2014

ANNUAL REPORT

Hibiya Engineering, Ltd.

CONTENTS

Projections and Perspectives:

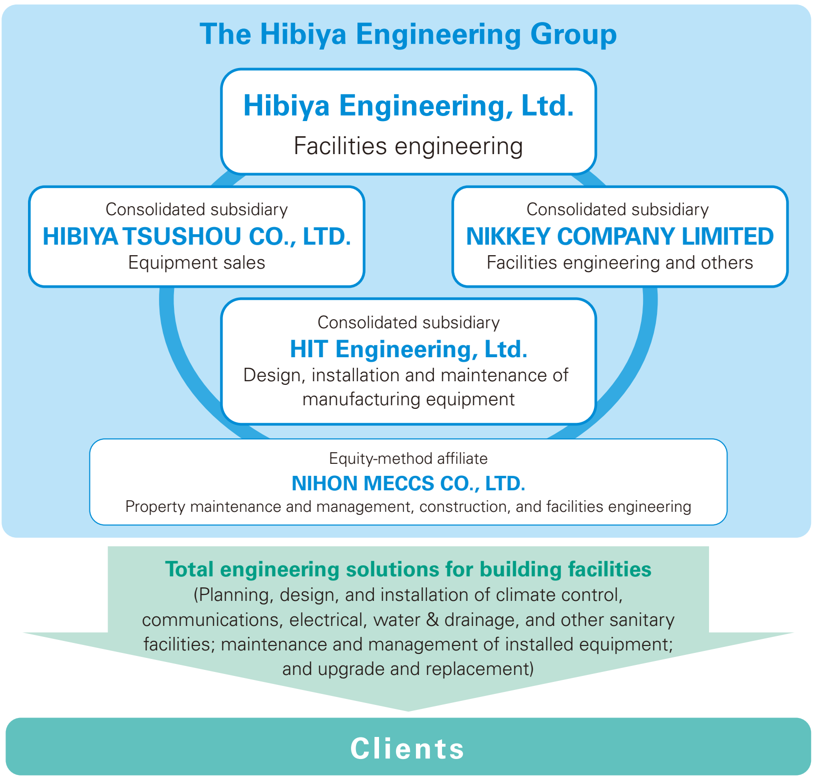
This Annual Report includes projections and descriptions of prospects regarding future plans, strategies and the operating performance of the Company. Such descriptions are not based on past facts, but rather on perspectives judged to be appropriate in view of assumptions and management convictions on the strength of information available to the Company as of March 31, 2014. 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, 2014

Consolidated Financial Highlights

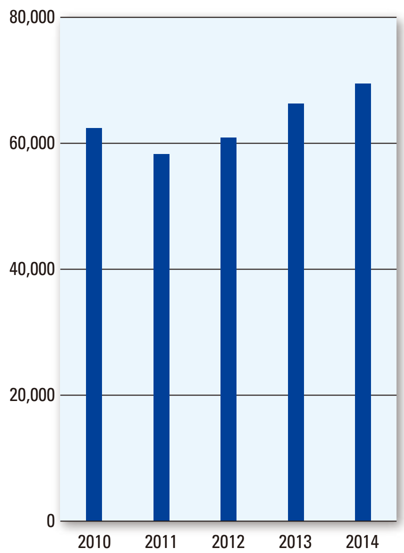
Hibiya Engineering, Ltd. and Consolidated Subsidiaries
Years ended March 31

	2010	2011	2012	2013	2014	2014
	Millions of yen					Thousands of U.S. dollars
Net Sales	¥62,379	¥58,300	¥60,919	¥66,322	**¥69,466**	**$674,951**
Net Income	2,441	3,014	1,657	1,806	**2,216**	**21,531**
Total Assets	74,632	76,765	76,442	79,428	**83,532**	**811,621**
Net Assets	51,998	53,188	53,368	55,166	**57,069**	**554,499**
	Yen					U.S. dollars
Per share:						
Net Assets	¥1,544.43	¥1,609.71	¥1,642.92	¥1,744.66	**¥1,828.81**	**$17.77**
Net Income	73.56	92.93	52.15	58.15	**72.78**	**0.71**
Cash Dividend (non-consolidated basis)	24.50	31.50	30.00	30.00	**30.00**	**0.29**

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, 2014, which was ¥102.92 to US$1.00.

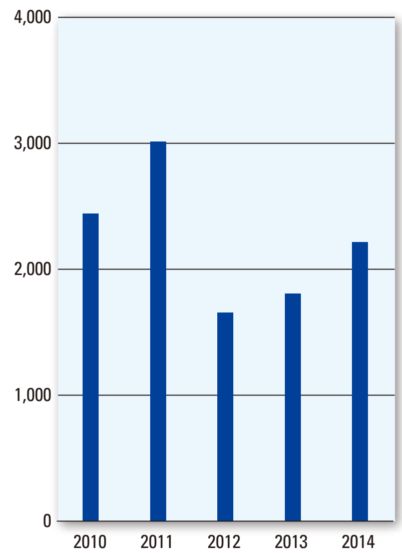
Net Sales

(¥ million)



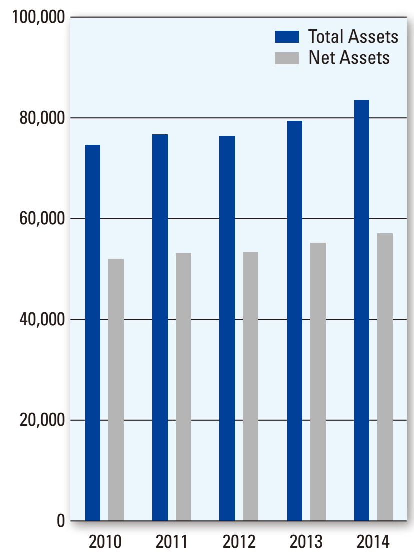
Net Income

(¥ million)



Total Assets & Net Assets

(¥ million)



A Message from the President

During the fiscal year under review, there were strong indications that economic conditions in Japan were on track toward recovery. Corporate earnings rallied on bullish public investment and corrections to the appreciating yen, as capital expenditure increased based on recovering manufacturing activities and improved individual consumer consciousness. At the same time, the construction industry continued to face difficulties, such as rising costs and the ability to secure sufficient labor, resulting in a management environment that continued to defy optimism.

Amid this environment, we launched the Hibiya Engineering Group's Fifth Medium-term Management Plan. This plan will maintain and further develop the Fourth Medium-term Management Plan basic policies of increasing orders received while preserving profitability, achieving the steady growth of newly launched businesses and seeking more business opportunities. Building on the achievements of the Fourth Medium-term Management Plan, we aim to increase the speed of our corporate restructuring and become a comprehensive engineering services organization that is a one-stop source of services for all customer needs. Namely, we are aiming for the perpetual development of contributions to the environment through reduced energy consumption and CO_2 emissions among both customers and society, by focusing Group capabilities to provide value-added, optimized solutions spanning the entire life cycle of facilities, from planning and design, to construction and operations.

Thank you for your support and understanding as we continue to move forward toward our goals.

Haruki Nomura
President and Representative Director

Highlights of the fiscal year

Overview of the year ended March 31, 2014

This fiscal year, which marked the end of the Fourth Medium-term Management Plan, we increased orders received mainly from the private sector and developed solution-based sales to increase orders from priority domains. At the same time, amid this challenging environment, we made an effort to minimize declines in profitability through measures to lower the cost of sales and all administrative expense categories. The results of these efforts are as follows.

Orders received

¥72,385 million (up 3.3% year-on-year)

Net sales

¥69,466 million (up 4.7% year-on-year)

Operating income

¥1,842 million (down 8.6% year-on-year)

Net income

¥2,216 million (up 22.7% year-on-year)

Highlights of the fiscal year

We strengthened initiatives aimed at efficient and labor-saving construction site work in response to last year's labor shortfall and rising labor costs in the construction industry. One example of these is the use of 3D scanners, which significantly reduce the time required for surveying at construction sites. This initiative has been covered in a variety of media and continues to garner attention in the industry.

We also proactively participated in regional contribution activities across Japan. We recognize that environmental conservation and volunteer activities are extremely important as contribution policies targeting regional communities, thus we intend to continue these initiatives going forward.

For the past several years, we have participated in exhibitions as a forum for promoting our proprietarily developed technologies. This fiscal year, we participated in 13 exhibitions across Japan, from Hokkaido in the north, to Okinawa in the south. We also conducted four seminars at the Hibiya E&S Plaza, our first permanent exhibition hall, which opened in July 2013. Going forward, we plan to ramp up new technology PR efforts utilizing a variety of tools and media.

Distribution of earnings to shareholders

According to a provision for basing the dividend on the consolidated dividend-on-equity (DOE) ratio from the standpoint of distributing earnings to shareholders consistently, we paid a year-end dividend of ¥15 per share. With the addition of an interim dividend of ¥15 per share, we paid a full-year dividend of ¥30 per share. Our forecast for dividends next fiscal year assumes an interim and year-end dividend of ¥16 per share, a full-year dividend of ¥32 per share.

To improve the return on equity and as one way to return earnings to shareholders, Hibiya Engineering purchases treasury stock in a flexible manner. In the fiscal year that ended in March 2014, 452,400 shares of treasury stock were purchased at a total cost of ¥499 million. In addition, 3 million shares of treasury stock were retired at the end of the fiscal year. Next fiscal year, as already announced, we plan to cap acquisitions at 500,000 shares/¥750 million.

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

Fundamental Policy	Accomplishments
Increase orders received while preserving profitability	• Orders received increased • Operating income improved
Achieve steady growth of newly launched businesses and seek more business opportunities	• Significant progress in the energy conservation solutions business • Growth in new business domains

Consolidated performance

(¥ billion)

	FY3/2012 (Actual)	FY3/2013 (Actual)	FY3/2014 (Actual)
Orders Received	65.3	70.0	72.3
Net Sales	60.9	66.3	69.4
Net Income	1.6	1.8	2.2

The Fifth Medium-term Management Plan

New Foundational Policies and Strategies Fifth Medium-term Management Plan

The Three Pillars of the Fifth Medium-term Management Plan Policies: Consistent Earnings, Stronger Foundation, Confidence and Safety

The Hibiya Engineering Group develops highly profitable businesses utilizing Group strengths through the accumulation of energy and smart technologies, the improvement of our solution proposal capabilities, robust value chains, from consulting to maintenance, and support for BCP, safety, product quality and value-added solutions.

Consistent earnings

Offer building life cycle (LC) total solutions that aim to build best partner relationships and respond to increasingly diverse, sophisticated and multifaceted customer needs through the expansion of services throughout the entire building lifecycle.

Stronger foundation

Improve staff training and cost performance, make operations more efficient through the documentation of technological expertise and a unified group management structure.

Confidence and safety

Enhance CSR and further promote and strengthen compliance to improve shareholder's return and employee satisfaction.

Consolidated Target of Each FY (FY3/15-FY3/17) of The Fifth Medium-term Management Plan

Orders received	At least ¥70 billion
Net Sales	At least ¥70 billion
Operating income	At least ¥2.5 billion
Net income	At least ¥2 billion

Fundamental Goal of the Fifth Medium-term Management Plan

Become a comprehensive engineering services organization that is a one-stop source of services for all customer needs

Consistent earnings from growth of value-added businesses

- More services covering a building's entire life cycle
- One-stop source of services for all customer needs

Build a stronger foundation and be a source of confidence and safety

- Strengthen group management capabilities through a shared platform
- Make staff training and operations more efficient by creating an reference library

Core strategies

Total Life Cycle Solutions

- Best partner/gold partner relationship creation

Strengthen management foundation

- Reference library creation
- Unified group management

Confident and safe management

- Enhanced CSR
- Enhanced shareholder's return

Note: A comprehensive engineering services organization is a company that contributes to customers, society and the global environment through the pursuit and implementation of high value-added optimized solutions combining specialized technologies, knowledge, people and value chains spanning the entire life cycle of facilities, from planning and designing to construction and operations.

Launched in Fiscal 2014

Core Strategy: Realize Total Life Cycle Solutions

Provide high-level solutions and strategically propose proprietary technologies and expertise throughout the entire building life cycle.

Upgrade and enlarge solution-based sales

Amid increasingly diverse customer needs, create gold customers by building best partner relationships through the ongoing provision of optimal solutions with high added value from the perspectives of energy, cost, building functions and BCP.

More advanced solution technologies

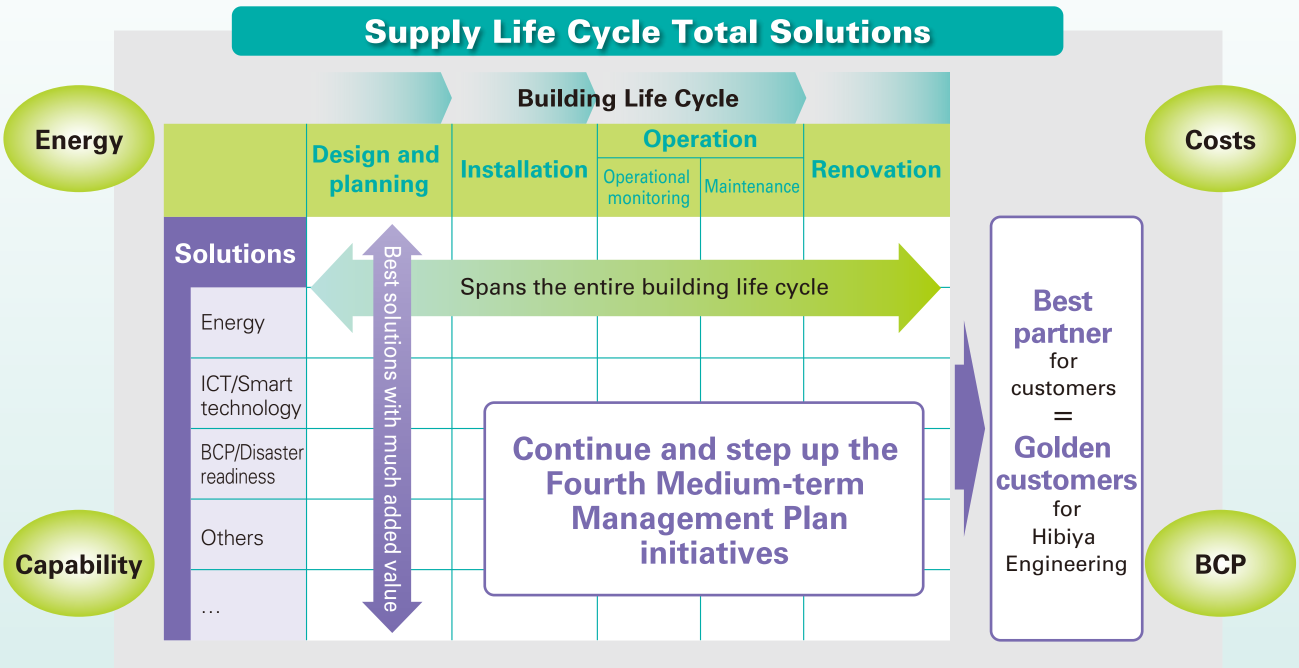
Advance applicable technologies (smart technologies for energy management systems, 3D scanners and other cutting-edge design technologies and the practical application of safety/quality technologies).

More synergies among group companies

Develop solution-based sales through cooperation among all group companies and organically integrate Hibiya Engineering Group engineering, sales, production, operation and ongoing management functions.

Form many more alliances

Make proactive use of alliances in light of the changing market environment and diversification of user needs.



Major priority domains

- Data centers/Information
- Office buildings
- Manufacturing/Distribution
- Education
- Health care
- Overseas operations

Initiatives

- Upgrade and enlarge solution-based sales
- More synergies among group companies
- More advanced solution technologies
- Form many more alliances

TOPICS 1

Improve efficiency in construction site —Application example of BIM—

BIM: A System for More Efficient Building Production and Ongoing Management

In recent years, the BIM method has been in the construction industry spotlight. According to the Ministry of Land, Infrastructure, Transport and Tourism, Building Information Modeling (BIM) is a digital representation of the physical and functional characteristics of a facility. This method utilizes computerized 3D models that provide information on individual spaces within the building, material specs, performance, cost and the properties of building components. The BIM method is applied to all processes throughout the entire building lifecycle, from design to construction and ongoing management, resulting in more efficient building production and ongoing management.

BIM 3D Information is a Tool for Enhancing Onsite Labor-Saving Efforts

There are many expected benefits of this technology, including quicker resolution of problems at the design stage (frontloading), cost transparency and certainty at time of order and the accumulation of asset information for ongoing management purposes. While we haven't had many opportunities to make full use of BIM 3D information strengths as a building services contractor, in recent years, we have begun to focus efforts on the use of 3D scanners as a tool for enhancing renewal site labor-saving efforts.

Figure 1: Image produced by a 3D scanner

TOPICS 2

Highlight of the fiscal year

	First Quarter	Second Quarter
Exhibitions	May FBK Business Exhibit [Kyushu] May Data Center Construction Operations Exhibit (Spring) [Tokyo] June Smart Energy Japan 2013 in Osaka [Osaka]	July Kyushu Eco Fair [Kyushu] July ICT Solutions Fair 2013 in Okinawa [Okinawa] July MACS2013 [Tokyo]
Regional Contribution Activities	April Group Cleaning Activities [Nagoya] May No Trash Day Clean Up Activities [Okinawa] May Hakata Dontaku Port Festival [Kyushu] June Mamachari Endurance Race [Sapporo]	July Minna to Clean Up Activity [Tokyo] August Matsuyama DT Building Clean Up Activities [Shikoku] August Environmental Beautification Activities before the Sendai Tanabata Festival [Tohoku]

Drawing Up Construction Diagrams in a Few Days Using 3D Scanners

When conducting facility equipment upgrades, all too often the diagrams indispensable for understanding the condition of a building when it was newly constructed are not available. This makes it necessary for the contractors to create new diagrams (as-built drawings) incorporating the current conditions of the building site. The use of 3D scanners significantly reduces the time required for surveying existing building conditions. The introduction of BIM into the diagrams during the actual construction stage is useful for client presentations and ongoing management after upgrades. It also enables us to survey existing building conditions and create diagrams in a few days rather than two weeks or more as in the past.

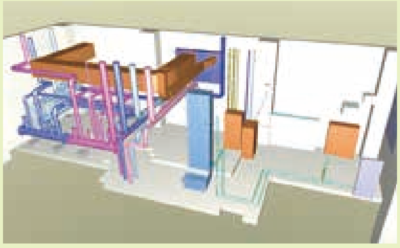
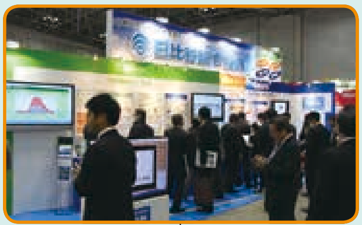


Figure 2: BIM 3D modeling

Proactive Use as a Management Tool for Expanding Orders Received in the Renewal Category and a Tool for Labor-Saving at Construction Sites

Effective not only at labor-saving, but also in terms of enhancing construction diagram precision, this system has been used on 37 projects since its full-fledged introduction in 2011. In the past few years, the use of panorama images via cameras that record in 360 degrees have further advanced this precision. We promote this point, proactively making use of 3D scanners as a sales tool aimed at expanding orders received in the renewal category as well as a labor-saving tool for mitigating labor shortages and rising labor costs.

Figure 3: Panoramic image



Third Quarter

- **November** Messe Nagoya 2013 [Nagoya]
- **November** 27th Hokkaido Technology and Business Exchange [Sapporo]
- **November** Eco Innovation Messe 2013 in Hiroshima [Hiroshima]
- **November** Smart Community Tohoku 2013 [Tohoku]

- **October** Osaka Marathon Clean Up Activities [Osaka]
- **November** Fukuoka Prefecture Group Volunteers (Tsutomaru Day) [Kyushu]
- **November** Oi River Track and Field Stadium Park Clean Up Activities [Shizuoka]

Fourth Quarter

- **January** ENEX2014 [Tokyo]
- **February** JFMA FORUM 2014 [Tokyo]
- **February** International Hotel and Restaurant Show Eco Village [Tokyo]

- **February** Tokyo Marathon Volunteer Activities [Tokyo]
- **March** Hiroshima Minato and Park Regional Clean Up Activities [Hiroshima]

The HIBIYA Vision

Hibiya Engineering announced a new corporate philosophy called the HIBIYA Vision in March 2006 when the company celebrated the 40th anniversary of its establishment. Incorporating the input of a large number of executives and employees, the vision represents a strong commitment of everyone at the Hibiya Engineering Group.

Mission

We are devoted to fulfilling the following missions.

- Creating safe, secure and comfortable environments for customers and society by using light, water, air and information to give life to buildings
- Meeting customers' needs by providing life cycle support for buildings as an expert in the field of building management
- Contributing to the protection of the global environment by constantly upgrading comprehensive engineering capabilities
- Showing our respect and appreciation to employees, customers and shareholders

Corporate Social Responsibility at Hibiya Engineering

To achieve the objectives of the HIBIYA Vision, all activities of the Hibiya Engineering Group are guided by the Action Guidelines and Standards for Ethical Behavior. By adhering to these guidelines, we are dedicated to playing a part in sustainable social progress.

Our Commitment to Stakeholders

Hibiya Engineering has prepared "Our Commitment to Stakeholders" in order to become a company that is highly appealing to all stakeholders. This expresses our determination to conduct business activities that place priority on customers, shareholders and employees as well as on harmony with society and the global environment.

Hibiya Engineering

For the environment

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

For customers

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

For shareholders and investors

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

For communities and society

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

For business partners

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

For employees

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

Corporate Governance

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

Board of Directors

There are now 11 directors, including two external directors, and four corporate auditors, including three external auditors. In principle, the Board of Directors meets once each month to reach decisions about important matters involving management and to receive reports.

In addition, Hibiya Engineering uses the executive officer system for the purpose of strengthening management oversight functions. Two major benefits of this system are improving the functions and effectiveness of the Board of Directors and reinforcing the supervisory function for business operations.

Hibiya Engineering has submitted notices to the Tokyo Stock Exchange stating that there are two independent external directors and two independent external corporate auditors.

Term of directors

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

Board of Auditors

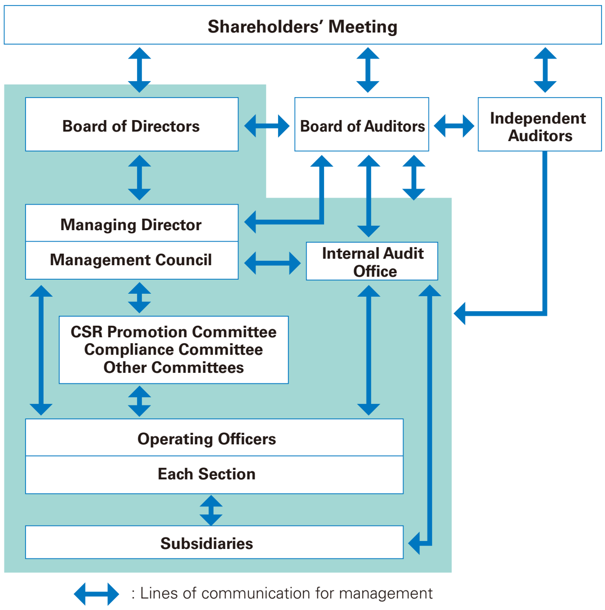
Hibiya Engineering uses the corporate auditor system and increased the number of external corporate auditors by one in June 2008. There are currently four corporate auditors, including three external auditors. Auditors attend meetings of the Board of Directors, Management Council and other important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

Internal audits

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

Advisory Board

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



Compliance

Hibiya Engineering has a rigorous compliance system based on the belief that "a company has an obligation to be a good citizen of society." All executives and employees are dedicated to performing their jobs based on high ethical standards, compliance with laws and regulations, and the Hibiya Engineering articles of incorporation and Action Guidelines. The objectives of the compliance system are to conduct business operations that always reflect the company's social responsibilities and to further increase the transparency and soundness of the Hibiya Engineering Group.

Hibiya Engineering has a Compliance Committee chaired by the company's president that is responsible for company-wide compliance promotion activities. The committee determines basic policies for compliance, formulates action plans, oversees compliance training for all employees, examines important compliance issues, and operates the Hibiya Hot Line, an internal whistle-blowing system.

Fiscal Year Major Project Completion

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

1. Sendai, Miyagi Prefecture
2. Energy center
3. Energy management system
6. March 2014

Tagonishi Area Restoration Public Housing

This project involved the construction of public housing in the Tagonishi area, seven kilometers northeast of Sendai Station, consisting of four buildings and a total of 176 residences. An energy center (on right in photo) was built to provide clean and efficient energy, which Hibiya Engineering managed from the proposal of our Energy Management System (EMS) to the end of construction. Combined with the introduction of a gas cogeneration system (CGS), power-receiving equipment from the power company and large batteries, we aim to realize a well-balanced power source enabling the stable provision of electricity.

Gas Cogeneration System (CGS)

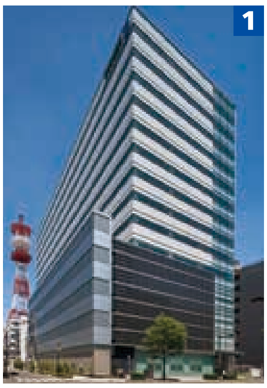
Simultaneously generates 25 KW of electricity and uses exhaust heat to provide hot water. In emergency situations, it uses a transformer to provide electricity for powering lights in the meeting hall.

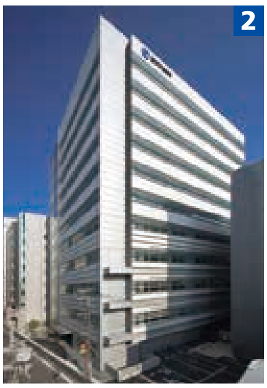
Solar Panels

There are 45 solar panels installed on the energy center roof that provide 20 KW of electricity. During an emergency, this will provide the meeting hall with a 30A power source for approximately 10 hours using power conditioners and lithium batteries.

IP Box EMS Server

The EMS server is the core server controlling CGS, solar power and battery operation. Daily power usage is graphed, planned consumption is calculated and usage feedback is sent to tablet devices installed in each residence. We also provide a billing service using smart meters and water meters installed in each residence to calculate usage costs.





1 NTT East Sendai Aoba-dori Building

1. Sendai, Miyagi Prefecture
2. Office
3. Air conditioning/Plumbing and sanitation
4. 30,030m^2
5. 14 floors, 1 underground level
6. May 2013

2 NTT West Doi Machi Building

1. Fukuoka, Fukuoka Prefecture
2. Office
3. Air conditioning/Plumbing and sanitation
4. 12,413m^2
5. 11 stories and 1 basement
6. October 2013

3 Setsuro Fujii Memorial Medical Science Center, Tokushima University

1. Tokushima, Tokushima Prefecture
2. Educational facility
3. Air conditioning/Plumbing and sanitation
4. 6,571m^2
5. 5 floors
6. August 2013

4 Mega solar adjacent area of Yutoland Himekami

1. Morioka, Iwate Prefecture
5. Expected maximum output: approx. 1.8 MW
6. May 2013

*1MW electric power is sufficient for 300 homes

FINANCIAL SECTION

CONTENTS

Management's Discussion and Analysis

Overview

In the fiscal year ended March 2014, the Japanese economy recovered as the government and Bank of Japan enacted various economic and monetary measures. As the yen weakened and stock prices rose, corporate earnings improved and consumer spending rebounded. Demand created by the rush to make purchases before the April 2014 consumption tax hike also supported the recovery.

In the construction industry, public-works investments increased, mainly for earthquake recovery projects, and there was a recovery in private-sector capital expenditures. However, the operating environment remained challenging because of the higher cost of materials and labor and intense competition to capture orders.

Orders received and sales

The fiscal year that ended in March 2014 was the last year of the Fourth Medium-term Management Plan. In accordance with the strategic objectives of this plan, there were solution-based sales activities that incorporated strategic proposals involving the group's technologies involving energy conservation, renewable energy and other key sectors. There were also extensive collaborative sales activities with the NTT Group and more cooperation among Hibiya Engineering Group companies. Overall, group companies took many actions to reinforce strategies and initiatives of recent years.

In addition, group companies to actions to build a more powerful foundation for business operations. This included strengthening compliance, safety and quality management activities, reinforcing the framework for risk management, upgrading training programs, and other actions. The objective was to increase corporate value by enhancing the Hibiya Engineering Group's reputation for trust and reliability.

As a result of these activities, orders received increased 3.3% to ¥72,385 million. Due to the higher orders, sales increased 4.7% to ¥69,466 million.

Operating income and net income

Amid challenging market conditions, all group companies focused on lowering costs by implementing a unified procurement strategy and extensive measures to improve the efficiency of construction. As a result, operating income decreased 8.6% to ¥1,842 million but net income increased 22.7% to ¥2,216 million. Net income per share and diluted net income per share increased from ¥58.15 and ¥57.90 in the previous fiscal year to ¥72.78 and ¥72.43, respectively.

Balance Sheet and Cash Flows

Balance sheet

Assets

Total assets increased ¥4,104 million from the end of the previous fiscal year to ¥83,532 million. Current assets increased ¥354 million to ¥43,954 million and noncurrent assets increased ¥3,750 million to ¥39,578 million.

Major changes in current assets were decreases of ¥560 million in cash and deposits and ¥3,285 million in short-term investment securities and a ¥4,043 million increase in accounts receivable from completed construction contracts and other.

Noncurrent assets increased mainly because of a ¥3,132 million increase in the valuation of investment securities.

Liabilities

Liabilities increased ¥2,201 million to ¥26,463 million. This was mainly the result of increases of ¥1,266 million in notes payable, accounts payable for construction contracts and other and ¥787 million in deferred tax liabilities.

Net assets

Net assets were ¥57,069 million at the end of the fiscal year mainly because of the contribution from net income of ¥2,216 million.

Return on equity

Return on equity increased from 3.4% to 4.1%.

Cash flows

Net cash used in operating activities was ¥1,315 million, ¥1,479 million less than the positive cash flow one year earlier. Income before income taxes and minority interests was ¥3,402 million but cash was used by an increase in notes and accounts receivable-trade and other items.

Net cash used in investing activities was ¥362 million, a difference of ¥1,354 million compared with the positive cash flow one year earlier. This was mainly because purchases of investment securities were more than proceeds from sales and redemptions of investment securities.

Net cash used in financing activities was ¥1,884 million, ¥137 million more than cash used one year earlier. Purchases of treasury stock and cash dividends paid were the major uses of cash.

The result of these cash flows was a net decrease of ¥3,561 million in cash and cash equivalents to ¥7,623 million at the end of the fiscal year.

Segment information

In the core construction segment, which accounted for 88.2% of consolidated sales, sales increased 6.3% to ¥61,294 million and operating income increased 12.0% to ¥1,632 million.

In the equipment sales segment, sales decreased 6.4% to ¥5,352 million and operating income decreased 54.2% to ¥156 million.

In the equipment manufacturing segment, sales decreased 4.1% to ¥2,820 million and operating income decreased 78.2% to ¥48 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, 2014.

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 marketbased indicators, the Group may be unable to receive the interest that was expected when the bond was purchased or at the beginning of the fiscal period due to changes in market conditions.

8. Risk related to recovering deferred tax assets

Deferred tax assets in the consolidated financial statements of the Group are recorded as a result of the scheduling of the expected year for the future resolution of temporary subtraction differences. If the operating performance of the Company and/or its consolidated subsidiaries worsens, deferred tax assets would have to be reduced on the basis of judgments concerning the ability to recover deferred tax assets, and the Group's operating performance and financial position may be affected.

9. Seasonal variations in operating performance

For ordinary business operations, a larger percentage of construction work is completed in the second half than in the first half of each fiscal year. This produces a significant difference between first half and second half sales, which results in a seasonal variation in operating performance for these two six-month periods.

Consolidated Balance Sheets

Hibiya Engineering, Ltd. and Consolidated Subsidiaries
As of March 31, 2014 and 2013

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2014	2013	**2014**
Assets			
Current assets:			
Cash and cash equivalents *(Note 4)*	**¥ 7,623**	¥11,184	**$ 74,067**
Notes receivable, accounts receivable from completed construction contracts and other *(Note 4)*	**32,717**	28,674	**317,888**
Short-term investments *(Notes 3 and 4)*	**1,515**	1,500	**14,720**
Costs on uncompleted construction contracts and other	**855**	759	**8,307**
Deferred tax assets *(Note 6)*	**576**	672	**5,597**
Other	**703**	842	**6,831**
Allowance for doubtful accounts	**(35)**	(31)	**(340)**
Total current assets	**43,954**	43,600	**427,070**
Property, plant and equipment:			
Buildings and structures	**1,476**	1,450	**14,341**
Land	**152**	152	**1,477**
Other	**930**	883	**9,036**
Total	**2,558**	2,485	**24,854**
Accumulated depreciation	**(1,999)**	(1,927)	**(19,423)**
Total property, plant and equipment	**559**	558	**5,431**
Investments and other assets:			
Investment securities *(Notes 3 and 4)*	**33,337**	30,205	**323,912**
Insurance funds	**2,755**	2,661	**26,768**
Investments in silent partnership *(Note 4)*	**1,255**	1,000	**12,194**
Deferred tax assets *(Note 6)*	**161**	32	**1,564**
Goodwill	**—**	77	**—**
Asset for retirement benefits *(Note 8)*	**398**	—	**3,867**
Other	**1,113**	1,295	**10,815**
Total investments and other assets	**39,019**	35,270	**379,120**
Total assets	**¥83,532**	¥79,428	**$811,621**

See accompanying notes to consolidated financial statements.

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2014	2013	**2014**
Liabilities and Net assets			
Current liabilities:			
Notes payable, accounts payable for construction contracts and other *(Note 4)*	**¥20,442**	¥19,176	**$198,620**
Bank loans *(Notes 4 and 5)*	**330**	780	**3,206**
Income taxes payable	**721**	719	**7,005**
Advances received on uncompleted construction contracts	**1,003**	322	**9,745**
Provision for bonuses	**923**	902	**8,968**
Provision for loss on construction contracts	**242**	253	**2,351**
Other	**928**	1,234	**9,019**
Total current liabilities	**24,589**	23,386	**238,914**
Long-term liabilities:			
Deferred tax liabilities *(Note 6)*	**1,194**	407	**11,601**
Provision for retirement benefits *(Note 8)*	**—**	379	**—**
Liability for retirement benefits *(Note 8)*	**607**	—	**5,898**
Other	**73**	90	**709**
Total long-term liabilities	**1,874**	876	**18,208**
Net assets			
Shareholders' equity *(Note9)*:			
Capital stock: Authorized – 96,500,000 shares in 2014 and 2013 Issued – 31,000,309 shares in 2014 and 34,000,309 shares in 2013	**5,753**	5,753	**55,898**
Capital surplus	**5,932**	5,932	**57,637**
Retained earnings	**40,187**	41,495	**390,468**
Treasury stock: 785,800 shares in 2014 and 3,366,761 shares in 2013	**(525)**	(2,649)	**(5,101)**
Total shareholders' equity	**51,347**	50,531	**498,902**
Accumulated other comprehensive income			
Net unrealized holding gains or losses on securities	**4,031**	2,914	**39,167**
Accumulated adjustments for retirement benefits	**(121)**	—	**(1,176)**
Total accumulated other comprehensive income	**3,910**	2,914	**37,991**
Subscription rights to shares	**110**	98	**1,069**
Minority interests	**1,702**	1,623	**16,537**
Total net assets	**57,069**	55,166	**554,499**
Total liabilities and net assets	**¥83,532**	¥79,428	**$811,621**

Consolidated Statements of Income

Hibiya Engineering, Ltd. and Consolidated Subsidiaries
Years ended March 31, 2014 and 2013

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2014	2013	**2014**
Net sales	**¥69,466**	¥66,322	**$674,951**
Cost of sales	**60,741**	57,579	**590,176**
Gross profit	**8,725**	8,743	**84,775**
Selling, general and administrative expenses *(Note 7)*	**6,883**	6,726	**66,878**
Operating income	**1,842**	2,017	**17,897**
Other income (expenses):			
Interest and dividend income	**253**	224	**2,458**
Interest expenses	**(13)**	(13)	**(126)**
Equity in earnings of affiliates	**694**	369	**6,743**
Gain on sales of investment securities	**284**	—	**2,759**
Gain on redemption of investment securities	**274**	—	**2,662**
Gain on bargain purchase	**—**	129	**—**
Write off of goodwill	**(43)**	—	**(418)**
Other, net	**111**	238	**1,080**
Other income (expenses) - net	**1,560**	947	**15,158**
Income before income taxes and minority interests	**3,402**	2,964	**33,055**
Income taxes *(Note 6)*:			
Income taxes-current	**848**	803	**8,239**
Income taxes-deferred	**301**	225	**2,925**
Total income taxes	**1,149**	1,028	**11,164**
Income before minority interests	**2,253**	1,936	**21,891**
Minority interests in income	**37**	130	**360**
Net income *(Note 12)*	**¥ 2,216**	¥ 1,806	**$ 21,531**

	Yen		U.S. dollars (Note 1)
Per share of common stock *(Note 12)*:	**2014**	2013	**2014**
Net assets	**¥1,828.81**	¥1,744.66	**$17.77**
Net income			
Basic	**72.78**	58.15	**0.71**
Diluted	**72.43**	57.90	**0.70**
Cash dividend applicable to the year *(Note9)*	**30.00**	30.00	**0.29**

See accompanying notes to consolidated financial statements.

Consolidated Statements of Comprehensive Income

Hibiya Engineering, Ltd. and Consolidated Subsidiaries
Years ended March 31, 2014 and 2013

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2014	2013	**2014**
Income before minority interests	**¥2,253**	¥1,936	**$21,891**
Other comprehensive income *(Note 11)*:			
Net unrealized holding gains or losses on securities	**1,138**	1,520	**11,057**
Share of other comprehensive income of associates accounted for by using equity method	**27**	182	**262**
Total other comprehensive income	**1,165**	1,702	**11,319**
Comprehensive income	**3,418**	3,638	**33,210**
Comprehensive income attributable to:			
Owners of the parent	**3,338**	3,471	**32,433**
Minority interests	**80**	167	**777**

See accompanying notes to consolidated financial statements.

Consolidated Statements of Changes in Net Assets

Hibiya Engineering, Ltd. and Consolidated Subsidiaries
Years ended March 31, 2014 and 2013

	Number of shares of common stock	Shareholders' equity				
		Capital stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
	(Shares)	(Millions of yen)				
Balance at April 1, 2012	34,000,309	¥5,753	¥5,932	¥40,635	¥(1,873)	¥50,447
Net income	—	—	—	1,806	—	1,806
Dividend from surplus	—	—	—	(942)	—	(942)
Purchase of treasury stock	—	—	—	—	(792)	(792)
Disposal of treasury stock	—	—	—	(4)	16	12
Net changes of items other than shareholders' equity	—	—	—	—	—	—
Balance at April 1, 2013	34,000,309	¥5,753	¥5,932	¥41,495	¥(2,649)	¥50,531
Net income	—	—	—	2,216	—	2,216
Dividend from surplus	—	—	—	(922)	—	(922)
Purchase of treasury stock	—	—	—	—	(501)	(501)
Disposal of treasury stock	—	—	—	(7)	30	27
Retirement of treasury stock	(3,000,000)	—	—	(2,595)	2,595	—
Net changes of items other than shareholders' equity	—	—	—	—	—	—
Balance at March 31, 2014	**31,000,309**	**¥5,753**	**¥5,932**	**¥40,187**	**¥ (525)**	**¥51,347**

	Accumulated other comprehensive income			Subscription rights to shares	Minority interests	Total net assets
	Net unrealized holding gains or losses on securities	Accumulated adjustments for retirement benefits	Total Accumulated other comprehensive income			
	(Millions of yen)					
Balance at April 1, 2012	¥1,249	—	¥1,249	¥ 76	¥1,596	¥53,368
Net income	—	—	—	—	—	1,806
Dividend from surplus	—	—	—	—	—	(942)
Purchase of treasury stock	—	—	—	—	—	(792)
Disposal of treasury stock	—	—	—	—	—	12
Net changes of items other than shareholders' equity	1,665	—	1,665	22	27	1,714
Balance at April 1, 2013	¥2,914	—	¥2,914	¥ 98	¥1,623	¥55,166
Net income	—	—	—	—	—	2,216
Dividend from surplus	—	—	—	—	—	(922)
Purchase of treasury stock	—	—	—	—	—	(501)
Disposal of treasury stock	—	—	—	—	—	23
Retirement of treasury stock	—	—	—	—	—	—
Net changes of items other than shareholders' equity	1,117	(121)	996	12	79	1,087
Balance at March 31, 2014	**¥4,031**	**¥(121)**	**¥3,910**	**¥110**	**¥1,702**	**¥57,069**

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
	(Thousands of U.S. dollars (Note 1))				
Balance at April 1, 2013	$55,898	$57,637	$403,177	$(25,738)	$490,974
Net income	—	—	21,531	—	21,531
Dividend from surplus	—	—	(8,958)	—	(8,958)
Purchase of treasury stock	—	—	—	(4,868)	(4,868)
Disposal of treasury stock	—	—	(68)	291	223
Retirement of treasury stock	—	—	(25,214)	25,214	—
Net changes of items other than shareholders' equity	—	—	—	—	—
Balance at March 31, 2014	**$55,898**	**$57,637**	**$390,468**	**$ (5,101)**	**$498,902**

	Accumulated other comprehensive income			Subscription rights to shares	Minority interests	Total net assets
	Net unrealized holding gains or losses on securities	Accumulated adjustments for retirement benefits	Total Accumulated other comprehensive income			
	(Thousands of U.S. dollars (Note 1))					
Balance at April 1, 2013	$28,313	—	$28,313	$ 952	$15,770	$536,009
Net income	—	—	—	—	—	21,531
Dividend from surplus	—	—	—	—	—	(8,958)
Purchase of treasury stock	—	—	—	—	—	(4,868)
Disposal of treasury stock	—	—	—	—	—	223
Retirement of treasury stock	—	—	—	—	—	—
Net changes of items other than shareholders' equity	10,854	(1,176)	9,678	117	767	10,562
Balance at March 31, 2014	**$39,167**	**$(1,176)**	**$37,991**	**$1,069**	**$16,537**	**$554,499**

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Hibiya Engineering, Ltd. and Consolidated Subsidiaries
Years ended March 31, 2014 and 2013

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2014	2013	**2014**
Cash flows from operating activities:			
Income before income taxes and minority interests	**¥ 3,402**	¥ 2,964	**$ 33,055**
Depreciation and amortization	**259**	259	**2,517**
Amortization of goodwill	**77**	34	**748**
Increase (decrease) in allowance for doubtful accounts	**114**	(21)	**1,108**
Increase (decrease) in provision for retirement benefits	**(379)**	(11)	**(3,682)**
Decrease (increase) in asset for retirement benefits	**(250)**	—	**(2,429)**
Increase (decrease) in liability for retirement benefits	**259**	—	**2,517**
Increase (decrease) in provision for bonuses	**21**	(32)	**204**
Increase (decrease) in provision for loss on construction contracts	**(11)**	(352)	**(107)**
Interest and dividend income	**(253)**	(224)	**(2,458)**
Interest expenses	**13**	13	**126**
Loss (gain) on sales of investment securities	**(284)**	—	**(2,759)**
Loss (gain) on redemption of investment securities	**(274)**	—	**(2,662)**
Equity in (earnings) losses of affiliates	**(694)**	(369)	**(6,743)**
Gain on bargain purchase	**—**	(129)	**—**
Decrease (increase) in notes and accounts receivable	**(4,044)**	(3,285)	**(39,293)**
Decrease (increase) in costs on uncompleted construction contracts and other	**(96)**	387	**(933)**
Increase (decrease) in notes and accounts payable	**1,265**	682	**12,291**
Increase (decrease) in advances received on uncompleted construction contracts	**681**	193	**6,617**
Other, net	**(516)**	470	**(5,016)**
Subtotal	**(710)**	643	**(6,899)**
Interest and dividend income received	**263**	235	**2,555**
Interest expenses paid	**(13)**	(13)	**(126)**
Income taxes paid	**(855)**	(701)	**(8,307)**
Net cash provided by (used in) operating activities	**(1,315)**	164	**(12,777)**
Cash flows from investing activities:			
Payments into time deposits	**(300)**	(600)	**(2,915)**
Proceeds from withdrawal of time deposits	**600**	500	**5,830**
Purchase of property, plant and equipment	**(96)**	(41)	**(933)**
Purchase of intangible assets	**(25)**	(25)	**(243)**
Purchase of investment securities	**(3,510)**	(1,900)	**(34,104)**
Proceeds from sales of investment securities	**300**	—	**2,915**
Proceeds from redemption of investment securities	**3,000**	2,700	**29,149**
Purchase of insurance funds	**(99)**	(100)	**(962)**
Proceeds from maturity of insurance funds	**6**	454	**58**
Payments for investments in silent partnership	**(273)**	—	**(2,653)**
Other, net	**35**	4	**340**
Net cash provided by (used in) investing activities	**(362)**	992	**(3,518)**
Cash flows from financing activities:			
Net increase (decrease) in short-term bank loans	**(450)**	—	**(4,372)**
Purchase of treasury stock	**(501)**	(792)	**(4,868)**
Proceeds from disposal of treasury stock	**0**	0	**0**
Cash dividend paid	**(922)**	(942)	**(8,958)**
Cash dividend paid to minority shareholders	**(6)**	(6)	**(58)**
Other, net	**(5)**	(7)	**(49)**
Net cash provided by (used in) financing activities	**(1,884)**	(1,747)	**(18,305)**
Net increase (decrease) in cash and cash equivalents	**(3,561)**	(591)	**(34,600)**
Cash and cash equivalents at beginning of period	**11,184**	11,775	**108,667**
Cash and cash equivalents at end of period	**¥ 7,623**	¥11,184	**$ 74,067**

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

1. Basis of presenting consolidated financial statements

The accompanying consolidated financial statements of Hibiya Engineering, Ltd. (the "Company") have been prepared in accordance with the provisions set forth in the Financial Instruments and Exchange Act and its related accounting regulations, and in conformity with accounting principles generally accepted in Japan ("Japanese GAAP"), which are different in certain respects as to application and disclosure requirements from International Financial Reporting Standards.

The accompanying consolidated financial statements have been reformatted and translated into English from the consolidated financial statements of the Company prepared in accordance with Japanese GAAP and filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Financial Instruments and Exchange Act. Certain supplementary information included in the statutory Japanese language consolidated financial statements is not presented in the accompanying consolidated financial statements.

The translations of the Japanese yen amounts into U.S. dollars are included solely for the convenience of readers outside Japan, using the prevailing exchange rate at March 31, 2014, which was ¥102.92 to U.S. $1. The convenience translations should not be construed as representations that the Japanese yen amounts have been, could have been, or could in the future be, converted into U.S. dollars at this or any other rate of exchange.

2. Summary of significant accounting policies

(1) Consolidation

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

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

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

(2) Securities

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

No trading securities and held-to-maturity debt securities have been owned by the Companies. Equity securities issued by subsidiaries have been eliminated upon consolidation. Equity securities issued by affiliated companies which are not accounted for using the equity method are stated at average cost. Available-for-sale securities with fair value are stated at fair value. Unrealized gains and losses on these securities are reported, net of applicable income taxes, as a separate component of net assets. Available-for-sale securities with no available fair value are stated at cost determined by the periodic average method. Realized gains or losses on sale of such securities are computed using the average cost.

(3) Allowance for doubtful accounts

Allowance for doubtful accounts is provided in amounts sufficient to cover probable losses on collections. It consists of the estimated uncollectible amount with respect to certain identified doubtful accounts and an amount calculated by using the rate of actual collection losses in the past with respect to the remaining receivables.

(4) Provision for bonuses

Provision for bonuses is stated at the estimated amount of the bonuses to be paid to employees based on their services provided for the fiscal year.

(5) Provision for loss on construction contracts

Provision for loss on construction contracts is provided in the amount sufficient to cover probable losses on construction. The provision amount is estimated by taking into account the expected loss from uncompleted construction contracts at year-end whose amount can be reasonably estimated.

The net provision for loss on construction contracts that were changed to cost of sales for the years ending March 31, 2014 and 2013 are ¥242 million ($2,351 thousand) and ¥11 million, respectively.

(6) Construction contracts

Revenues and costs of construction contracts, of which the percentage of completion at the fiscal year-end can be reliably estimated, are recognized by the percentage-of-completion method. The percentage of completion is calculated based on the cost incurred to date as a percentage of the estimated total costs.

(7) Costs on uncompleted construction contracts and other

Costs on uncompleted construction contracts are stated at cost using the special identification method. Inventories other than construction contracts are stated at cost using the special identification method and periodic average method for finished goods and work in process, and by the last purchase cost method for raw materials. Each book value is written down in accordance with the declining profitability of each asset.

(8) Property, plant and equipment, and depreciation

Depreciation of property, plant and equipment (not including leased assets) is computed using the declining-balance method at rates based on their useful lives prescribed in the Japanese tax regulations.

Leased assets are depreciated using the straight-line method over the period of the lease with no residual value.

(9) Retirement benefits

(a) Method for attribution of estimated retirement benefits to periods

In the calculation concerning retirement benefits, the straight-line basis is used for the method of attributing expected retirement benefits to the periods.

(b) Accounting treatment of actuarial gains and losses and past service costs

Past service costs are amortized based on the straight-line method over a certain period (10 years), which is within the average remaining years of service of the employees at the time when they arise.

Actuarial gains and losses are amortized based on the straight-line method over a certain period (10 years), which is within the average remaining years of service of the employees at the time when they arise.

(c) Application of the simplified method for small-sized enterprises

Certain consolidated subsidiaries apply the simplified method in the calculation of their liability for retirement benefit liability and retirement benefit expenses. Under the simplified method, benefits payable assuming the voluntary retirement of all eligible employees at the fiscal year-end are deemed as retirement benefit obligation.

(10) Cash and cash equivalents in the consolidated statements of cash flows

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

(11) Amounts per share

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

Cash dividend per share presented in the consolidated statements of income is applicable to the respective years and includes dividend to be paid after the fiscal year-end.

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

Notes receivable and notes payable are settled on the date of clearance. As March 31, 2013 was a bank holiday, notes receivable and notes payable maturing on that date could not be settled and were included in the ending balance of notes and accounts receivable-trade, notes and accounts payable-trade as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	**2014**
Notes receivable	—	¥ 61	—
Notes payable	—	232	—

(13) Change in accounting policy

For the year ended March 31, 2014

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

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

In accordance with the article 37 of the Statement No.26, the effect of the change in accounting policies arising from initial application has been recognized in accumulated adjustments for retirement benefit in accumulated other comprehensive income.

As a result of the application, an asset for retirement benefits in the amount of ¥398 million ($3,867 thousand) and a liability for retirement benefits in the amount of ¥607 million ($5,898 thousand) have been recognized and accumulated other comprehensive income has decreased by ¥121 million ($1,176 thousand), at the end of the current fiscal year. Accordingly, net assets per share decreased by ¥4.02 ($0.04).

For the year ended March 31, 2013

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

(14) New accounting standards not yet adopted by the Companies
- "Accounting Standard for Retirement Benefits" (ASBJ Statement No. 26, issued on May 17, 2012)
- "Guidance on Accounting Standard for Retirement Benefits" (ASBJ Guidance No. 25, issued on May 17, 2012)

(a) Summary
The revision focused on (i) how unrecognized actuarial gains and losses and unrecognized past service costs should be accounted for, (ii) how retirement benefit obligations and current service costs should be determined, and (iii) enhancement of disclosures.

(b) Date of application
The revised calculation of retirement benefit obligations and current service costs will be applied from the beginning of the fiscal year ending March 31, 2015.

However, as tentative treatments are specified in the Accounting Standard and the Guidance, the revision will not be retrospectively applied to the consolidated financial statements in prior periods.

(c) Effects of application of the standards
The application of the Accounting Standard and the Guidance has no impact on the consolidated financial statements.

3. Securities

(1) As of March 31, 2014 and 2013, book values (fair values) and acquisition costs of available-for-sale securities with available fair values were as follows:

(a) Available-for-sale securities

	Millions of yen		
	2014		
	Book value	Acquisition cost	Difference
Securities whose book values (fair values) exceed their acquisition costs:			
Equity securities	**¥ 9,338**	**¥ 3,529**	**¥5,809**
Debt securities:			
Government and municipal bonds	**304**	**300**	**4**
Corporate bonds	**946**	**892**	**54**
Other bonds	**2,829**	**2,810**	**19**
Other	**318**	**280**	**38**
Sub-total	**¥13,735**	**¥ 7,811**	**¥5,924**
Securities whose book values (fair values) do not exceed their acquisition costs:			
Equity securities	**¥ 106**	**¥ 111**	**¥ (5)**
Debt securities:			
Government and municipal bonds	—	—	—
Corporate bonds	—	—	—
Other bonds	**3,060**	**3,100**	**(40)**
Other	—	—	—
Sub-total	**¥ 3,166**	**¥ 3,211**	**¥ (45)**
Total	**¥16,901**	**¥11,022**	**¥5,879**

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

	Thousands of U.S. dollars		
	2014		
	Book value	Acquisition cost	Difference
Securities whose book values (fair values) exceed their acquisition costs:			
Equity securities	**$ 90,731**	**$ 34,289**	**$56,442**
Debt securities:			
Government and municipal bonds	**2,954**	**2,915**	**39**
Corporate bonds	**9,192**	**8,667**	**525**
Other bonds	**27,487**	**27,303**	**184**
Other	**3,089**	**2,720**	**369**
Sub-total	**$133,453**	**$ 75,894**	**$57,559**
Securities whose book values (fair values) do not exceed their acquisition costs:			
Equity securities	**$ 1,030**	**$ 1,079**	**$ (49)**
Debt securities:			
Government and municipal bonds	**—**	**—**	**—**
Corporate bonds	**—**	**—**	**—**
Other bonds	**29,732**	**30,120**	**(388)**
Other	**—**	**—**	**—**
Sub-total	**$ 30,762**	**$ 31,199**	**$ (437)**
Total	**$164,215**	**$107,093**	**$57,122**

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

	Millions of yen		Thousands of U.S. dollars
	2014	2013	**2014**
Unlisted equity securities	**¥1,485**	¥1,489	**$14,429**
Total	**¥1,485**	¥1,489	**$14,429**

(3) Proceeds from sales, and gross realized gains and losses from the sale of available-for-sale securities for the years ended March 31, 2014 and 2013 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	**2014**
Proceeds from sales			
Equity securities	**¥300**	¥—	**$2,915**
Other	**—**	—	**—**
Total	**¥300**	¥—	**$2,915**
Gross realized gains			
Equity securities	**¥284**	¥—	**$2,759**
Other	**—**	—	**—**
Total	**¥284**	¥—	**$2,759**
Gross realized losses			
Equity securities	**¥ —**	¥—	**$ —**
Other	**—**	—	**—**
Total	**¥ —**	¥—	**$ —**

(4) Securities with impairment losses
For available-for-sale securities with available fair values, impairment losses are recognized if the fair value declines by 30% or more below the acquisition cost. For available-for-sale securities with no available fair values, impairment losses are recognized if the net assets per share declines by 50% or more below the net assets per share at the time of acquisition.

(5) Investments in affiliates
The amounts of investments in affiliates were ¥16,466 million ($159,988 thousand) and ¥15,749 million as of March 31, 2014 and 2013, respectively.

4. Financial instruments

Information on financial instruments for the years ended March 31, 2014 and 2013 were as follows:

(1) Policy for financial instruments
Surplus cash from cash and cash equivalents after deduction of operating funds, new business investments and policy investments is invested.

The Companies have no intention to use derivatives for dealing or speculative purposes and may use them only for efficient operation of financial assets to the extent that simulations are conducted sufficiently and risks can be managed.

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

(2) Details and risks of financial instruments
Operating receivables of the Companies (notes receivable, accounts receivable from completed construction contracts and other) are exposed to customer credit risk that the receivables may not be collected due to deterioration of the counterparty's financial condition.

The Companies have short-term investments, investment securities and other investments mainly for policy investment in the business. These investments are exposed to the issuer's credit risk and to the risk of fluctuations in the interest rate, foreign currency exchange rate and market price.

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

(3) Risk management for financial instruments
Credit risk management
The Company manages the credit risk in accordance with business administrative regulations regarding operating receivables. When the Company starts business with a customer, the Company obtains and analyzes the customer's credit information, and the order discussion committee approves the transaction depending on the customer's credit standing. Also, the condition of each customer is periodically monitored to grasp the concerns for collectibility in an early stage and reduce the risk of the customer's default. The consolidated subsidiaries similarly manage the credit risk in accordance with the Company's business administrative regulations.

The credit risk related to bonds, among short-term investments and investment securities, is insignificant as the Companies invest only in bonds with high ratings.

Market risk management
The investments in short-term investments and investment securities are approved by the authorized person after examining the rating, yield, risk and others in accordance with the fund management policy based on the safety by the finance department. In addition, the market price, transaction results and others are reported on a monthly basis, and the condition of the risk, the investment result and others are reported to the management meeting on a quarterly basis.

In consideration of relationships with suppliers, the Companies continually review the investments other than bonds with maturities.

Supplemental information on the fair value of financial instruments

The fair value of financial instruments includes the amount based on their market prices or the amount reasonably calculated when the market prices are not available. The amount calculated incorporates changing factors and is subject to fluctuation due to changes in assumptions.

(4) Fair values of financial instruments

As of March 31, 2014 and 2013, book values, fair values and their differences were as follows. Items whose fair values were extremely difficult to be determined are not included in the following table.

	Millions of yen		
	2014		
	Book value	Fair value	Difference
(1) Cash and cash equivalents	**¥ 7,623**	**¥ 7,623**	**¥—**
(2) Notes receivable, accounts receivable from completed construction contracts and other	**32,717**	**32,717**	**—**
(3) Short-term investments and investment securities	**16,901**	**16,901**	**—**
Total assets	**¥57,241**	**¥57,241**	**¥—**
(1) Notes payable, accounts payable for construction contracts and other	**¥20,442**	**¥20,442**	**¥—**
(2) Bank loans	**330**	**330**	**—**
Total liabilities	**¥20,772**	**¥20,772**	**¥—**

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

	Thousands of U.S. dollars		
	2014		
	Book value	Fair value	Difference
(1) Cash and cash equivalents	**$ 74,067**	**$ 74,067**	**$—**
(2) Notes receivable, accounts receivable from completed construction contracts and other	**317,888**	**317,888**	**—**
(3) Short-term investments and investment securities	**164,215**	**164,215**	**—**
Total assets	**$556,170**	**$556,170**	**$—**
(1) Notes payable, accounts payable for construction contracts and other	**$198,620**	**$198,620**	**$—**
(2) Bank loans	**3,206**	**3,206**	**—**
Total liabilities	**$201,826**	**$201,826**	**$—**

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

Assets:

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

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

(3) Short-term investments and investment securities
The market price on securities exchanges is used as fair value of equity securities. The market price on securities exchanges or the price quoted by financial institutions is used as fair value of bond securities.

Liabilities:
(1) Notes payable, accounts payable for construction contracts and other and (2) Bank loans
The book value is used as fair value because these are settled in a short period and their fair value approximates the book value.

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

	Millions of yen		Thousands of U.S. dollars
	2014	2013	**2014**
Unlisted equity securities	**¥17,951**	¥17,239	**$174,417**
Investments in silent partnership	**1,255**	1,000	**12,194**

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

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

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

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

	Thousands of U.S. dollars			
	2014			
	Within 1 year	1 to 5 years	5 to 10 years	Over 10 years
Cash and cash equivalents	**$ 74,067**	**$ —**	**$ —**	**$ —**
Notes receivable, accounts receivable from completed construction contracts and other	**317,888**	**—**	**—**	**—**
Short-term investments and investment securities				
Securities with maturities:				
(1) Government and municipal bonds	**—**	**2,914**	**—**	**—**
(2) Corporate bonds	**—**	**3,887**	**—**	**4,858**
(3) Other bonds	**14,672**	**37,894**	**4,858**	**—**
Investments in silent partnership	**—**	**12,194**	**—**	**—**
Total	**$406,627**	**$56,889**	**$4,858**	**$4,858**

5. Bank loans

Bank loans as of March 31, 2014 and 2013 were represented by overdraft and short-term notes, bearing weighted average interest rate of 1.475% for the years ended March 31, 2014 and 2013.

The Companies had no long-term debt as of March 31, 2014 and 2013.

For efficient procurement of working capital, two consolidated subsidiaries have entered into overdraft contracts with four financial institutions in the aggregate amount of ¥1,130 million ($10,979 thousand) as of March 31, 2014 and 2013. The unused borrowings of the consolidated subsidiaries as of March 31, 2014 and 2013 amounted to ¥950 million ($9,230 thousand).

6. Income taxes

Taxes on income consist of corporation, enterprise and inhabitants taxes. The aggregate statutory tax rates on income before income taxes were approximately 38.0% for the years ended March 31, 2014 and 2013.

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, 2014 and 2013.

	2014	2013
Statutory tax rate	**38.0%**	38.0%
Non-deductible expenses	**1.7**	2.1
Non-taxable dividend income	**(1.9)**	(0.7)
Per capita inhabitant tax	**1.3**	1.5
Valuation allowance	**0.7**	0.8
Equity in earnings of affiliates	**(7.8)**	(4.7)
Gain on bargain purchase	**—**	(1.7)
Adjustment of deferred tax assets and liabilities for enacted changes in tax laws and rates	**1.2**	—
Other	**0.6**	(0.6)
Effective tax rate	**33.8%**	34.7%

Significant components of the Companies' deferred tax assets and liabilities as of March 31, 2014 and 2013 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	**2014**
Deferred tax assets:			
Loss on valuation of investment securities	**¥ 259**	¥ 415	**$ 2,517**
Enterprise taxes payable	**64**	66	**622**
Provision for bonuses	**329**	345	**3,197**
Provision for loss on construction contracts	**86**	96	**836**
Provision for retirement benefits	**—**	829	**—**
Liability for retirement benefits	**856**	—	**8,317**
Net unrealized holding losses on securities	**16**	22	**155**
Other	**508**	393	**4,935**
Valuation allowance	**(532)**	(403)	**(5,169)**
Total deferred tax assets	**¥ 1,586**	¥ 1,763	**$ 15,410**
Deferred tax liabilities:			
Net unrealized holding gains on securities	**¥(1,936)**	¥(1,412)	**$(18,811)**
Other	**(107)**	(54)	**(1,039)**
Total deferred tax liabilities	**¥(2,043)**	¥(1,466)	**$(19,850)**
Net deferred tax assets (liabilities)	**¥ (457)**	¥ 297	**$(4,440)**

The Act on Partial Revision of the Income Tax Act (Act No. 10 of 2014) was promulgated on March 31, 2014. With this revision, the Special Income Tax for Reconstruction will no longer be levied from the fiscal year beginning on or after April 1, 2014. In conjunction with this, for temporary differences expected to be reversed in the fiscal year beginning on April 1, 2014, the statutory tax rate used to calculate deferred tax assets and deferred tax liabilities was changed from the previous rate of 38.0% to 35.6%.

As a result of this tax rate change, deferred tax assets (net of deferred tax liabilities) decreased by ¥39 million ($378 thousand), and income taxes-deferred increased by the same amount.

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
	2014	2013	**2014**
Employees' salaries and allowances	**¥2,214**	¥2,332	**$21,512**
Provision for bonuses	**385**	398	**3,741**
Retirement benefit expenses	**220**	205	**2,138**
Provision of allowance for doubtful accounts	**146**	4	**1,419**
Depreciation	**212**	216	**2,060**
Rents	**983**	945	**9,551**

Research and development expenses included in general and administrative expenses for the years ended March 31, 2014 and 2013 were ¥109 million ($1,059 thousand) and ¥140 million, respectively.

8. Retirement benefits

For the year ended March 31, 2014

The Company and two consolidated subsidiaries have funded and unfunded defined benefit plans to prepare for the payment of employees' retirement benefits. Another consolidated subsidiary participates in the small and medium enterprise retirement allowance mutual aid system.

The defined benefit corporate pension plans, all of which are funded, provide lump-sum or pension benefits based on salaries and length of service.

The lump-sum retirement benefit plans, which are principally unfunded and partially funded as a result of the setup of retirement benefit trusts, provide lump-sum benefits based on salaries and length of service.

For the defined benefit corporate pension plans and lump-sum retirement benefit plans of two consolidated subsidiaries, liability for retirement benefits and retirement benefit expenses are calculated using the simplified method.

The Company and one of the consolidated subsidiaries participate in the Tokyo Air-Conditioning and Plumbing Contractors Employees' Pension Fund (Tokyo Kucho Eisei Koujigyo Kosei Nenkin Kikin) as a welfare pension fund system, and the amount of plan assets proportionate to their contributions cannot be calculated in a reasonable manner. Therefore, the pension assets are accounted for as the case in the defined contribution plan.

Defined benefit plans (excluding plans applying the simplified method)

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

	Millions of yen	Thousands of U.S. dollars
	2014	2014
Retirement benefit obligation at beginning of period	¥4,351	$42,726
Current service costs	198	1,924
Interest costs	65	632
Actuarial gains and losses arising during period	(8)	(79)
Retirement benefits paid	(436)	(4,236)
Retirement benefit obligation at end of period	¥4,170	$40,517

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

	Millions of yen	Thousands of U.S. dollars
	2014	2014
Plan assets at beginning of period	¥4,024	$39,099
Expected return on plan assets	51	496
Actuarial gains and losses arising during period	(7)	(69)
Contribution from employer	263	2,555
Retirement benefit paid	(225)	(2,186)
Plan assets at end of period	¥4,106	$39,895

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

	Millions of yen	Thousands of U.S. dollars
	2014	2014
Liability for retirement benefits at beginning of period	¥192	$1,866
Retirement benefit expenses	21	204
Retirement benefit paid	(33)	(321)
Contribution to plans	(36)	(350)
Liability for retirement benefits at end of period	¥144	$1,399

(d) Reconciliation between retirement benefit obligations and plan assets at end of period and liability for retirement benefits and asset for retirement benefits on the consolidated balance sheets

	Millions of yen	Thousands of U.S. dollars
	2014	2014
Funded retirement benefit obligations	¥4,530	$44,015
Plan assets	(4,455)	(43,286)
Net	75	729
Unfunded retirement benefit obligations	134	1,302
Net balance of liability and asset recorded on the consolidated balance sheets	209	2,031
Liability for retirement benefits	607	5,898
Asset for retirement benefits	(398)	(3,867)
Net balance of liability and asset recorded on the consolidated balance sheets	¥ 209	$ 2,031

Note: Plans applying the simplified method are included.

(e) The components of retirement benefit expenses

	Millions of yen	Thousands of U.S. dollars
	2014	2014
Current service costs	¥198	$1,924
Interest costs	65	632
Expected return on plan assets	(51)	(496)
Amortization of actuarial gains and losses	52	505
Amortization of past service costs	(11)	(107)
Retirement benefit expenses applying the simplified method	22	214
Retirement benefit expenses under defined benefit plans	¥275	$2,672

(f) Accumulated adjustments for retirements benefits

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

	Millions of yen	Thousands of U.S. dollars
	2014	**2014**
Unrecognized past service costs	**¥ 80**	**$ 777**
Unrecognized actuarial gains and losses	**(279)**	**(2,711)**
Total	**¥(199)**	**$(1,934)**

(g) Plan assets

(i) Components of plan assets

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

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

Note: Total plan assets include 54% retirement benefit trusts set up for defined benefit corporate pension plans.

(ii) Determination of expected long-term rate of return

In determining the expected long-term rate of return on plan assets, the Company takes into consideration the current and future plan asset allocation as well as the current and expected long-term rate of return on various asset categories comprising plan assets.

(h) Actuarial assumptions

Major actuarial assumptions for the year ended March 31, 2014:

	2014
Discount rate	**1.5%**
Expected long-term rate of return on plan assets	**1.0% – 1.5%**

(i) Multi-employer pension plans

The Company and one of the consolidated subsidiaries participate in several contributory funded multi-employer pension plans, for which the required contributions are accounted for as the employees' retirement benefit expenses. The required contribution to employees' pension fund amounted to ¥262 million ($2,546 thousand). Information about the multi-employer plans was as follows:

	Millions of yen	Thousands of U.S. dollars
Funded status of the plans as of March 31, 2013		
Fair value of plan assets	**¥ 34,135**	**$ 331,665**
Benefit obligations under pension funding programs	**47,934**	**465,740**
Deficit (*1)	**¥(13,799)**	**$(134,075)**
Ratio of total salaries of the Companies to total funds of plans (*2)	**12.2%**	

(As of March 31, 2013)

The net balance, the above deficit (*1), was mainly due to the balance of actuarial past service costs of ¥14,066 million ($136,669 thousand) and the surplus of ¥267 million ($2,594 thousand) for the year ended March 31, 2013. The amounts of principal and interest of past service costs were amortized equally over 18 years.

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

Pension system of the Tokyo Air-Conditioning & Plumbing Contractors Employees' Pension Fund (Tokyo Kucho Eisei Koujigyo Kosei Nenkin Kikin), in which the Company and one of the consolidated subsidiaries participate, was changed, and it was decided that the contributions to the fund would be raised and the level of benefits would be lowered from April 1, 2013. Accordingly, the Companies' contributions to the fund for the year ending March 31, 2014 is expected to increase by ¥108 million ($1,049 thousand).

For the year ended March 31, 2013

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

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

	Millions of yen
	2013
Projected benefit obligation	¥(4,880)
Fair value of plan assets	4,361
Funded status	¥ (519)
Unrecognized prior service cost	(92)
Unrecognized actuarial differences	333
Prepaid pension expenses	(101)
Provision for retirement benefits	¥ (379)

*1. The consolidated subsidiaries adopt the simplified method for calculating the projected benefit obligation.

*2. Fair value of plan assets includes retirement benefit trusts for lump-sum retirement plans.

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

	Millions of yen
	2013
Service cost - benefits earned during the year	¥252
Interest cost on projected benefit obligation	63
Expected return on plan assets	(48)
Amortization of prior service cost	(12)
Amortization of actuarial differences	39
Contribution to the employees' pension fund system	157
Retirement benefit expenses	¥451

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

Significant assumptions used for the years ended March 31, 2013 was as follows:

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

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

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

	Millions of yen
	2012
Funded status of the plans	
Fair value of plan assets	¥ 31,993
Benefit obligations under pension funding programs	42,777
Deficit (*1)	¥(10,784)
Ratio of total salaries of the Companies to total funds of plans (*2)	11.8%

(As of March 31, 2012)

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

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

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

9. Net assets

Under the Japanese Companies Act, the entire amount of payment for new shares is required to be designated as capital stock, although, generally, a company may, by a resolution of the board of directors, designate an amount not exceeding one-half of the price of the new shares as additional paid-in capital which is included in capital surplus.

Even when the total amount of additional paid-in-capital and legal earnings reserve is less than 25% of common stock, additional paid-in-capital and legal earnings reserve may be available for dividend if there are sufficient distributable surplus. Both of those appropriations require a resolution of the shareholders' meeting. Legal earnings reserve is included in retained earnings in the accompanying consolidated balance sheets.

The maximum amount that the Company can distribute as dividend is calculated based on the non-consolidated financial statements of the Company in accordance with the Japanese Companies Act.

Dividend paid to shareholders was as follows:

2014

Date of approval	Resolution approved by	Type of shares	Amount (Millions of yen)	Amount (Thousands of U.S. dollars)	Amount per share (Yen)	Amount per share (U.S. dollars)	Record date	Effective date
June 27, 2013	Annual shareholders' meeting	Common stock	**¥462**	**$4,489**	**¥15.00**	**$0.15**	March 31, 2013	June 28, 2013
November 8, 2013	Board of directors	Common stock	**¥460**	**$4,470**	**¥15.00**	**$0.15**	September 30, 2013	December 9, 2013

2013						
Date of approval	Resolution approved by	Type of shares	Amount (Millions of yen)	Amount per share (Yen)	Record date	Effective date
June 28, 2012	Annual shareholders' meeting	Common stock	¥475	¥15.00	March 31, 2012	June 29, 2012
November 9, 2012	Board of directors	Common stock	¥467	¥15.00	September 30, 2012	December 10, 2012

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

2014									
Date of approval	Resolution approved by	Type of shares	Amount (Millions of yen)	Amount (Thousands of U.S. dollars)	Paid from	Amount per share (Yen)	Amount per share (U.S. dollars)	Record date	Effective date
June 27, 2014	Annual shareholders' meeting	Common stock	**¥456**	**$4,431**	Retained earnings	**¥15.00**	**$0.15**	March 31, 2014	June 30, 2014

The Japanese Companies Act also provides for companies to purchase, dispose and retire treasury stock by resolution of the board of directors. The purchasing amount should not exceed the amount available for distribution to shareholders which is determined by a certain formula.

During the fiscal year ended March 31, 2014, the Company retired 3,000 thousand shares in accordance with the resolution of the Board of Directors. As a result, treasury stock decreased by ¥2,595 million ($25,214 thousand) and retained earnings also decreased by the same amount.

10. Stock option plan

1. Stock option expense that was accounted for as general and administrative expenses on the consolidated statements of income for the years ended March 31, 2014 and 2013 amounted to ¥34 million ($330 thousand) and ¥33 million, respectively.

2. Outline of stock options

(1) Summary of stock option plans

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

* A holder of stock options may, only during the period of 10 days immediately following the day on which such holder loses the position as a director or corporate officer of the Company, exercise his/her stock options.

(2) Scale and changes in stock options

The following describes scale and changes in stock options that existed during the fiscal year ended March 31, 2014.

a) Number of stock options

Date of approval	June 26, 2009	June 29, 2010	June 29, 2011	June 28, 2012	June 27, 2013
Fiscal year ended March 31, 2014					
Non-vested	(Share)	(Share)	(Share)	(Share)	(Share)
April 1, 2013– Outstanding Granted	—	—	—	—	—
Granted	—	—	—	—	38,000
Forfeited	—	—	—	—	—
Vested	—	—	—	—	38,000
March 31, 2014 – Outstanding	—	—	—	—	—
Vested					
April 1, 2013 – Outstanding	20,900	38,100	43,800	45,600	—
Vested	—	—	—	—	38,000
Exercised	8,000	9,000	9,100	8,000	—
Forfeited	—	—	—	—	—
March 31, 2014 - Outstanding	12,900	29,100	34,700	37,600	38,000

b) Price information

Date of approval	June 26, 2009	June 29, 2010	June 29, 2011	June 28, 2012	June 27, 2013
Exercise price	¥1 per share ($0.01 per share)	¥1 per share ($0.01 per share)	¥1 per share ($0.01 per share)	¥1 per share ($0.01 per share)	¥1 per share ($0.01 per share)
Average exercise price	¥963 ($9.36)	¥963 ($9.36)	¥963 ($9.36)	¥963 ($9.36)	—
Fair value at grant date	¥686 ($6.67)	¥633 ($6.15)	¥594 ($5.77)	¥728 ($7.07)	¥904 ($8.78)

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

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

b) Principal parameters and estimation method

Date of approval	June 27, 2013
Expected volatility of the underlying stock (*1)	30.9%
Expected life of the option (*2)	6 years
Expected dividend on stock (*3)	¥30.0 ($0.29) per share
Risk-free interest rate during the expected option term (*4)	0.38%

(*1) The volatility of the stock option is calculated based on the actual stock prices during five years from July 16, 2007 to July 15, 2013.

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

(*3) The actual dividend during the past 12 months.

(*4) Yield of Japanese government bond whose remaining period corresponds to the above expected life of the option.

11. Comprehensive income

Reclassification adjustments and income tax benefit (expense) on other comprehensive income for the years ended March 31, 2014 and 2013 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	**2014**
Net unrealized holding gains or losses on securities:			
Gains (losses) arising during the period	**¥2,017**	¥2,256	**$19,598**
Reclassification adjustments	**(354)**	—	**(3,440)**
Sub-total, before tax	**¥1,663**	¥2,256	**$16,158**
Income tax benefit (expense)	**(525)**	(736)	**(5,101)**
Net unrealized holding gains or losses on securities	**¥1,138**	¥1,520	**$11,057**
Share of other comprehensive income of associates accounted for using equity method:			
Gains (losses) arising during the period	**¥ 27**	¥ 182	**$ 262**
Total other comprehensive income	**¥1,165**	¥1,702	**$11,319**

12. Net income per share

Reconciliation of the differences between basic and diluted net income per share ("EPS") for the years ended March 31, 2014 and 2013 was as follows:

	Millions of yen	Thousands of shares	Yen	U.S. dollars
	Net income	Weighted average number of shares	EPS	EPS
For the year ended March 31, 2014				
Basic EPS				
Net income available to common shareholders	**¥2,215**	**30,441**	**¥72.78**	**$0.71**
Effect of dilutive securities				
Stock acquisition rights	**—**	**147**	**—**	**—**
Diluted EPS				
Net income for computation	**¥2,215**	**30,588**	**¥72.43**	**$0.70**

	Millions of yen	Thousands of shares	Yen
	Net Income	Weighted average number of shares	EPS
For the year ended March 31, 2013			
Basic EPS			
Net income available to common shareholders	¥1,806	31,059	¥58.15
Effect of dilutive securities			
Stock acquisition rights	—	137	—
Diluted EPS			
Net income for computation	¥1,806	31,196	¥57.90

13. Segment information

1. General information about reportable segments

Reportable segments are the constituent units of the Hibiya Engineering Group for each of which separate financial information is available and the board of directors perform a regular review for the purposes of determining the allocation of resources and evaluating the results of operations.

As a comprehensive engineering organization, the Group's business operations involve equipment used for air conditioning, plumbing and sanitation, electrical systems, data management, communications and other applications. The Company has been developing business activities, such as planning, design and installation of a broad range of equipment, and its subsidiaries have been operating the equipment sales agent and engaged in manufacture and sales of equipment. Each company is managed independently, establishes its own comprehensive strategies for its products and services, and conducts its own business activities.

Consequently, the Group's activities are divided into three reportable segments based on the products and services of each company in the Group: construction, equipment sales and equipment manufacturing.

2. Basis of measurement for sales, income or loss, assets and other items by reportable segment

The accounting policies of the reportable segments are generally consistent with the summary of significant accounting policies (see Note 2). Also, segment income is based on operating income.

The amounts of intersegment transactions and transfers are mainly determined in accordance with actual market prices.

3. Information about sales, income or loss, assets and other items by reportable segment

Segment information as of and for the fiscal years ended March 31, 2014 and 2013 was as follows:

2014	Millions of yen					
	Construction	Equipment sales	Equipment manufacturing	Total	Adjustments (*1)	Consolidated
Net sales:						
Outside customers	**¥61,294**	**¥5,352**	**¥2,820**	**¥69,466**	**¥ —**	**¥69,466**
Intersegment	**1**	**4,383**	**483**	**4,867**	**(4,867)**	**—**
Total	**¥61,295**	**¥9,735**	**¥3,303**	**¥74,333**	**¥ (4,867)**	**¥69,466**
Segment income(*2)	**¥ 1,632**	**¥ 156**	**¥ 48**	**¥ 1,836**	**¥ 6**	**¥ 1,842**
Segment assets	**¥35,630**	**¥7,636**	**¥2,871**	**¥46,137**	**¥37,395**	**¥83,532**
Other items:						
Depreciation and amortization	**¥ 233**	**¥ 4**	**¥ 21**	**¥ 259**	**¥ —**	**¥ 259**
Amortization of goodwill(*3)	**77**	**—**	**—**	**77**	**—**	**77**
Increase in tangible and intangible fixed assets	**82**	**11**	**28**	**121**	**—**	**121**

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

2014	Thousands of U.S. dollars					
	Construction	Equipment sales	Equipment manufacturing	Total	Adjustments (*1)	Consolidated
Net sales:						
Outside customers	**$595,550**	**$52,001**	**$27,400**	**$674,951**	**$ —**	**$674,951**
Intersegment	**10**	**42,586**	**4,693**	**47,289**	**(47,289)**	**—**
Total	**$595,560**	**$94,587**	**$32,093**	**$722,240**	**$ (47,289)**	**$674,951**
Segment income(*2)	**$ 15,857**	**$ 1,516**	**$ 466**	**$ 17,839**	**$ 58**	**$ 17,897**
Segment assets	**$346,191**	**$74,194**	**$27,895**	**$448,280**	**$363,341**	**$811,621**
Other items:						
Depreciation and amortization	**$ 2,264**	**$ 39**	**$ 214**	**$ 2,517**	**$ —**	**$ 2,517**
Amortization of goodwill(*3)	**748**	**—**	**—**	**748**	**—**	**748**
Increase in tangible and intangible fixed assets	**797**	**107**	**272**	**1,176**	**—**	**1,176**

(*1) The adjustments of segment income are mainly due to intersegment transaction eliminations.
Corporate assets (not allocated to specific segments) included in the adjustments of segment assets as of March 31, 2014 and 2013 were ¥40,117 million ($389,788 thousand) and ¥39,820 million, respectively, mainly consisting of cash and cash equivalents, short-term investments, investment securities, etc. of the Company. Moreover, intersegment transaction eliminations included in the adjustments of segment assets as of March 31, 2014 and 2013 were ¥(2,722) million ($(26,448) thousand) and ¥(2,106) million, respectively.

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

(*3) Amortization of goodwill of the construction segment in the amount of ¥77 million ($748 thousand) includes amortization of goodwill of ¥43 million recognized in "Write off of goodwill" under "Other expenses."

(Related Information)

(1) Information by major customer for the years ended March 31, 2014 and 2013 was as follows:

2014	Net sales		Related reportable segments
Name of customer	Millions of yen	Thousands of U.S. dollars	
NTT FACILITIES, INC.	**¥11,196**	**$108,784**	Construction, Equipment sales, Equipment manufacturing

2013	Net sales	Related reportable segments
Name of customer	Millions of yen	
NTT FACILITIES, INC.	¥10,222	Construction, Equipment sales, Equipment manufacturing
NIPPON TELEGRAPH AND TELEPHONE EAST CORPORATION	¥ 8,267	Construction

(2) Information about amortization and unamortized balance of goodwill by reportable segment as of and for the years ended March 31, 2014 and 2013 was as follows:

2014	Millions of yen				
	Construction	Equipment sales	Equipment manufacturing	Eliminations or Corporate	Total
Amortization of goodwill	**¥77**	—	—	—	**¥77**
Unamortized balance	—	—	—	—	—

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

2014	Thousands of U.S. dollars				
	Construction	Equipment sales	Equipment manufacturing	Eliminations or Corporate	Total
Amortization of goodwill	**$748**	—	—	—	**$748**
Unamortized balance	—	—	—	—	—

14. Related party transactions and balances

The condensed financial information of major affiliates

The condensed financial information of Nihon Meccs Corporation, the significant affiliate, as of and for the years ended March 31, 2014 and 2013 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	**2014**
Current assets	**¥33,078**	¥32,831	**$321,395**
Non-current assets	**13,983**	14,043	**135,863**
Current liabilities	**9,247**	10,421	**89,846**
Long-term liabilities	**2,733**	2,828	**26,555**
Net assets	**35,081**	33,625	**340,857**
Net sales	**50,751**	50,528	**493,111**
Income before income taxes	**2,319**	1,309	**22,532**
Net income	**1,418**	778	**13,778**

KPMG

Independent Auditor's Report

To the Board of Directors of Hibiya Engineering, Ltd.

We have audited the accompanying consolidated financial statements of Hibiya Engineering, Ltd. and its consolidated subsidiaries, which comprise the consolidated balance sheets as at March 31, 2014 and 2013, and the consolidated statements of income, statements of comprehensive income, statements of changes in net assets and statements of cash flows for the years then ended, and the summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Hibiya Engineering, Ltd. and its consolidated subsidiaries as at March 31, 2014 and 2013, and their financial performance and cash flows for the years then ended in accordance with accounting principles generally accepted in Japan.

Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2014 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note1 to the consolidated financial statements.

KPMG AZSA LLC

July 25, 2014
Tokyo, Japan

Corporate Data

Investor Information
As of March 31, 2014

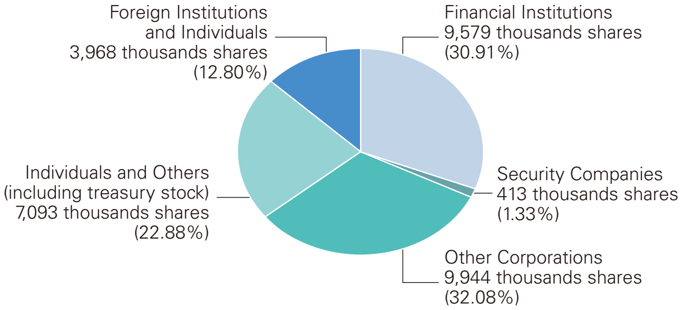
Total number of shares authorized	96,500,000 shares
Total number of shares issued	31,000,309 shares
Number of shareholders	2,794

Major Shareholders

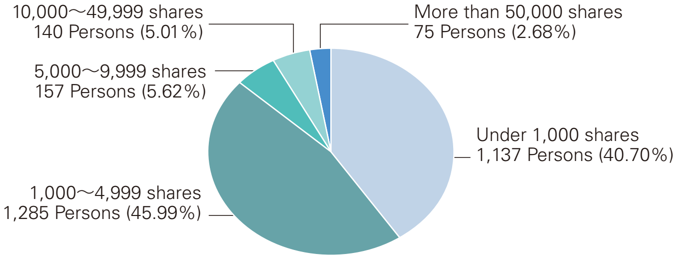
Name of shareholders	Number of held thousands shares	Percentage of shares in issue(%)
1 Japan Trustee Services Bank, Ltd. (Trust account)	1,410	4.64
2 NTT Urban Development Co.	1,371	4.51
3 Hibiya Engineering Customer Stock Ownership Plan	1,183	3.89
4 The Master Trust Bank of Japan, Ltd. (Retirement benefit trust account, Hyakujushi Bank account)	900	2.96
5 Sumitomo Mitsui Banking Corporation	853	2.81
6 The Japan Telecommunications Welfare Associations	838	2.76
7 The Dai-ichi Mutual Life Insurance Company	818	2.69
8 CBNY DFA INTL SMALL CAP VALUE PORTFOLIO	662	2.18
9 Northern Trust Company (AVFC) Re US Tax Exempted Pension. Funds Securities Lending	659	2.17
10 Hibiya Engineering Employee Shareholding Association	642	2.11

Notes
1) The list of major shareholders does not include 595,109 shares of treasury stock held by the Company.
2) The 595,109 shares of treasury stock held by the Company are not included in the calculation of the percentages of shares issued.

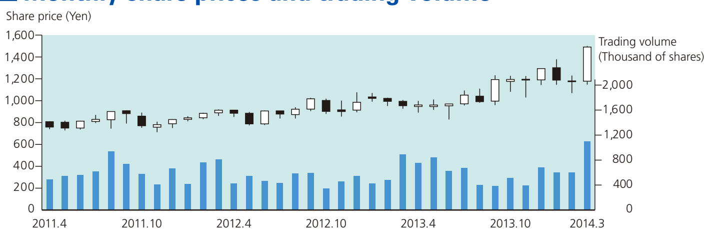
Share distribution by owner



Share distribution by size of holding



Monthly share prices and trading volume



Board of Directors
As of June 27, 2014

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

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

Offices
As of March 31, 2014

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

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

Research Facilities
Noda in Chiba Prefecture

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