investment securities *(Note 3)*	**24,174**	26,625	**290,727**
Long-term loans receivable	**34**	35	**409**
Insurance funds	**2,835**	2,944	**34,095**
Investments in silent partnership	**2,883**	2,924	**34,672**
Deferred tax assets *(Note 6)*	**649**	369	**7,805**
Other	**1,423**	1,803	**17,114**
Allowance for doubtful accounts	**(84)**	(152)	**(1,010)**
Total investments and other assets	**31,914**	34,548	**383,812**
Total assets	**¥76,765**	¥74,632	**$923,211**

See accompanying notes to consolidated financial statements.

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2011	2010	**2011**
Liabilities and Net Assets			
Current liabilities:			
Notes payable, accounts payable for construction contracts and other	**¥17,566**	¥16,996	**$211,257**
Bank loans *(Note 5)*	**780**	780	**9,381**
Lease obligations	**10**	8	**120**
Income taxes payable *(Note 6)*	**1,412**	1,060	**16,981**
Advances received on uncompleted construction contracts	**207**	704	**2,489**
Provision for bonuses	**1,113**	1,042	**13,385**
Provision for warranties for completed construction	**39**	38	**469**
Provision for loss on construction contracts	**789**	351	**9,489**
Other	**1,068**	945	**12,845**
Total current liabilities	**22,984**	21,924	**276,416**
Long-term liabilities:			
Lease obligations	**17**	19	**204**
Deferred tax liabilities *(Note 6)*	**20**	78	**241**
Provision for retirement benefits *(Note 8)*	**446**	439	**5,364**
Provision for directors' retirement benefits	**34**	39	**409**
Asset retirement obligations *(Note 13)*	**13**	—	**156**
Other	**63**	135	**758**
Total long-term liabilities	**593**	710	**7,132**
Net Assets			
Shareholders' equity *(Note10)*:			
Capital stock: Authorized – 96,500,000 shares in 2011 and 2010 Issued – 34,000,309 shares in 2011 and 2010	**5,753**	5,753	**69,188**
Capital surplus	**5,932**	5,932	**71,341**
Retained earnings	**40,233**	38,023	**483,860**
Treasury stock: 1,912,241 shares in 2011 and 1,241,815 shares in 2010	**(1,358)**	(854)	**(16,332)**
Total shareholders' equity	**50,560**	48,854	**608,057**
Accumulated other comprehensive income			
Valuation difference on available-for-sale securities	**1,093**	1,739	**13,145**
Total accumulated other comprehensive income	**1,093**	1,739	**13,145**
Subscription rights to shares	**57**	40	**686**
Minority interests	**1,478**	1,365	**17,775**
Total net assets	**53,188**	51,998	**639,663**
Total liabilities and net assets	**¥76,765**	¥74,632	**$923,211**

Consolidated Statements of Income

Hibiya Engineering, Ltd. and Consolidated Subsidiaries
Years ended March 31, 2011 and 2010

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2011	2010	**2011**
Net sales *(Note 15)*	**¥58,300**	¥62,379	**$701,143**
Cost of sales	**48,755**	53,384	**586,350**
Gross profit	**9,545**	8,995	**114,793**
Selling, general and administrative expenses *(Note 7)*	**6,993**	6,787	**84,101**
Operating income	**2,552**	2,208	**30,692**
Other income (Expenses):			
Interest and dividend income	**274**	270	**3,295**
Interest expenses	**(13)**	(16)	**(156)**
Equity in earnings of affiliates	**1,248**	1,058	**15,009**
Gain on sales of investment securities	**164**	—	**1,972**
Loss on valuation of investment securities	**(59)**	(94)	**(710)**
Other, net	**210**	184	**2,526**
Other income (Expenses) - net	**1,824**	1,402	**21,936**
Income before income taxes and minority interests	**4,376**	3,610	**52,628**
Income taxes *(Note 6)*:			
Income taxes-current	**1,531**	1,091	**18,412**
Income taxes-deferred	**(316)**	46	**(3,800)**
Total income taxes	**1,215**	1,137	**14,612**
Income before minority interests	**3,161**	2,473	**38,016**
Minority interests in income	**147**	32	**1,768**
Net income	**¥3,014**	¥2,441	**$36,248**

	Yen		U.S. dollars (Note 1)
Per share of common stock:	**2011**	2010	**2011**
Net assets per share	**¥1,609.71**	¥1,544.43	**$19.36**
Net income per share			
Basic	**92.93**	73.56	**1.12**
Diluted	**92.71**	73.49	**1.11**
Cash dividend *(Note 17)*	**31.50**	24.50	**0.38**

See accompanying notes to consolidated financial statements.

Consolidated Statements of Comprehensive Income

Hibiya Engineering, Ltd. and Consolidated Subsidiaries
Years ended March 31, 2011 and 2010

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2011	2010	**2011**
Income before minority interests	**¥3,161**	¥2,473	**$38,016**
Other comprehensive income			
Valuation difference on available-for-sale securities	**(590)**	1,282	**(7,096)**
Share of other comprehensive income of associates accounted for by using equity method	**(83)**	48	**(998)**
Total other comprehensive income	**(673)**	1,330	**(8,094)**
Comprehensive income	**2,488**	3,803	**29,922**
Comprehensive income attributable to			
Comprehensive income attributable to owners of the parent	**2,368**	3,744	**28,479**
Comprehensive income attributable to minority interests	**120**	59	**1,443**

See accompanying notes to consolidated financial statements.

Consolidated Statements of Changes in Net Assets

Hibiya Engineering, Ltd. and Consolidated Subsidiaries
Years ended March 31, 2011 and 2010

	Number of shares of common stock	Capital stock (Note 10)	Legal capital surplus (Note 10)	Retained earnings (Note 10)	Treasury stock	Valuation difference on available-for-sale securities	Subscription rights to shares	Minority interests	Total net assets
	(shares)	Millions of yen							
Balance at March 31, 2009	34,000,309	¥5,753	¥5,932	¥36,202	¥(368)	¥ 436	¥—	¥1,312	¥49,267
Net income	—	—	—	2,441	—	—	—	—	2,441
Dividend from surplus	—	—	—	(620)	—	—	—	—	(620)
Purchase of treasury stock	—	—	—	—	(486)	—	—	—	(486)
Disposal of treasury stock	—	—	—	(0)	0	—	—	—	0
Net changes of items other than shareholders' equity	—	—	—	—	—	1,303	40	53	1,396
Balance at March 31, 2010	34,000,309	¥5,753	¥5,932	¥38,023	¥(854)	¥1,739	¥40	¥1,365	¥51,998
Cumulative effect of changes in accounting policies	—	—	—	2	—	—	—	—	2
Net income	—	—	—	3,014	—	—	—	—	3,014
Dividend from surplus	—	—	—	(804)	—	—	—	—	(804)
Purchase of treasury stock	—	—	—	—	(525)	—	—	—	(525)
Disposal of treasury stock	—	—	—	(2)	21	—	—	—	19
Net changes of items other than shareholders' equity	—	—	—	—	—	(646)	17	113	(516)
Balance at March 31, 2011	**34,000,309**	**¥5,753**	**¥5,932**	**¥40,233**	**¥(1,358)**	**¥1,093**	**¥57**	**¥1,478**	**¥53,188**

	Capital stock (Note 10)	Legal capital surplus (Note 10)	Retained earnings (Note 10)	Treasury stock	Valuation difference on available-for-sale securities	Subscription rights to shares	Minority interests	Total net assets
	Thousands of U.S. dollars (Note 1)							
Balance at March 31, 2010	$69,188	$71,341	$457,282	$(10,271)	$20,914	$481	$16,416	$625,351
Cumulative effect of changes in accounting policies	—	—	24	—	—	—	—	24
Net income	—	—	36,248	—	—	—	—	36,248
Dividend from surplus	—	—	(9,670)	—	—	—	—	(9,670)
Purchase of treasury stock	—	—	—	(6,314)	—	—	—	(6,314)
Disposal of treasury stock	—	—	(24)	253	—	—	—	229
Net changes of items other than shareholders' equity	—	—	—	—	(7,769)	205	1,359	(6,205)
Balance at March 31, 2011	**$69,188**	**$71,341**	**$483,860**	**$(16,332)**	**$13,145**	**$686**	**$17,775**	**$639,663**

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Hibiya Engineering, Ltd. and Consolidated Subsidiaries
Years ended March 31, 2011 and 2010

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2011	2010	**2011**
Net cash provided by (used in) operating activities			
Income before income taxes and minority interests	**¥4,376**	¥3,610	**$52,628**
Depreciation and amortization	**285**	270	**3,428**
Impairment loss	**—**	35	**—**
Amortization of goodwill	**26**	—	**313**
Increase (decrease) in allowance for doubtful accounts	**(49)**	(105)	**(589)**
Increase (decrease) in provision for retirement benefits	**8**	(33)	**96**
Increase (decrease) in provision for directors' retirement benefits	**(5)**	(86)	**(60)**
Increase (decrease) in provision for bonuses	**71**	(90)	**854**
Increase (decrease) in provision for warranties for completed construction	**1**	3	**12**
Increase (decrease) in provision for loss on construction contracts	**438**	278	**5,268**
Interest and dividend income	**(274)**	(270)	**(3,295)**
Interest expenses	**13**	16	**156**
Loss (gain) on sales of investment securities	**(164)**	—	**(1,972)**
Loss (gain) on valuation of investment securities	**59**	94	**710**
Equity in (earnings) losses of affiliates	**(1,248)**	(1,058)	**(15,009)**
Decrease (increase) in notes and accounts receivable	**(626)**	(3,266)	**(7,529)**
Decrease (increase) in costs on uncompleted construction contracts	**200**	2,453	**2,405**
Increase (decrease) in notes and accounts payable	**436**	(154)	**5,244**
Increase (decrease) in advances received on uncompleted construction contracts	**(740)**	(568)	**(8,900)**
Other, net	**235**	1,260	**2,824**
Subtotal	**3,042**	2,389	**36,584**
Interest and dividend income received	**291**	284	**3,500**
Interest expenses paid	**(13)**	(16)	**(156)**
Income taxes paid	**(1,182)**	(1,037)	**(14,215)**
Net cash provided by (used in) operating activities	**2,138**	1,620	**25,713**
Net cash provided by (used in) investing activities			
Payments into time deposits	**—**	(500)	**—**
Proceeds from withdrawal of time deposits	**300**	500	**3,608**
Purchase of short-term investment securities	**—**	(500)	**—**
Proceeds from sales of short-term investment securities	**—**	18	**—**
Proceeds from redemption of securities	**—**	2,100	**—**
Purchase of property, plant and equipment	**(71)**	(100)	**(854)**
Purchase of intangible assets	**(28)**	(155)	**(337)**
Purchase of investment securities	**(610)**	(1,732)	**(7,336)**
Proceeds from sales of investment securities	**813**	54	**9,778**
Proceeds from redemption of investment securities	**851**	800	**10,235**
Purchase of insurance funds	**(120)**	(191)	**(1,443)**
Proceeds from maturity of insurance funds	**198**	261	**2,381**
Proceeds from withdrawal of investments in silent partnership	**41**	76	**493**
Purchase of investments in subsidiaries resulting in change in scope of consolidation	**(103)**	—	**(1,239)**
Other, net	**66**	56	**793**
Net cash provided by (used in) investing activities	**1,337**	687	**16,079**
Net cash provided by (used in) financing activities			
Purchase of treasury stock	**(525)**	(483)	**(6,314)**
Proceeds from disposal of treasury stock	**1**	0	**12**
Cash dividend paid	**(804)**	(620)	**(9,670)**
Cash dividend paid to minority shareholders	**(6)**	(6)	**(72)**
Other, net	**(9)**	(6)	**(108)**
Net cash provided by (used in) financing activities	**(1,343)**	(1,115)	**(16,152)**
Net increase (decrease) in cash and cash equivalents	**2,132**	1,192	**25,640**
Cash and cash equivalents at beginning of period	**12,150**	10,958	**146,122**
Cash and cash equivalents at end of period	**¥14,282**	¥12,150	**$171,762**

See accompanying notes to consolidated financial statements

1. Basis of presenting consolidated financial statements

The accompanying consolidated financial statements have been prepared in accordance with the provisions set forth in the Financial Instruments and Exchange Law 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 Law. 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, 2011, which was ¥83.15 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.

In addition, certain reclassifications have been made in the 2010 financial statements to conform to the classification used in 2011.

2. Summary of significant accounting policies

(1) Consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries, "HIBIYA TSUSHOU CO., LTD.", "NIKKEY COMPANY LIMITED" and "HIT Engineering, Ltd.". All significant inter-company balances and transactions are eliminated in consolidation.

HIT Engineering, Ltd. has been consolidated since 2011. The difference between the acquisition cost and the underlying net assets of investment in the subsidiary is recognized as "Goodwill" and is included in the intangible assets account. Goodwill is amortized on a straight-line basis over a period of 5 years.

Investments in two affiliates are accounted for by the equity method. Investments in the other affiliates, whose income or losses are not significant for the Company's equity, are carried at cost. Negative goodwill which is recognized in applying the equity method is amortized over a period of 3 years on a straight-line basis. Amortization of negative goodwill which is recognized in applying the equity method is ¥332 million ($3,993 thousand) for the year ended March 31, 2011. The balance of negative goodwill which is recognized in applying the equity method amounts to ¥332 million ($3,993 thousand) at March 31, 2011.

Effective April 1, 2010, the Company adopted "Accounting Standard for Equity Method of Accounting for Investments" (Accounting Standards Board of Japan (the "ASBJ") Statement No.16 issued on March 10, 2008), and "Practical Solution on Unification of Accounting Policies Applied to Associates Accounted for Using the Equity Method" (ASBJ Practical Issues Task Force No.24 issued on March 10, 2008). As a result, operating income and income before income taxes and minority interests increased by ¥1 million ($12 thousand).

(2) Securities

The Company and its consolidated subsidiaries (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 market value are stated at fair market 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 moving-average method. Realized gain or loss on sale of such securities is 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 warranties for completed construction

Provision for warranties for completed contracts is provided for estimated compensation costs for claims on completed contracts at an amount calculated based on past experience with adjustments for future forecast.

(6) Provision for loss on construction contracts

Provision for loss on construction contracts is provided in amounts 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 estimated.

(7) Construction contracts

Revenues and costs of construction contracts that commenced on or after April 1, 2009, of which the percentage of completion 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 amount is ¥100 million or more, schedule is more 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.

(8) Costs on uncompleted construction contracts and other

Costs on uncompleted contraction contracts are stated at cost using the specific identification cost method. Inventories for the consolidated subsidiaries are stated at cost using the specific identification method (amounts shown on Balance Sheets are lower than book value due to decline in profitability).

(9) 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 zero 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.

(10) Provision for retirement benefits

The Companies provide 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.

Unrecognized prior service costs are amortized based on the straight-line method over the average of the estimated remaining service lives of 10 years from the year in which they arise.

Actuarial differences are recognized in income or expense using the straight-line method over the average of the estimated remaining service lives of 10 years commencing from the year in which they arise.

Effective January 1, 2011, the Company transferred the tax qualified pension plan to the defined benefit pension plan, having adopted "Accounting for the Transfer between Retirement Benefit Plans" (ASBJ Guidance No. 1 issued on January 31, 2002).

As a result, operating income and income before income taxes and minority interests increased by ¥4 million ($48 thousand).

(11) Provision for directors' retirement benefits

Provision for directors' retirement benefits is provided at an amount required to be paid in accordance with the internal rules had all the Company's consolidated subsidiaries' directors retire as of the balance sheet date.

(12) Cash flow statement and cash and cash equivalents

In preparing the consolidated statements of cash flows, cash on hand, readily-available deposits and short-term highly liquid investments with maturities within three months from the time of purchase and with insignificant risk of change in value are considered to be cash and cash equivalents.

(13) 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.

(14) Amounts per share

Net income per share is calculated by dividing net income available to common shares by the weighted average number of common shares outstanding during the year.

Cash dividend per share presented in the Consolidated Statements of Income are dividend applicable to the respective years including dividend to be paid after the end of the year.

(15) Derivatives

The Companies state derivative financial instruments at fair value and recognize changes in the fair value as gains or losses. At March 31, 2011 and 2010, the Companies did not hold derivative financial instruments.

(16) Changes in significant accounting policies

(a) Application of the accounting standard for asset retirement obligations

Effective April 1, 2010, the Companies and its consolidated subsidiaries adopted "Accounting Standards for Asset Retirement Obligations" (ASBJ Statement No.18 issued on March 31, 2008) and "Guidance on Accounting Standards for Asset Retirement Obligations" (ASBJ Guidance No. 21, issued on March 31, 2008).

As a result, operating income and income before income taxes and minority interests decreased by ¥13 million ($156 thousand) for the fiscal year ended March 31, 2011.

(b) Application of the accounting standard for business combinations and related standards

Effective April 1, 2010, the Companies adopted the "Accounting Standard for Business Combinations" (ASBJ Statement No.21 issued on December 26, 2008), "Accounting Standard for Consolidated Financial Statements" (ASBJ Statement No.22 issued on December 26, 2008), "Partial Amendments to the Accounting Standard for Research and Development Costs" (ASBJ Statement No.23 issued on December 26, 2008) , "Accounting Standard for Business Divestitures" (ASBJ Statement No.7 issued on December 26, 2008), "Accounting standard for Equity Method of Accounting for Investments" (ASBJ Statement No.16 issued on December 26, 2008), and "Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures" (ASBJ Guidance No.10 issued on December 26, 2008).

Changing the evaluation method of subsidiaries' assets and liabilities from the partial fair value evaluation method to the full fair value evaluation method by the application of "Accounting Standard for Consolidated Financial Statements" (ASBJ Statement No.22 issued on December 26, 2008) has had no effect on the consolidated statement of income for 2011.

(17) Changes in the method of presentation

Effective from the fiscal year ended March 31, 2011, "Accounting Standard for Consolidated Financial Statements" (ASBJ Statement No.22 issued on December 26, 2008) and "Cabinet Office Ordinance for Partial Amendment of the Regulation for Terminology, Forms and Preparation of Consolidated Financial Statements" (Cabinet Office Ordinance No.5 issued on March 24, 2009) have been applied. As a result, a new line item has been presented on the consolidated statements of income as "income before minority interests."

(18) Additional information

Effective March 31, 2011, the Company adopted "Accounting Standard for Presentation of Comprehensive Income" (ASBJ Statement No. 25 on June 30, 2010) and "Revised Accounting Standard for Consolidated Financial Statements" (ASBJ Statement No. 22, revised on June 20, 2010).

As a result, the Company has presented the consolidated statement of comprehensive income in the consolidated financial statements for the fiscal year ended March 31, 2010 as well as that for the fiscal year ended March 31, 2011.

In addition, the amount of "Accumulated other comprehensive income" and "Total accumulated other comprehensive income" for the previous fiscal year are included in "Valuation and transaction adjustments" and "Total valuation and transaction adjustments".

3. Securities

(1) At March 31, 2011 and 2010, book value (fair value) and acquisition cost of available-for-sale securities with available fair values were as follows:

(a) Available-for-sale securities

	Millions of yen		
	2011		
	Book value	Acquisition cost	Difference
Securities with book value (fair value) exceeding acquisition cost:			
Equity securities	**¥4,094**	**¥2,389**	**¥1,705**
Debt securities			
Government bonds	**—**	**—**	**—**
Corporate bonds	**1,003**	**1,000**	**3**
Other bonds	**2,815**	**2,345**	**470**
Other	**112**	**103**	**9**
Total	**¥8,024**	**¥5,837**	**¥2,187**
Securities with book value (fair value) not exceeding acquisition cost:			
Equity securities	**¥1,374**	**¥1,610**	**¥(236)**
Debt securities			
Government bonds	**—**	**—**	**—**
Corporate bonds	**—**	**—**	**—**
Other bonds	**707**	**710**	**(3)**
Other	**168**	**202**	**(34)**
Total	**¥2,249**	**¥2,522**	**¥(273)**

	Millions of yen		
	2010		
	Book value	Acquisition cost	Difference
Securities with book value (fair value) exceeding acquisition cost:			
Equity securities	¥5,715	¥3,209	¥2,506
Debt securities			
Government bonds	—	—	—
Corporate bonds	500	500	0
Other bonds	3,377	2,846	531
Other	117	102	15
Total	¥9,709	¥6,657	¥3,052
Securities with book value (fair value) not exceeding acquisition cost:			
Equity securities	¥1,238	¥1,362	¥(124)
Debt securities			
Government bonds	—	—	—
Corporate bonds	—	—	—
Other bonds	1,052	1,061	(9)
Other	186	216	(30)
Total	¥2,476	¥2,639	¥(163)

	Thousands of U.S. dollars		
	2011		
	Book value	Acquisition cost	Difference
Securities with book value (fair value) exceeding acquisition cost:			
Equity securities	**$49,236**	**$28,731**	**$20,505**
Debt securities			
Government bonds	**—**	**—**	**—**
Corporate bonds	**12,063**	**12,026**	**37**
Other bonds	**33,854**	**28,202**	**5,652**
Other	**1,347**	**1,239**	**108**
Total	**$96,500**	**$70,198**	**$26,302**

	Book value	Acquisition cost	Difference
Securities with book value (fair value) not exceeding acquisition cost:			
Equity securities	**$16,524**	**$19,363**	**$(2,839)**
Debt securities			
Government bonds	**—**	**—**	**—**
Corporate bonds	**—**	**—**	**—**
Other bonds	**8,503**	**8,539**	**(36)**
Other	**2,021**	**2,429**	**(408)**
Total	**$27,048**	**$30,331**	**$(3,283)**

(2) At March 31, 2011 and 2010, book values of available-for-sale securities with no available fair values were as follows:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	**2011**
Unlisted equity securities	**¥1,524**	¥1,524	**$18,328**
Other	**—**	—	**—**
Total	**¥1,524**	¥1,524	**$18,328**

(3) Proceeds from sales, and gross realized gains and losses from the sale of available-for-sale securities for the years ended March 31, 2011 and 2010 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	**2011**
Proceeds from sales			
Equity securities	**¥708**	¥24	**$8,515**
Debt securities			
Government bonds	**—**	—	**—**
Corporate bonds	**—**	—	**—**
Other	**105**	48	**1,263**
Total	**¥813**	¥72	**$9,778**
Gross realized gains			
Equity securities	**¥166**	¥ 1	**$1,996**
Debt securities			
Government bonds	**—**	—	**—**
Corporate bonds	**—**	—	**—**
Other	**6**	5	**72**
Total	**¥172**	¥ 6	**$2,068**
Gross realized losses			
Equity securities	**¥ 8**	¥ 2	**$ 96**
Debt securities			
Government bonds	**—**	—	**—**
Corporate bonds	**—**	—	**—**
Other	**—**	2	**—**
Total	**¥ 8**	¥ 4	**$ 96**

(4) Securities with impairment losses
Impairment losses of ¥59 million ($710 thousand) were recognized for available-for –sale securities during the year ended March 31, 2011.

For available-for –sale securities with available fair values, impairment losses were recognized if the fair market value declined more than 30% below the acquisition cost. For available-for –sale securities with no available fair values, impairment losses were recognized if the net assets per share declined more than 50% below the acquisition cost per share.

(5) Investments in affiliates
The amount of Investments in unconsolidated subsidiaries and affiliates is ¥14,512 million ($174,528 thousand) and ¥13,467 million at March 31, 2011 and 2010 respectively.

4. Financial instruments

Information on financial instruments for the year ended March 31, 2011 and 2010 is as follows:

(1) Policy for financial instruments

Cash surplus from cash and cash equivalents after deduction of operating funds, business investments and policy investments are invested.

The Companies have no intention to use derivatives for dealing or speculative purpose.

The consolidated subsidiaries have entered into overdraft contract for efficient procurement of working capital.

(2) Financial product content and risks

Notes receivable, accounts receivable from completed construction contracts and other are exposed to customer credit risk.

The Companies have short-term investment securities, investment securities and other investments for mainly 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 consolidated subsidiaries borrow are exposed to the risk that interest rate may rise in future.

(3) Risk management for financial instruments

Credit risk management

The Companies manage the credit risk by business administrative regulations regarding trade receivables. When the Companies start having dealings with a customer, the Companies analyze the customer's credit information and when an order is accepted, the deal is approved by the order discussion committee as occasion deems. The condition of each customer is constantly monitored to reduce risk of customer's default. The consolidated subsidiary conducts similar management.

As the Companies invest only higher bond rated securities, the Companies believe that the credit risk related to securities is insignificant.

Market risks management

The investments in securities are performed in accordance with the investment management policy on the basis of safety. The companies manage risk by reporting the market price and transaction results on a monthly basis, and reporting the condition of the risk and the result of investing to a business meeting on a quarterly basis. In consideration of relationships with suppliers, the Companies continually review investments other than bonds with maturities.

Supplemental information on the fair value of financial instruments

The Companies calculate the fair value of financial instruments based on market prices, or by using reasonable estimates when market prices are not available. These estimates include variable factors, and are subject to fluctuation due to changes in the underlying assumptions.

(4) Fair values of financial instruments

At March 31, 2011, book values and fair values were as follows: Fair values that were difficult to be determined are not included in the following table.

	Millions of yen		
	2011		
	Book value	Fair value	Difference
(1) Cash and cash equivalents	**¥14,282**	**¥14,282**	**¥—**
(2) Notes receivable, accounts receivable from completed construction contracts and other	**24,668**	**24,668**	**—**
(3) Short-term investment securities and investment securities	**10,273**	**10,273**	**—**
(4) Long-term deposits	**500**	**505**	**5**
Total	**¥49,723**	**¥49,728**	**¥ 5**
(1) Notes payable, accounts payable for construction contracts and other	**¥17,566**	**¥17,566**	**¥—**
(2) Bank loans	**780**	**780**	**—**
Total	**¥18,346**	**¥18,346**	**¥—**

	Millions of yen		
	2010		
	Book value	Fair value	Difference
(1) Cash and cash equivalents	¥12,150	¥12,150	¥—
(2) Notes receivable, accounts receivable from completed construction contracts and other	23,941	23,941	—
(3) Short-term investment securities and investment securities	12,185	12,185	—
(4) Long-term deposits	800	818	18
Total	¥49,076	¥49,094	¥18
(1) Notes payable, accounts payable for construction contracts and other	¥16,996	¥16,996	¥—
(2) Bank loans	780	780	—
Total	¥17,776	¥17,776	¥—

	Thousands of U.S. dollars		
	2011		
	Book value	Fair value	Difference
(1) Cash and cash equivalents	**$171,762**	**$171,762**	**$ —**
(2) Notes receivable, accounts receivable from completed construction contracts and other	**296,669**	**296,669**	**—**
(3) Short-term investment securities and investment securities	**123,548**	**123,548**	**—**
(4) Long-term deposits	**6,013**	**6,073**	**60**
Total	**$597,992**	**$598,052**	**$60**
(1) Notes payable, accounts payable for construction contracts and other	**$211,257**	**$211,257**	**$ —**
(2) Bank loans	**9,381**	**9,381**	**—**
Total	**$220,638**	**$220,638**	**$ —**

Note 1: Method for calculating the fair value of financial instruments, short-term investments in securities

Assets:

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

Book value is used for fair value for these short-term items because these amounts are essentially the same.

(3) Short-term investment securities and investment securities

Market prices on exchanges are used for the fair value of equity securities. Prices quoted by financial institutions are used the fair value of bonds.

(4) Long-term deposits

The fair values of Long-term deposits are estimated by discounted cash flow analysis, using rates currently available for similar types of deposits with similar terms and remaining maturities.

Liabilities:

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

Book value is used for fair value for these short-term items because these amounts are essentially the same.

Note 2: Fair values that were difficult to be determined were as follows:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	**2011**
	Book value	Book value	Book value
Unlisted equity securities	**¥16,036**	¥14,991	**$192,856**
Investments in silent partnership	**2,883**	2,924	**34,672**

These items are not included in "(3) Short-term investment securities and investment securities" because their fair values were difficult to be determined.

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

	Millions of yen			
	2011			
	Within one year	Over one year but within five years	Over five years but within ten years	Over ten years
Cash and cash equivalents	**¥14,282**	**¥ —**	**¥—**	**¥—**
Notes receivable, accounts receivable from completed construction contracts and other	**24,668**	**—**	**—**	**—**
Short-term investment securities and investment securities				
Securities with maturity:				
(1) Government bonds	**—**	**—**	**—**	**—**
(2) Corporate bonds	**—**	**1,003**	**—**	**—**
(3) Other bonds	**2,135**	**1,388**	**—**	**—**
Investments in silent partnership	**—**	**2,883**	**—**	**—**
Long-term deposits	**—**	**500**	**—**	**—**
Total	**¥41,085**	**¥5,774**	**¥—**	**¥—**

	Millions of yen			
	2010			
	Within one year	Over one year but within five years	Over five years but within ten years	Over ten years
Cash and cash equivalents	¥12,150	¥ —	¥ —	¥ —
Notes receivable, accounts receivable from completed construction contracts and other	23,941	—	—	—
Short-term investment securities and investment securities				
Securities with maturity:				
(1) Government bonds	—	—	—	—
(2) Corporate bonds	—	500	—	—
(3) Other bonds	551	3,577	300	—
Investments in silent partnership	—	2,924	—	—
Long-term deposits	—	800	—	—
Total	¥36,642	¥7,801	¥300	¥ —

	Thousands of U.S. dollars			
	2011			
	Within one year	Over one year but within five years	Over five years but within ten years	Over ten years
Cash and cash equivalents	**$171,762**	**$ —**	**$—**	**$—**
Notes receivable, accounts receivable from completed construction contracts and other	**296,669**	**—**	**—**	**—**
Short-term investment securities and investment securities				
Securities with maturity:				
(1) Government bonds	**—**	**—**	**—**	**—**
(2) Corporate bonds	**—**	**12,063**	**—**	**—**
(3) Other bonds	**25,676**	**16,693**	**—**	**—**
Investments in silent partnership	**—**	**34,672**	**—**	**—**
Long-term deposits	**—**	**6,013**	**—**	**—**
Total	**$494,107**	**$69,441**	**$—**	**$—**

5. Bank loans

Bank loans from banks, at March 31, 2011 and 2010 were represented by overdraft and short-term notes, bearing weighted average interest rate of 1.513% for the years ended March 31, 2011 and 2010.

The Companies had no long-term debt at March 31, 2011 and 2010.

For efficient procurement of working capital, two consolidated subsidiaries have entered into overdraft contracts with 4 financial institutions in the aggregate amount of ¥1,680 million ($20,204 thousand) as of March 31, 2011 and 2010. The unused facilities maintained by the consolidated subsidiaries as of March 31, 2011 and 2010 amounted to ¥1,050 million ($12,628 thousand).

6. Income taxes

Taxes on income consist of corporation, enterprise and inhabitants taxes. The aggregate statutory tax rate on income before income taxes was approximately 40.7% for the years ended March 31, 2011 and 2010.

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, 2011 and 2010.

	2011	2010
Statutory tax rate	**40.7%**	40.7%
Non-deductible expenses	**2.1**	1.9
Non-taxable dividend income	**(3.7)**	(0.8)
Per capita inhabitant tax	**1.0**	1.3
Valuation allowance	**(0.7)**	1.6
Equity in earnings of affiliates	**(10.6)**	(11.9)
Other	**(1.0)**	(1.3)
Effective tax rate	**27.8%**	31.5%

Significant components of the Companies' deferred tax assets and liabilities as of March 31, 2011 and 2010 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	**2011**
Deferred tax assets:			
Loss on valuation of investment securities	**¥ 562**	¥ 570	**$ 6,759**
Enterprise taxes payable	**124**	102	**1,491**
Provision for bonuses	**451**	426	**5,424**
Provision for loss on construction contracts	**321**	143	**3,860**
Provision for retirement benefits	**1,011**	1,020	**12,159**
Valuation difference on available-for-sale securities	**77**	55	**926**
Other	**443**	367	**5,328**
Valuation allowance	**(359)**	(389)	**(4,317)**
Total deferred tax assets	**¥2,630**	¥2,294	**$31,630**
Deferred tax liabilities:			
Valuation difference on available-for-sale securities	**(822)**	(1,184)	**(9,886)**
Other	**(64)**	(67)	**(770)**
Total deferred tax liabilities	**(886)**	(1,251)	**(10,656)**
Net deferred tax assets (liabilities)	**¥1,744**	¥1,043	**$20,974**

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
	2011	2010	**2011**
Employees' salaries and allowances	**¥2,458**	¥2,437	**$29,561**
Provision for bonuses	**506**	463	**6,085**
Retirement benefit expenses	**213**	222	**2,562**
Provision for directors' retirement benefits	**9**	17	**108**
Provision of allowance for doubtful accounts	**21**	4	**253**
Depreciation	**254**	243	**3,055**
Rents	**933**	920	**11,221**

The aggregate amounts of research and development expenses included in selling, general and administrative expenses for the years ended March 31, 2011 and 2010 were ¥149 million ($1,792 thousand) and ¥121 million, respectively.

8. Provision for retirement benefits

The Company and one of the consolidated subsidiaries have established defined benefit plans: the Employees' Pension Funds Program, defined benefit pension plan, and lump-sum retirement plan. The other consolidated subsidiaries established defined benefit pension plan, lump-sum retirement plan and the smaller enterprise retirement allowance mutual aid.

Effective January 1, 2011, the Company transferred from the tax qualified pension plan to a defined benefit pension plan.

Provision for retirement benefits included in the liability section of the consolidated balance sheets as of March 31, 2011 and 2010 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	**2011**
Projected benefit obligation	**¥(4,897)**	¥(4,967)	**$(58,893)**
Fair value of plan assets	**4,085**	4,136	**49,128**
Funded status	**¥ (812)**	¥ (831)	**$ (9,765)**
Unrecognized prior service cost	**(116)**	—	**(1,395)**
Unrecognized actuarial differences	**482**	392	**5,796**
Provision for retirement benefits	**¥ (446)**	¥ (439)	**$ (5,364)**

The consolidated subsidiaries adopt the simplified method of calculating the projected benefits obligation.

Included in the consolidated statements of income for the years ended March 31, 2011 and 2010 were employees' severance and retirement benefit expenses consisting of the following:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	**2011**
Service costs – benefits earned during the year	**¥251**	¥270	**$3,018**
Interest cost on projected benefit obligation	**67**	65	**806**
Expected return on plan assets	**(49)**	(47)	**(589)**
Amortization of prior service cost	**(4)**	—	**(48)**
Amortization of actuarial differences	**70**	57	**842**
Contribution to the Employees' Pension Funds Program	**150**	155	**1,804**
Retirement benefit expenses	**¥485**	¥500	**$5,833**

Service cost includes pension expenses of the consolidated subsidiaries calculated by the simplified method.

Significant assumptions used for the years ended March 31, 2011 and 2010 were as follows:

	2011	2010
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	**10years**	—
Amortization period of actuarial differences	**10years**	10years

The estimated amount of all retirement benefits to be paid at the future retirement date 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. The required contributions to them are recognized as a net pension cost for the year. Of these pension plans are as follows:

	Millions of Yen		Thousands of U.S. dollars
	2010	2009	2010
Funded status of the entire plan			
Fair value of plan assets	¥39,327	¥33,848	$472,965
Benefit obligations	41,381	43,447	497,667
Deficit (*1)	(¥ 2,054)	(¥ 9,599)	($ 24,702)
Ratio of total salaries of the Companies to total funds of the plan as March 31, 2011(*2)			**12.3%**

The net balance above deficit (*1) is mainly due to a deficit carried forward of ¥9,599 million ($115,442 thousand) and surplus of ¥7,545 million ($90,740 thousand) for 2010, which is mainly due to a deficit carried forward of ¥1,372 million deficit of ¥8,277 million for 2009. The prior service liabilities are being amortized over 4 years and 2 months. The above proportion (*2) does not conform to the actual charge ratio applied to the Companies.

9. Leases

As discussed in Note 2 (9), 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 at March 31, 2011 and 2010 are as follows:

	Millions of yen		
	2011		
	Acquisition costs	Accumulated depreciation	Net book value
Vehicle	**¥ 3**	**¥ 3**	**¥0**
Equipment	**52**	**43**	**9**
Total	**¥55**	**¥46**	**¥9**

	Millions of yen		
	2010		
	Acquisition costs	Accumulated depreciation	Net book value
Vehicle	¥17	¥15	¥ 2
Equipment	76	53	23
Total	¥93	¥68	¥25

	Thousands of U.S. dollars		
	2011		
	Acquisition costs	Accumulated depreciation	Net book value
Vehicle	**$ 36**	**$ 36**	**$ 0**
Equipment	**625**	**517**	**108**
Total	**$661**	**$553**	**$108**

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, 2011 and 2010 were as follows:

	Millions of Yen		Thousands of U.S. dollars
	2011	2010	**2011**
Lease payments	**¥18**	¥26	**$216**
Depreciation expense	**16**	23	**192**
Interest expense	**1**	3	**12**

Pro forma depreciation expense is computed by the straight-line method over the respective lease terms assuming a nil residual value.

Future minimum lease payments subsequent to March 31, 2011 and 2010, for finance leases currently accounted for as operating lease are summarized as follows:

	Millions of Yen		Thousands of U.S. dollars
	2011	2010	**2011**
Due within one year	**¥ 9**	¥17	**$108**
Due after one year	**2**	10	**24**
Total	**¥11**	¥27	**$132**

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.

At the annual shareholders' meeting held on June 29, 2011, the shareholders resolved cash dividend amounting to ¥775 million ($9,321 thousand) as described in Note 17. Such appropriations have not been accrued in the consolidated financial statements as of March 31, 2011. Such appropriations will be recognized in the period when they are resolved.

11. Stock option plan

1. Stock option expense that was accounted for as Selling, general and administrative expenses on the consolidated statement of income for the year ended March 31, 2011 and 2010 amounted to ¥34 million ($409 thousand) and ¥40 million ($481 thousand).

2. Outline of stock option

(1) The summary of stock option plans

Date of approval	June 26, 2009	June 29, 2010
Persons granted	9 directors of the Company 13 corporate officers of the Company	8 directors of the Company 11 corporate officers of the Company
Number of options granted	58,500 common shares	53,600 common shares
Date of grant	October 1, 2009	July 26, 2010
Exercise condition	No provisions	No provisions
Intended service period	No provisions	No provisions
Exercise period	October 2, 2009 – October 1, 2039	July 27, 2010 – July 26, 2040*

* Within 10 days from the day following the day that a subscription holder loses its position as a director or corporate officer of the Company.

(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, 2011.

a) Number of stock option

Date of approval	June 26, 2009	June 29, 2010
Fiscal year ended March 31, 2011		
Before Vested	(Share)	(Share)
March 31, 2010 – Outstanding	—	—
Granted	—	53,600
Canceled	—	—
Vested	—	53,600
March 31, 2011 – Outstanding	—	—
Vested		
March 31, 2010– Outstanding	58,500	—
Vested	—	53,600
Exercised	25,400	—
Canceled	—	—
March 31, 2011 – Outstanding	33,100	53,600

b) Price information

Date of approval	June 26, 2009	June 29, 2010
Exercise price	¥1 per share ($0.01 per share)	¥1 per share ($0.01 per share)
Average exercise price	¥742 ($8.92)	—
Fair value at grant date	¥686 ($8.25)	¥633 ($7.61)

(3) Valuation method for estimating per share fair value of stock options

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

b) Principal parameters and estimation method

Date of approval	June 26, 2009	June 29, 2010
Expected volatility of the underlying stock (*1)	29.7%	30.9%
Remaining expected life of the option (*2)	8 Years	6 Years
Expected dividend on stock (*3)	¥18.5 ($0.22) per share	¥24.5 ($0.29) per share
Risk-free interest rate during the expected option term (*4)	1.02%	0.47%

(*1) Approved June 26, 2009 is Calculated based on the actual stock prices during the eight years from September 24, 2001 to September 21, 2009. Approved June 29, 2010 is Calculated based on the actual stock prices during the six years from July 19, 2004 to July19, 2010.

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

(*3) Based on the dividend records from the 12 months preceding the date.

(*4) Japanese government bond yield corresponds to the average expected life.

12. Business combinations

Business combination through acquisition for the year ended March 31, 2011 was below.

1.Outline of business combination
(1) Name and main business of acquired company
Name of acquired company: HIT Engineering, Ltd. (renamed from Toyama Kouei Co., Ltd. to HIT Engineering, Ltd. on June 30, 2010.)
Main business of acquired company: Design, installation, maintenance and management of pharmaceutical and drug manufacturing equipment, food manufacturing equipment, environmental equipment and other equipment.
(2) Reason for business combination
Upgrade total engineering capabilities by gaining expertise in new technologies and entering new fields of business.
(3) Date of combination
June 30, 2010
(4) Legal form of business combinations
Acquisition of stock
(5) Percentage share of voting rights acquired
Percentage share of voting rights owned before business combination; 0%
Percentage share of voting rights additionally acquired at the date of business combination; 100%
Percentage share of voting rights after acquisition; 100%
(6) Reason for acquisition
For more than 30 years, HIT Engineering has been engaged in the planning, design, installation and maintenance of production machinery and other equipment for manufacturers of pharmaceuticals, food products and other products in Toyama prefecture. By using the technological expertise of this company, the Company plans to work with this new group member to expand business operations in order to serve pharmaceutical and food processing companies nationwide. In addition, the Company plans to use this company to further strengthen equipment planning and design capabilities and to provide waste water treatment and other environmental services, which is a market sector with excellent growth prospects.

2. Period for which the acquired company's financial results are included in the consolidated financial statements
From July 1, 2010 to March 31, 2011

3. Acquisition cost of acquired company and its breakdown

	Millions of yen	Thousands of U.S. dollars
Common stock of HIT Engineering, Ltd.	**¥290**	**$3,488**
Direct expenditures related to acquisition	**24**	**288**
Total acquisition cost	**¥314**	**$3,776**

4. Goodwill recognized, reason for recognition, and amortization method and period
(1) Goodwill recognized
¥170 million ($2,044 thousand)
(2) Reason for recognition
Goodwill was recognized since the acquisition cost exceeded the net value of the assets acquired and liabilities assumed.
(3) Amortization method and period
5 years using the straight-line method

5. Summary of assets and liabilities acquired at date of business combination

	Millions of yen	Thousands of U.S. dollars
Current assets	**¥520**	**$6,254**
non-current assets	**4**	**48**
Total assets	**¥524**	**$6,302**
Current liabilities	**¥380**	**$4,570**
Long-term liabilities	**1**	**12**
Total liabilities	**¥381**	**$4,582**

13. Asset retirement obligations

Asset retirement obligations reported on the consolidated balance sheets at March 31, 2011.
1. Outline of the asset retirement obligations
The asset retirement obligations are based upon estimated future expenses for removing harmful materials (under the Ordinance on Prevention of Asbestos Hazards) used in construction materials.

2. Basis for calculating the asset retirement obligations
The asset retirement obligations are calculated on the estimated useful life of mainly 31 years. The discount calculation was not applied for the building since those useful lives in the past years have passed.

3. Changes in the asset retirement obligations during the fiscal year ended March 31, 2011 were summarized as follows;

	Millions of yen	Thousands of U.S. dollars
	2011	**2011**
As of April 1, 2010 (*)	**¥13**	**$156**
Increase due to acquisition of fixed assets	—	—
Adjustment due to passage of time	—	—
Decrease due to fulfillment of asset retirement obligations	—	—
As of March 31, 2011	**¥13**	**$156**

(*)The balance of the asset retirement obligation at beginning of the fiscal year was determined based upon the guidance set forth in "Accounting Standards for Asset Retirement Obligations" (ASBJ Statement No.18 issued on March 31, 2008) and "Guidance on Accounting Standards for Assets Retirement Obligations" (ASBJ Guidance No. 21, issued on March 31, 2008).

14. Net income per share

Reconciliation of the differences between basic and diluted net income per share ("EPS") for the years ended March 31,2011 and 2010 was as follows.

	Millions of yen	Thousands of shares	Yen	U.S. dollars
	Net Income	Weighted average shares	EPS	EPS
For the year ended March 31, 2011				
Basic EPS				
Net income available to common shareholders	**¥3,014**	**32,433**	**¥92.93**	**$1.12**
Effect of dilutive securities				
Stock acquisition rights		**76**		
Diluted EPS				
Net income for computation	**¥3,014**	**32,509**	**¥92.71**	**$1.11**

	Millions of yen	Thousands of shares	Yen
	Net Income	Weighted average shares	EPS
For the year ended March 31, 2010			
Basic EPS			
Net income available to common shareholders	¥2,441	33,185	¥73.56
Effect of dilutive securities			
Stock acquisition rights		29	
Diluted EPS			
Net income for computation	¥2,441	33,214	¥73.49

15. Segment information

1. General information about reportable segments

Reportable segments are the constituent units of the Hibiya Engineering Group for which separate financial information is available and for which the board of directors performs regular reviews for the purposes of determining the distribution of resources and evaluating 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 main activity is the planning, design and installation of a broad range of equipment by Hibiya Engineering and equipment sales agent and equipment manufacturing and sales activities by subsidiaries. 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 the three business segments based on the products and services of each company in the Group: construction, equipment sales and equipment manufacturing.

2. Basis of measurement for reported segment profit or loss, segment assets and other material items

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 inter-segment transactions and transfers are mainly determined in accordance with market prices.

3. Information about reported segment profit or loss, segment assets and other material items

Segment information as of and for the fiscal years ended March 31, 2011 and 2010 is as follows:

2011	Millions of yen					
	Construction	Equipment sales	Equipment manufacturing	Total	Adjustments (*1)	Consolidated (*2)
Net sales:						
Outside customers	**¥48,921**	**¥6,221**	**¥3,158**	**¥58,300**	**¥ —**	**¥58,300**
Inter-segment	**3**	**3,285**	**372**	**3,660**	**(3,660)**	**—**
Total	**¥48,924**	**¥9,506**	**¥3,530**	**¥61,960**	**¥(3,660)**	**¥58,300**
Segment income	**1,873**	**395**	**257**	**2,525**	**27**	**2,552**
Segment assets	**¥28,740**	**¥7,023**	**¥3,394**	**¥39,157**	**¥37,608**	**¥76,765**
Other items						
Depreciation and amortization	**¥ 265**	**¥ 2**	**¥ 18**	**¥ 285**	**¥ —**	**¥ 285**
Amortization of Goodwill	**26**	**—**	**—**	**26**	**—**	**26**
Increase in tangible and intangible fixed assets	**252**	**—**	**25**	**277**	**—**	**277**

2010	Millions of yen					
	Construction	Equipment sales	Equipment manufacturing	Total	Adjustments (*1)	Consolidated (*2)
Net sales:						
Outside customers	¥53,306	¥ 6,775	¥2,298	¥62,379	¥ —	¥62,379
Inter-segment	2	3,873	448	4,323	(4,323)	—
Total	¥53,308	¥10,648	¥2,746	¥66,702	¥ (4,323)	¥62,379
Segment income	1,801	306	54	2,161	47	2,208
Segment assets	¥28,188	¥ 6,846	¥2,695	¥37,729	¥36,903	¥74,632
Other items						
Depreciation and amortization	¥ 253	¥ 2	¥ 15	¥ 270	¥ —	¥ 270
Increase in tangible and intangible fixed assets	256	5	4	265	—	265

2011	Thousands of U.S. dollars					
	Construction	Equipment sales	Equipment manufacturing	Total	Adjustments (*1)	Consolidated (*2)
Net sales:						
Outside customers	**$588,346**	**$ 74,817**	**$37,980**	**$701,143**	**$ —**	**$701,143**
Inter-segment	**36**	**39,507**	**4,474**	**44,017**	**(44,017)**	**—**
Total	**$588,382**	**$114,324**	**$42,454**	**$745,160**	**$ (44,017)**	**$701,143**
Segment income	**22,526**	**4,750**	**3,091**	**30,367**	**325**	**30,692**
Segment assets	**$345,640**	**$ 84,462**	**$40,818**	**$470,920**	**$452,291**	**$923,211**
Other items						
Depreciation and amortization	**$ 3,187**	**$ 24**	**$ 217**	**$ 3,428**	**$ —**	**$ 3,428**
Amortization of Goodwill	**313**	**—**	**—**	**313**	**—**	**313**
Increase in tangible and intangible fixed assets	**3,030**	**—**	**301**	**3,331**	**—**	**3,331**

(*1) The "Segment Income" adjustments are inter-segment transaction eliminations.
"Corporate Assets (not allocated to specific segments)" included in the "Segment Assets" adjustments line as of March 31, 2011 and 2010 were ¥39,598 million ($476,224 thousand) and ¥38,413 million, respectively, consisting mainly of assets not belonging to specific segments (cash and cash equivalents, short-term investment securities, investments securities, etc.). Moreover, the "Inter-segment eliminations" included in the "Segment Assets" adjustment line as of March 31, 2011 and 2010 were ¥1,991 million ($23,945 thousand) and ¥1,510 million, respectively.

(*2) Segment income is adjusted for consistency with operating income in the Consolidated Statements of Income.

Effective from the fiscal year ended March 31, 2011, the Companies applied the "Accounting Standard for Disclosures about Segments of an Enterprise and Related Information" (ASBJ Statement No. 17 issued on March 27, 2009) and the "Guidance on Accounting Standard for Disclosures about Segments of an Enterprise and Related Information" (ASBJ Guidance No. 20, issued on March 21, 2008).

In addition, the Company restated segment information as of and for the fiscal years ended March 31, 2010 in conformity with the requirements of the Standard and the Guidance.

(Related Information)

(1) Information for major customers for the year ended March 31, 2011 was as follows:

	Net sales		
Customer's designation or name	Millions of yen	Thousands of U.S. dollars	Related reported segments
NTT Facilities, INC.	**¥13,368**	**$160,770**	Construction, Equipment sales, Equipment manufacturing
Nippon Telegraph and Telephone East Corporation	**¥ 7,945**	**$ 95,550**	Construction

(2) Goodwill amortized and remaining goodwill in each reportable business segment for the year ended March 31, 2011 was as follows:

2011	Millions of yen				
	Construction	Equipment sales	Equipment manufacturing	Eliminations or Corporate	Total
Amortization of goodwill	**¥ 26**	**—**	**—**	**—**	**¥ 26**
Goodwill	**¥145**	**—**	**—**	**—**	**¥145**

2011	Thousands of U.S. dollars				
	Construction	Equipment sales	Equipment manufacturing	Eliminations or Corporate	Total
Amortization of goodwill	**$ 313**	**—**	**—**	**—**	**$ 313**
Goodwill	**$1,744**	**—**	**—**	**—**	**$1,744**

16. Related party transaction and balances

1. Transaction with related party
Disclosure is omitted since no material related party transactions.
2. Notes relating to the parent company and major affiliate
Summarized financial information of major affiliate

NIHON MECCS CO., LTD. summarized financial information as of and for the year ended March 31, 2011 and 2010.

	Millions of yen		Thousands of U.S. dollars
	2011	2010	**2011**
Current assets	**¥32,677**	¥28,619	**$392,989**
Non-current assets	**14,861**	14,457	**178,725**
Current liabilities	**13,023**	9,868	**156,621**
Long-term liabilities	**2,829**	2,982	**34,023**
Net Assets	**31,686**	30,226	**381,070**
Net sales	**56,455**	54,820	**678,954**
Income before income taxes	**2,865**	2,111	**34,456**
Net income	**1,653**	1,217	**19,880**

17. Subsequent event

(1) Cash dividend

The following appropriation of retained earnings at March 31, 2011, was approved at the annual shareholders meeting of the Company held on June 29, 2011.

	Millions of yen	Thousands of U.S. dollars
Cash dividend – ¥24.0 ($0.29) per share	**¥775**	**$9,321**

(2) Granting of stock options (stock-based compensation in the form of stock options)

At a meeting on June 29, 2011, the Board of directors of the Company passed a resolution for stipulating subscription conditions and providing for the directors (excluding outside directors) and corporate officers to underwrite stock options issued under the provisions of Articles 236, 238 and 240 of the Japanese Companies Act,.

KPMG

Independent Auditors' Report

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

We have audited the accompanying consolidated balance sheets of Hibiya Engeineering, Ltd. and its consolidated subsidiaries as of March 31, 2011 and 2010, and the related consolidated statements of income, comprehensive income, changes in net assets and cash flows for the years then ended expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to independently 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 plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Hibiya Engeineering, Ltd. and its consolidated subsidiaries as of March 31, 2011 and 2010, and the results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in Japan.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2011 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

Tokyo, Japan
June 29, 2011

Corporate Data

Investor Information

As of March 31, 2011

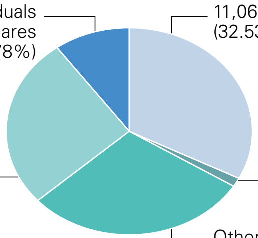
Total number of shares authorized	96,500,000 shares
Total number of shares issued	34,000,309 shares
Number of shareholders	3,161

Major Shareholders

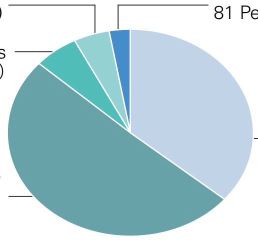
	Name of shareholders	Number of held thousands shares	Percentage of shares in issue(%)
1	Japan Trustee Services Bank, Ltd. (Trust account)	1,796	5.56
2	NTT Urban Development Co.	1,371	4.25
3	Hibiya Engineering Customer Stock Ownership Plan	1,308	4.05
4	The Master Trust Bank of Japan, Ltd. (Trust account)	1,003	3.11
5	The Master Trust Bank of Japan, Ltd. (Retirement benefit trust account, Hyakujushi Bank account)	900	2.79
6	Sumitomo Mitsui Banking Corporation	853	2.65
7	The Japan Telecommunications Welfare Associations	838	2.60
8	The Dai-ichi Mutual Life Insurance Company	818	2.53
9	Resona Bank, Limited	786	2.44
10	CBNY DFA INTL SMALL CAP VALUE PORTFOLIO	709	2.20

Notes
1) The list of major shareholders does not include 1,721,553 shares of treasury stock held by the Company.
2) The 1,721,553 shares of treasury stock held by the Company are not included in the calculation of the percentages of shares issued.
3) Brandes Investment Partners, L.P. submitted a large shareholding report revision report dated November 15, 2010 (mandatory reporting date was November 8, 2010). However, this firm is not included in the above list of major shareholders as of March 31, 2011 because the holder of the shares and other information could not be confirmed. The revision report contained the following information:
Large shareholder: Brandes Investment Partners, L.P.
Number of shares held: 1,243 thousand (3.66% of all shares issued)

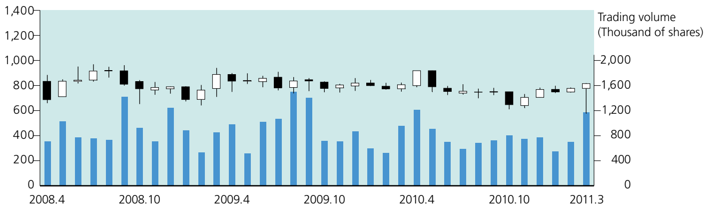
Share distribution by owner



Share distribution by size of holding



Monthly share prices and trading volume



Board of Directors

As of June 29, 2011

President and Representative Director	Haruki Nomura
Vice President and Representative Director	Shigeru Toyoda
Director	Morio Fukuki
Director	Yasuo Shinoda
Director	Yasuji Uemura
Director	Hideo Noro
Director	Kenji Saitou
Director	Tetsuya Kamachi
Director	Shun-ichi Tajuuta
Director	Toshikazu Chinzei
Director	Kensho Kusumi
Standing Corporate Auditor	Ken Yasuda
Auditor	Makoto Satou
Auditor	Nobutoshi Kozuka
Auditor	Yoshinobu Yamaguchi

Notes
1) Toshikazu Chinzei and Kensho Kusumi are external directors under the terms of the Corporate Law Article 2 Section 15.
2) Ken Yasuda, Makoto Satou and Nobutoshi Kozuka are external auditors under the terms of the Corporate Law Article 2 Section 16.
3) The Company has notified the Tokyo Stock Exchange that Toshikazu Chinzei and Kensho Kasumi are external directors and Ken Yasuda and Nobutoshi Kozuka are external corporate auditors.

Offices

As of March 31, 2011

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

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

Research Facilities
Noda in Chiba Prefecture

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