2016 ANNUAL REPORT

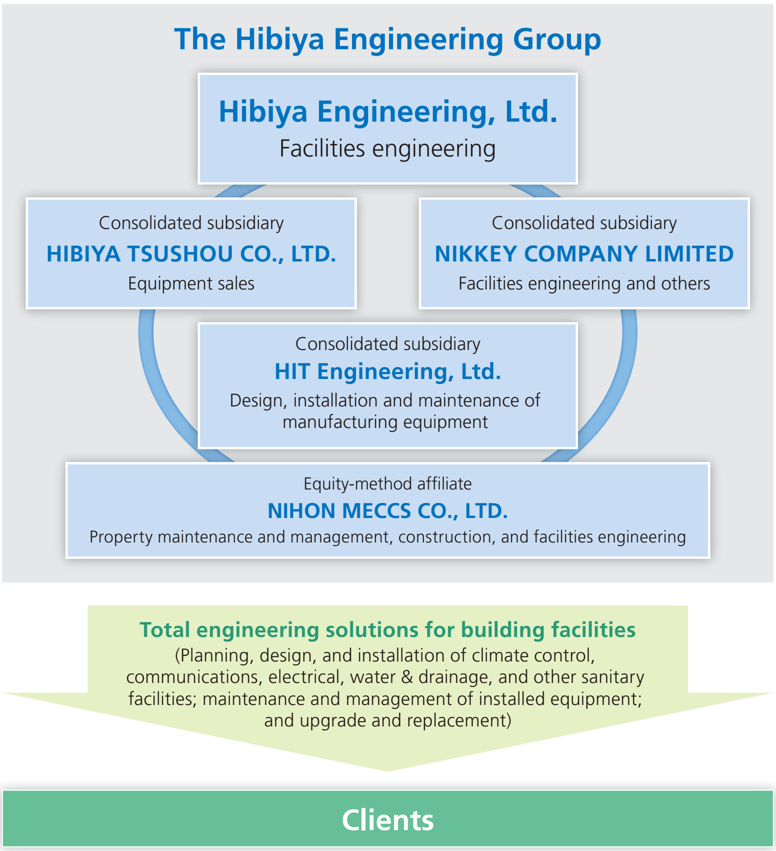
Hibiya Engineering,Ltd.

PROFILE

The Hibiya Engineering Group provides a comprehensive range of facilities engineering products and services, through business activities grounded in respect for the environment and the comfort of users.

Our services range from the planning, design and installation of air conditioning, sanitary, electrical and communications facilities, through to their maintenance, management, and eventual upgrading. A particular strength is the ability to meet today's social needs by applying advanced energy-saving technologies to implement sophisticated open-network IT environments and workplaces.

Our role as integrated facilities engineers is to create future possibilities and environments that enhance customer satisfaction. We will continue to contribute to society through innovative technologies and a passion to perform.



As of March 31, 2016

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Projections and Perspectives:

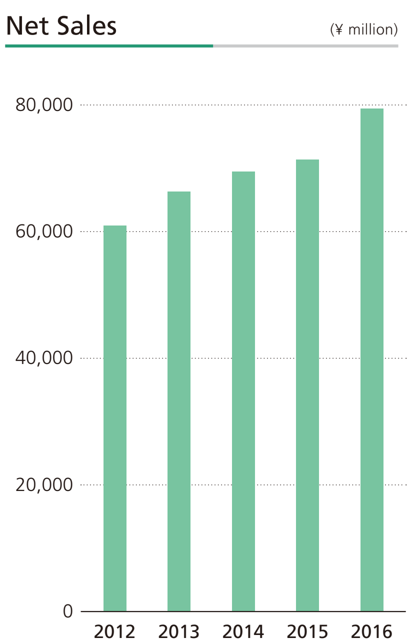
This Annual Report includes projections and descriptions of prospects regarding future plans, strategies and the operating performance of the Company. Such descriptions are not based on past facts, but rather on perspectives judged to be appropriate in view of assumptions and management convictions on the strength of information available to the Company as of March 31, 2015. Such projections of operating performance may vary from management's initial anticipation as result of general economic trends, changes in the business environment, possible revisions to the tax code and to other factors.

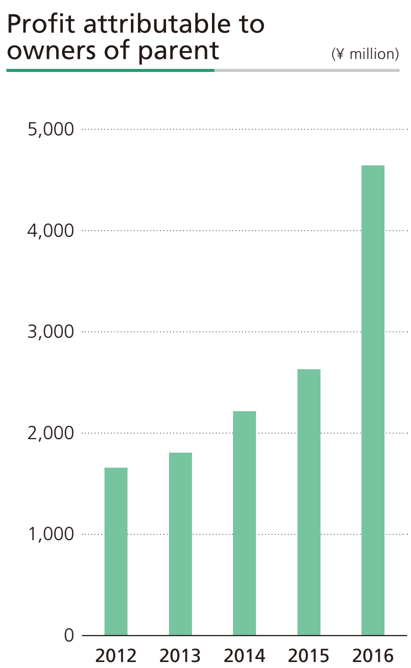
Consolidated Financial Highlights

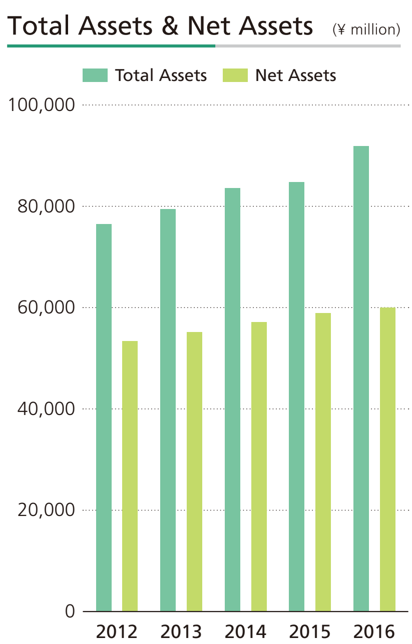
Hibiya Engineering, Ltd. and Consolidated Subsidiaries
Years ended March 31

	2012	2013	2014	2015	2016	2016
	Millions of yen					Thousands of U.S. dollars
Net Sales	¥60,919	¥66,322	¥69,466	¥71,330	¥79,401	$704,659
Profit attributable to owners of parent	1,657	1,806	2,216	2,630	4,641	41,187
Total Assets	76,442	79,428	83,532	84,725	91,900	815,584
Net Assets	53,368	55,166	57,069	58,939	59,947	532,011
	Yen					U.S. dollars
Per share:						
Net Assets	¥1,642.92	¥1,744.66	¥1,828.81	¥1,912.49	¥1,966.69	$17.45
Net Income	52.15	58.15	72.78	87.62	156.88	1.39
Cash Dividend (non-consolidated basis)	30.00	30.00	30.00	32.00	40.00	0.35

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, 2016, which was ¥112.68 to US$1.00.







A Message from the President

Celebrating our 50th anniversary by advancing to a new stage of progress with a new management team

President and Representative Director
Yoshiharu Nishimura

The Hibiya Engineering Group has been taking many actions in line with the Fifth Medium-term Management Plan that started in April 2014. We have focused on building a stronger profit structure by achieving the plan's main strategic objective of becoming a provider of Life Cycle Total Solutions for buildings. Due to these initiatives, we achieved growth in sales and earnings in the past fiscal year.

Market conditions in Japan will probably remain challenging because of declining public-works expenditures and the rising cost of construction materials and construction workers.

The fiscal year ending in March 2017 is the final year of the Fifth Medium-term Management Plan. The main objective for this year is reinforcing our services in all priority domains following the completion of a construction project. We plan to become even more profitable by using our group's construction experience to conduct effective Life Cycle Total Solutions sales activities. There are two more priorities. One is to use our technologies to improve the quality of our projects while using less labor. The other is conducting rigorous safety and quality management programs with the aim of eliminating workplace accidents.

Group companies are also working on compliance, the effective use of information and communication technologies, and other measures to build an even more powerful infrastructure. We plan to use all these initiatives to make our 50th anniversary in July 2016 the starting point of a new stage of growth.

Following the approval of the election of directors at the June 2016 shareholders meeting, the board of directors named me the successor to the previous president Haruki Nomura. As the new president, I will continue to focus the group's resources on achieving our strategic objectives in order to meet the expectations of our shareholders and all other stakeholders.

Highlights of the Fiscal Year

Growth in Sales and Earnings

The fiscal year that ended in March 2016 was the second year of the three-year Fifth Medium-term Management Plan. Orders in the priority domains continued to grow because of activities that reinforced and expanded Life Cycle Total Solutions operations. Performance also benefited from the completion of a large redevelopment project. As a result, sales and earnings were higher than in the previous fiscal year.

Orders received	¥76,903 million	(up 5.2% year-on-year)
Net sales	¥79,401 million	(up 11.3% year-on-year)
Operating income	¥4,676 million	(up 135.7% year-on-year)
Profit attributable to owners of parent	¥4,641 million	(up 76.5% year-on-year)

Operating Highlights

Supplying Total Life Cycle Solutions for buildings is the central strategy of the Fifth Medium-term Management Plan. To accomplish this goal, all group companies used numerous activities for increasing centralized purchases and implementing labor-saving measures. All these actions made the group's profit structure stronger by achieving a more competitive level of expenses.

Furthermore, the activities in many fields of group companies earned the Hibiya Group four significant awards: a Cogeneration Special Award in the consumer product category; a Fiscal 2015 Building Construction Award in the building facilities category given by The Society of Heating, Air-Conditioning and Sanitary Engineers of Japan; an Award for Excellence at the 2016 Japan Resilience Awards; and a Chairman's Award in the small building category of the Sustainable Building Awards.

The Hibiya E&S Seminar was held on a regular basis at the Hibiya E&S Plaza in Tokyo, which displays a variety of products and services. We also participated in exhibitions throughout Japan and numerous regional revitalization activities. We will continue to take part in these types of events, which are opportunities to make people aware of our technologies and contribute to progress in different regions of Japan.

Dividends and Stock Repurchases

Hibiya Engineering pays a dividend based on the consolidated dividend-on-equity (DOE) ratio in order to distribute earnings to shareholders with consistency. For the fiscal year that ended in March 2016, we paid interim and year-end dividends of ¥20, resulting in a ¥8 increase in the fiscal year dividend from the previous year to ¥40.

For the dividend for the fiscal year ending in March 2017, we plan to pay a commemorative dividend of ¥10 for our 50th anniversary in July 2016 as well as progress involving the Fifth Medium-term Management Plan. This will increase the interim and year-end dividends to ¥25, which will raise the fiscal year dividend by ¥10 to ¥50.

We repurchase and retire stock as one part of measures to improve the return on equity and distribute earnings to shareholders. In the past fiscal year, we repurchased 440,200 shares of stock at a cost of ¥704 million. In the fiscal year ending in March 2017, we plan to repurchase up to 500,000 shares at a cost of no more than ¥800 million.

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

Fundamental Policy

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

Strategies

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

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

	2017/3	Each FY
Orders received	¥75 billion	At least ¥70 billion
Net sales	¥75 billion	At least ¥70 billion
Operating income	¥3 billion	At least ¥2.5 billion
Ordinay income	¥4 billion	At least ¥3.3 billion
Profit attributable to owners of parent	¥2.5 billion	At least ¥2 billion

The Hibiya Engineering Group is concentrating on for buildings. We want to be a one-stop source of comprehensive engineering services organization.

A building's life cycle extends from its planning and construction through the building's operation, maintenance, renovations and other activities. Our goal is to be a source of total solutions that encompass this entire life cycle.

Life Cycle Total Engineering at the Hibiya Engineering Group

1 Planning

Surveys, diagnosis tools, consulting, plans, simplified monitoring, use of subsidies and budget proposals

2 Construction

Construction plan, labor-saving and efficiency measures for construction, installation of facilities (new or replacement)

3 Maintenance and management

Improve building operations, monitoring, regular inspections and maintenance, life cycle cost reduction

Use of Group Synergies to Provide Life Cycle Total Solutions

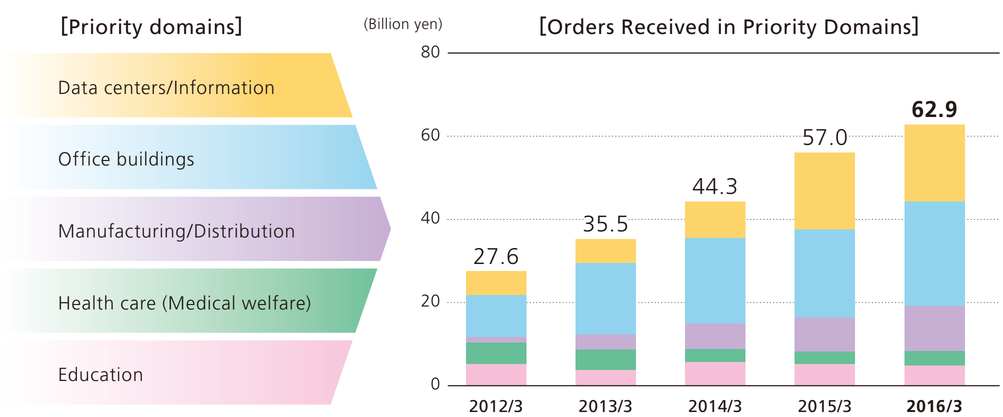
The Hibiya Engineering Group

[Building facilities] Hibiya Engineering

[Trading company]	[Manufacturer]	[Plant engineering]
Consolidated subsidiary: Hibiya Tsushou	Consolidated subsidiary: Nikkey	Consolidated subsidiary: HIT Engineering

Progress in Priority Domains for Life Cycle Total Solutions

Hibiya Engineering has established five priority domains where its strengths can be used most effectively. The aim is to grow faster by taking many actions in these domains.



supplying customers with Life Cycle Total Solutions
products and services for customers' needs as a

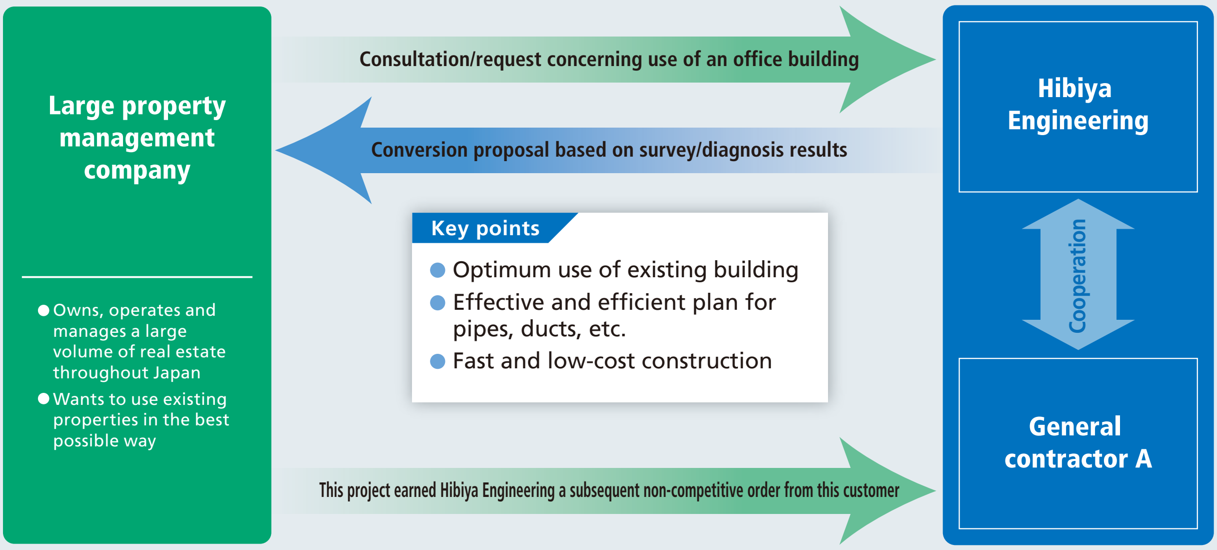
Renovation Projects Using Hibiya Engineering Technologies to Meet Market Needs

Hibiya Engineering has technologies for creating ideas for renovation projects that can effectively use an existing building, conserve energy and lower CO_2 emissions. Constructing a building is expensive and takes a long time. The environmental impact is another concern. Customers want to complete projects quickly and at a low cost while also protecting the environment. Renovating a building rather than constructing a new one is one way to accomplish these goals. Converting a building to a different use is an effective renovation method. In recent years, Hibiya Engineering has received many orders for converting buildings to hotels as growth in foreign tourists raises demand for hotel rooms.

● Original entrance

● Remodeled entrance

Example Conversion of an office building to a hotel



- Now working on a plan to convert building with a large store into a hotel
- Aiming to use the same approach to continue growing in this market sector

Hibiya wins many awards as its initiatives in energy appraised.

1

Sponsor Advanced Cogeneration and Energy Utilization Center Japan

Fiscal 2015 Cogeneration Special Award in the consumer product category

Yuinchi Hotel Nanjo, Okinawa

This project involved the installation of a cogeneration facility at a resort hotel in order to use natural gas produced by a hot spring. The system uses natural gas to generate electricity and produce hot water. This award recognizes the environmental benefits of this facility due to its efficiency as well as its role as a model for future projects that meet local needs.

Companies receiving this award

- Tapic Okinawa Co., Ltd. (owner)
- Ryuseki Construction Co., Ltd.
- Hibiya Engineering, Ltd.

2

Sponsor Association for Resilience Japan

2016 Japan Resilience Excellence Award

Suzuhiro Kamaboko no Sato Restaurant (Odawara, Kanagawa)

This award is for the installation at a restaurant of a propane gas system that can generate electricity and produce hot water if a disaster interrupts the usual supply of gas. The aim is to make a restaurant a disaster response support center. The award recognizes this project's role in helping make Japan more resilient to disasters for future generations.

Companies receiving this award

- Suzuhiro Kamaboko Honten Co., Ltd. (owner)
- Hibiya Engineering, Ltd.
- Odawara Gas Co., Ltd.

conservation, BCP and other areas are highly

3

Sponsor The Society of Heating, Air-Conditioning and Sanitary Engineers of Japan

Fiscal 2015 Building Construction Award in Building Facilities Category

Tokyo Square Garden (owner)

Tokyo Square Garden*1

The owner, building manager, tenants and construction companies worked as a unified team to make this a low-carbon building that serves as a model for next-generation environmentally responsible urban buildings.

NTT Facilities Shin-Ohashi Building*2

This environmentally responsible office building includes a highly efficient data center.

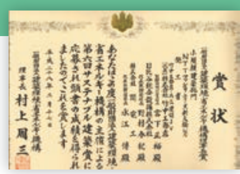
*1
Companies receiving this award
- Takasago Thermal Engineering Co., Ltd. and Asahi Kogyosha Co., Ltd. (air conditioning)
- Hibiya Engineering, Ltd. (sanitary facilities)
- Kinden Corp. (electrical facilities), and others

*2
Companies receiving this award
- NTT Facilities, Inc. (owner)
- Takenaka Corp. (construction)
- Hibiya Engineering, Ltd. (air conditioning), and others

4

Sponsor Institute for Building Environment and Energy Conservation

Small Building Chairman's Award of the Sixth Sustainable Construction Awards



NTT Facilities Shin-Ohashi Building (Tokyo)

This award is for a building designed for a small environmental impact, low CO_2 emissions and energy conservation.

Companies receiving this award
- NTT Facilities, Inc. (owner and designer)
- Takenaka Corp./Kyoritsu Construction Co., Ltd. (construction)
- Hibiya Engineering, Ltd. (air-conditioning and sanitary facilities)
- Kandenko Co., Ltd. (electrical facilities)

Photo: NTT Facilities, Inc.

Topics2: Participation in Exhibitions

Participation in Exhibitions Strengthens Ties with Customers

A Hibiya Engineering booth at a trade fair

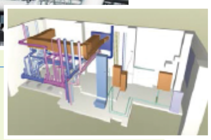
May 2015 Tokyo Big Sight

Seventh Data Center Construction and Operation Fair


A 3D scanner

June 2015 Grand Front Osaka

Smart Energy Japan 2015 in Osaka


A 3D model

June 2015 Fukuoka International Center

Business Show & Eco Fair 2015

October 2015 Hiroshima Industrial Exhibition Hall

Hiroshima IT Exhibition 2015

November 2015 Port Messe Nagoya

Messe Nagoya 2015


Solar hybrid panels

November 2015 AXES Sappro

29th Business EXPO 2015

November 2015 Sendai International Center

Smart Community Tohoku 2015

December 2015 Tokyo Big Sight

Eco Products 2015

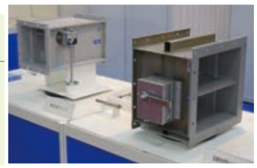

Smart save (electricity demand control unit)

January 2016 Tokyo Big Sight

ENEX2016 40th Smart Energy Japan Exhibition

February 2016 Tokyo Big Sight

HVAC&R JAPAN 2016


Ultra-airtight damper

Topics3: Hibiya Engineering Often Provides Instructors for Seminars

■ Examples

	Seminar	Sponsor
September 2015	Announcement of New Ideas, Hamamatsu Smart City Promotion Council	City of Hamamatsu
December 2015	Seminar for Management Using Energy Service Companies	Japan Association of Energy Service Companies, Nikkan Kogyo Shimbun
January 2016	Energy Conservation Fair 2016 Preliminary Event, Energy Conservation Seminar for Consumer Products	Kanto Bureau of Economy, Trade and Industry, Japan Association of Energy Service Companies


A presentation at the Hamamatsu Smart City Promotion Council

Topics4: Hibiya E&S Seminar

Seminars at the Hibiya E&S Plaza in Tokyo for Interaction with Companies in Other Industries

HIBIYA E&S PLAZA

What is the Hibiya E&S Seminar?

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

1	October 2013	**Only the best will survive in the new age of the solar energy business** (NTT Facilities, Daiwa House Industry)
2	December 2013	**"Smart" is today's key word – More progress with energy-conservation ICT** (NTT Facilities, Mersen Japan)
3	February 2014	**Healthy office environments help create outstanding companies** (Development Bank of Japan, Finetech, Health Life Compass, CM Engineering)
4	April 2014	**Neat energy-conservation technologies for offices and factories that boost productivity and cut costs** (VEGLIA Laboratories, Tokyo Saraya)
5	July 2014	**Plant factories create new opportunities for health, beauty and the culture of food** (Shiseido, Tokyo Crude Drugs Association)
6	October 2014	**BIM technology increases the life cycle value of buildings** (NTT Facilities, SHERPA, Powerplace)
7	February 2015	**The growing use of energy management at buildings, factories and hospitals** (VEGLIA Laboratories, Yanmar Energy System)
8	June 2015	**Community revitalization looking ahead to 2020** (Prefectures of Saga, Ehime and Kagawa, NTT Facilities, OSU Health Support Academy)
9	September 2015	**The effective use of solar, geothermal and exhaust heat** (Sumitomo Chemical, Koken Boring Machine, Daika Polymer)
10	December 2015	**Making the world smart, compact and resilient** (VEGLIA Laboratories, Mitsubishi UFJ Lease & Finance)
11	March 2016	**Can you protect the health of people who work in your offices?** (Okamura Manufacturing, Seiwa Business, Japan EAP Systems)

Events held in the fiscal year that ended in March 2016

Topics5: Hibiya Engineering's Website Places First Again

The Hibiya Engineering website was ranked first in the construction industry in the Nikko IR Fiscal 2015 Ranking of Listed Company Websites. This is the fifth consecutive year that Hibiya Engineering has been first in this ranking.

The top page of the Hibiya Engineering website

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

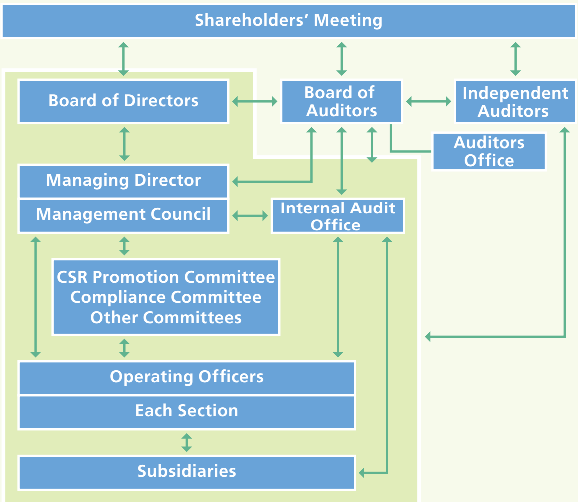
Hibiya Engineering uses the corporate auditor system and increased the number of external corporate auditors by one in June 2008. There are currently four corporate auditors, including three external auditors. Auditors attend meetings of the Board of Directors, Management Council and other important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



↔ : Lines of communication for management

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.

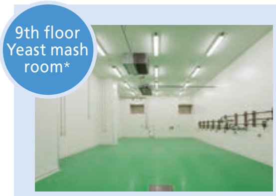
Hibiya Engineering has a Compliance Committee chaired by the company's president that is responsible for companywide compliance promotion activities. The committee determines basic policies for compliance, formulates action plans, oversees compliance training for all employees, examines important compliance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

Fiscal Year Major Project Completion

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

A 60-meter Storage Tower for Dassai Sake

Construction of a new storage facility for Asahi Shuzou (Phase 4) – Air conditioning and sanitary equipment



*This room grows the yeast mash required for fermentation to produce alcohol, a critical part of the sake production process.

(Source: Asahi Shuzou website)

1 Iwakuni, Yamaguchi
2 Factory
3 Air conditioning and sanitary facilities
4 10,579m²
5 12 floors, 1 underground level
6 April 2015

Sumitomo Fudousan Shinjuku Garden Tower

1 Shinjuku-ku, Tokyo
2 Office and residential building
3 Air conditioning equipment
4 142,569m²
5 37 floors, 2 underground levels
6 March 2016

Tokyu Plaza Ginza

1 Chuo-ku, Tokyo
2 Retail building
3 Sanitary facilities
4 50,092m²
5 11 floors, 5 underground levels
6 March 2016

Kaga Municipal Medical Center

1 Kaga, Ishikawa
2 Hospital
3 Sanitary facilities
4 26,628m²
5 6 floors
6 January 2016

Yuza Mega-Solar

*1 Generates electricity for about 6,000 houses
*2 Hibiya Engineering worked on the left side

1 Akumi-gun, Yamagata
6 March 2016
5 Estimated maximum output: About 23.4 megawatts

FINANCIAL SECTION

CONTENTS

Management's Discussion and Analysis

■ Overview

In the fiscal year ended March 2016, the Japanese economy recovered gradually as corporate earnings improved, capital expenditures increased and employment and incomes rose due to the government and Bank of Japan's series of economic stimulus measures.

In the construction industry, private-sector capital expenditures remained firm as corporate earnings improved. The operating environment also showed signs of improvement as the cost of labour and materials stabilized.

Orders received and sales

During the fiscal year, the Hibiya Engineering Group took many actions aimed at improving profitability by becoming a provider of life cycle total solutions for buildings. This is the central strategy of the Fifth Medium-term Management Plan that started in April 2014. We increased centralized purchasing, made construction activities even more labour efficient and used other measures to achieve a competitive level of expenses and build a more powerful profit structure.

We also made progress with establishing a stronger foundation for our operations. We used unified group management for higher efficiency and upgraded employee training programs. Group companies also increased their commitment to CSR, maintained an effective risk management framework backed by strict compliance activities, and used capital more efficiently while returning more earnings to shareholders. The objective of all these initiatives was to use safe and reliable operations to fulfil our obligations to all stakeholders.

Due to these activities, orders received increased 5.2% to ¥76,903 million and sales increased 11.3% to ¥79,401 million.

Operating income and net income

Operating income was up 135.7% to ¥4,676 million and profit attributable to owners of parent increased by 76.5% to ¥4,641 million. Earnings per share increased from ¥87.62 to ¥156.88 and diluted Earnings per share increased from ¥87.16 to ¥156.01.

■ Balance Sheet and Cash Flows

Balance sheet

Assets

Total assets increased ¥7,174 million from the end of the previous fiscal year to ¥91,900 million as of March 31, 2016.

Current assets increased ¥10,817 million to ¥55,338 million and noncurrent assets decreased ¥3,642 million to ¥36,561 million. Major changes in current assets were increases of ¥2,582 million in cash and cash equivalents and ¥7,336 million in notes receivable, accounts receivable from completed construction contracts and other.

Noncurrent assets decreased mainly because of a ¥2,146 million decrease in investment securities due to sale of investment securities and other factors.

Liabilities

Liabilities increased ¥6,167 million to ¥31,953 million as of March 31, 2016.

The increase in liabilities was mainly the net result of a 4,069 million increase in accounts payable for construction contracts and a ¥1,261 million increase in income taxes payable compared with the end of the previous fiscal year.

Net assets

Net assets were ¥59,947 million at the end of the fiscal year mainly because of the contribution from profit attributable to owners of parent of ¥4,641 million.

Return on Equity

The return on equity increased from 4.7% in the previous fiscal year to 8.1%

Cash Flows

Net cash provided by operating activities was ¥1,869 million, an increase of ¥5,254 million from the previous fiscal year. An increase in notes and accounts payable-trade was the major cause of this increase.

Net cash provided by investing activities was ¥1,003 million, a decrease of ¥1,630 million from the previous fiscal year. The main cause was an increase in the purchase of investment securities.

Net cash used in financing activities was ¥1,790 million, an increase of ¥217 million from the previous fiscal year.

The result of these cash flows was a net increase of ¥1,082 million in cash and cash equivalents to ¥5,945 million at the end of the fiscal year.

■ Segment information

In the construction segment, which accounted for 89.0% of consolidated sales, sales increased 12.0% to ¥70,682 million and operating income 165.8% to ¥4,056 million.

In the equipment sales segment, segment sales decreased 5.5% to ¥5,437 million and operating income increased 5.0% to ¥221 million.

In the equipment manufacturing segment, segment sales increased 7.0% to ¥3,281 million and operating income increased 61.3% to ¥389 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, 2016.

1. Risk of dependence on a specific customer

The Group's sales are heavily dependent on Nippon Telegraph and Telephone Corporation (NTT) and its affiliates ("NTT Group"). Should the NTT Group significantly reduce its investments in construction for any reason, the Group's operating performance and financial position may be adversely affected.

2. Risk related to business partners

The operating environment in the Japanese construction market is extremely difficult because of continuing restrictions on construction expenditures, particularly with regard to public works projects. Due to this situation, there is intense competition for orders and price competition. In this environment, if the creditworthiness of any business partner worsens, the Group's operating performance and financial position may be affected by bad debt associated with trade receivables.

3. Risk related to prices of materials

If there is an increase in prices of equipment and materials used by the Group due to a shortage of raw materials such as iron and copper and/or market fluctuations, the Group's operating performance and financial position may be affected.

4. Risk related to unprofitable work

If a project undertaken by the Group becomes unprofitable because of additional construction costs or other items caused by factors that were unforeseen before the project was started, the provision for an allowance for losses on construction contracts may become necessary and the Group's operating performance and financial position may be affected.

5. Risk involving safety

The Group conducts a large volume of renovation work at buildings owned by the NTT Group. If an accident resulting in injury or property damage occurs during a renovation and causes a serious failure at NTT's advanced public communications network, the Group may be obligated to make a large, lump-sum compensation payment and the Group's operating performance and financial position may be affected.

6. Risk involving retirement benefit systems

The Company and certain consolidated subsidiaries participate in the employee pension fund of the Tokyo Air-Conditioning and Plumbing Contractors Association. A decline in the financial position of this fund may result in a revision in benefits. Depending on the nature of the revision, the Group's retirement benefit expenses may increase, affecting its operating performance and financial position.

7. Risk involving securities

The Group may have to write down the value of stock that it holds because of stock market movements, changes in the performance of individual companies and other factors. In addition, the Group may not be able to receive dividend from this stock as initially expected. For bonds, the Group may be unable to receive interest or principal payments due to a default by an issuer. In addition, for bonds where interest is linked to foreign exchange rates, market interest rates and other marketbased indicators, the Group may be unable to receive the interest that was expected when the bond was purchased or at the beginning of the fiscal period due to changes in market conditions.

8. Risk related to recovering deferred tax assets

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

9. Seasonal variations in operating performance

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

Consolidated Balance Sheets

Hibiya Engineering, Ltd. and Consolidated Subsidiaries
As of March 31, 2016 and 2015

		Millions of yen		Thousands of U.S. dollars (Note 1)
		2016	2015	**2016**
Assets				
Current assets:				
Cash and cash equivalents	(Note 4)	**¥ 5,946**	¥ 4,864	**$ 52,769**
Notes receivable, accounts receivable from completed construction contracts and other	(Note 4)	**43,429**	36,093	**385,419**
Short-term investments	(Note 4)	**2,005**	1,201	**17,794**
Costs on uncompleted construction contracts and other	(Note 3)	**888**	952	**7,881**
Deferred tax assets	(Note 5)	**1,082**	608	**9,602**
Other		**2,036**	850	**18,069**
Allowance for doubtful accounts		**(47)**	(48)	**(418)**
Total current assets		**55,339**	44,520	**491,116**
Property, plant and equipment:				
Buildings and structures		**1,487**	1,497	**13,197**
Land		**153**	153	**1,358**
Other		**908**	952	**8,058**
Total		**2,548**	2,602	**22,613**
Accumulated depreciation		**(2,054)**	(2,069)	**(18,229)**
Total property, plant and equipment		**494**	533	**4,384**
Investments and other assets:				
Investment securities	(Note 4)	**31,589**	33,736	**280,343**
Insurance funds		**1,540**	2,855	**13,667**
Investments in silent partnership	(Note 4)	**1,734**	1,544	**15,389**
Deferred tax assets	(Note 5)	**89**	43	**790**
Asset for retirement benefits	(Note 7)	**100**	443	**887**
Other		**1,015**	1,051	**9,008**
Total investments and other assets		**36,067**	39,672	**320,084**
Total assets		**¥ 91,900**	¥ 84,725	**$ 815,584**

		Millions of yen		Thousands of U.S. dollars (Note 1)
		2016	2015	**2016**
Liabilities and Net assets				
Current liabilities:				
Notes payable, accounts payable for construction contracts and other	*(Note 4)*	**¥ 23,239**	¥ 19,170	**$ 206,239**
Income taxes payable	*(Note 5)*	**2,434**	1,172	**21,601**
Advances received on uncompleted construction contracts		**220**	672	**1,952**
Provision for bonuses		**2,420**	977	**21,477**
Provision for loss on construction contracts		**98**	348	**870**
Other		**2,620**	1,705	**23,252**
Total current liabilities		**31,031**	24,044	**275,391**
Long-term liabilities:				
Deferred tax liabilities	*(Note 5)*	**495**	1,438	**4,393**
Liability for retirement benefits	*(Note 7)*	**389**	255	**3,452**
Other		**38**	49	**337**
Total long-term liabilities		**922**	1,742	**8,182**
Total liabilities		**31,953**	25,786	**283,573**
Net assets				
Shareholders' equity:	*(Note 8)*			
Capital stock: Authorized – 96,500,000 shares in 2016 and 2015 Issued – 31,000,309 shares in 2016 and 2015		**5,753**	5,753	**51,056**
Capital surplus		**5,932**	5,932	**52,645**
Retained earnings		**45,425**	41,872	**403,133**
Treasury stock: 1,642,000 shares in 2016 and 1,229,704 shares in 2015		**(1,909)**	(1,242)	**(16,942)**
Total shareholders' equity		**55,201**	52,315	**489,892**
Accumulated other comprehensive income				
Net unrealized holding gains or losses on securities		**3,095**	4,693	**27,467**
Deferred gains or losses on hedges		**1**	—	**9**
Accumulated adjustments for retirement benefits		**(558)**	(73)	**(4,953)**
Total accumulated other comprehensive income		**2,538**	4,620	**22,523**
Subscription rights to shares		**163**	139	**1,447**
Non-controlling interests		**2,045**	1,865	**18,149**
Total net assets		**59,947**	58,939	**532,011**
Total liabilities and net assets		**¥ 91,900**	¥ 84,725	**$ 815,584**

See accompanying notes to consolidated financial statements.

Consolidated Statements of Income

Hibiya Engineering, Ltd. and Consolidated Subsidiaries
As of March 31, 2016 and 2015

		Millions of yen		Thousands of U.S. dollars (Note 1)
		2016	2015	**2016**
Net sales		**¥ 79,402**	¥ 71,330	**$ 704,668**
Cost of sales		**67,108**	62,653	**595,563**
Gross profit		**12,294**	8,677	**109,105**
Selling, general and administrative expenses	*(Note 6)*	**7,618**	6,693	**67,607**
Operating income		**4,676**	1,984	**41,498**
Other income (expenses):				
Interest and dividend income		**247**	255	**2,192**
Interest expenses		**(1)**	(3)	**(9)**
Equity in earnings of affiliates		**1,206**	654	**10,703**
Gain on sales of investment securities		**1,258**	1,072	**11,164**
Loss on valuation of investment securities		**(4)**	—	**(35)**
Loss on insurance cancellation		**(763)**	—	**(6,771)**
Other, net		**216**	165	**1,917**
Other income (expenses) - net		**2,159**	2,143	**19,161**
Profit before income taxes		**6,835**	4,127	**60,659**
Income taxes:	*(Note 5)*			
Income taxes-current		**2,443**	1,251	**21,681**
Income taxes-deferred		**(436)**	130	**(3,869)**
Total income taxes		**2,007**	1,381	**17,812**
Profit		**4,828**	2,746	**42,847**
Profit attributable to non-controlling interests		**186**	116	**1,651**
Profit attributable to owners of parent	*(Note 11)*	**¥ 4,642**	¥ 2,630	**$ 41,196**

		Yen		U.S. dollars (Note 1)
Per share of common stock:	*(Note 11)*	**2016**	2015	**2016**
Net assets		**¥ 1,966.69**	¥ 1,912.49	**$ 17.45**
Net income				
Basic		**156.88**	87.62	**1.39**
Diluted		**156.01**	87.16	**1.38**
Cash dividend applicable to the year	*(Note 8)*	**40.00**	32.00	**0.35**

See accompanying notes to consolidated financial statements.

Consolidated Statements of Comprehensive Income

Hibiya Engineering, Ltd. and Consolidated Subsidiaries
As of March 31, 2016 and 2015

		Millions of yen		Thousands of U.S. dollars (Note 1)
		2016	2015	**2016**
Profit		**¥ 4,828**	¥ 2,746	**$ 42,847**
Other comprehensive income:	*(Note 10)*			
Net unrealized holding gains or losses on securities		**(1,550)**	715	**(13,756)**
Deferred gains or losses on hedges		**1**	—	**9**
Adjustments for retirements benefits		**(415)**	145	**(3,683)**
Share of other comprehensive income of associates accounted for by using equity method		**(118)**	(98)	**(1,047)**
Total other comprehensive income		**(2,082)**	762	**(18,477)**
Comprehensive income		**2,746**	3,508	**24,370**
Comprehensive income attributable to:				
Owners of parent		**2,559**	3,335	**22,710**
Non-controlling interests		**187**	173	**1,660**

See accompanying notes to consolidated financial statements.

Consolidated Statements of Changes in Net Assets

Hibiya Engineering, Ltd. and Consolidated Subsidiaries
As of March 31, 2016 and 2015

	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, 2014	31,000,309	¥ 5,753	¥ 5,932	¥ 40,187	¥ (525)	¥ 51,347
Profit attributable to owners of parent	—	—	—	2,630	—	2,630
Dividend from surplus	—	—	—	(939)	—	(939)
Purchase of treasury stock	—	—	—	—	(732)	(732)
Disposal of treasury stock	—	—	—	(6)	15	9
Retirement of treasury stock	—	—	—	—	—	—
Net changes of items other than shareholders' equity	—	—	—	—	—	—
Balance at April 1, 2015	31,000,309	¥ 5,753	¥ 5,932	¥ 41,872	¥ (1,242)	¥ 52,315
Profit attributable to owners of parent	—	—	—	4,642	—	4,642
Dividend from surplus	—	—	—	(1,075)	—	(1,075)
Purchase of treasury stock	—	—	—	—	(705)	(705)
Disposal of treasury stock	—	—	—	(14)	38	24
Net changes of items other than shareholders' equity	—	—	—	—	—	—
Balance at March 31, 2016	**31,000,309**	**¥ 5,753**	**¥ 5,932**	**¥ 45,425**	**¥ (1,909)**	**¥ 55,201**

	Accumulated other comprehensive income				Subscription rights to shares	Non-controlling interests	Total net assets
	Net unrealized holding gains or losses on securities	Deferred gains or losses on hedges	Accumulated adjustments for retirement benefits	Total Accumulated other comprehensive income			
	(Millions of yen)						
Balance at April 1, 2014	¥ 4,031	—	¥ (121)	¥ 3,910	¥ 110	¥ 1,702	¥ 57,069
Profit attributable to owners of parent	—	—	—	—	—	—	2,630
Dividend from surplus	—	—	—	—	—	—	(939)
Purchase of treasury stock	—	—	—	—	—	—	(732)
Disposal of treasury stock	—	—	—	—	—	—	9
Net changes of items other than shareholders' equity	662	—	48	710	29	163	902
Balance at April 1, 2015	¥ 4,693	—	¥ (73)	¥ 4,620	¥ 139	¥ 1,865	¥ 58,939
Profit attributable to owners of parent	—	—	—	—	—	—	4,642
Dividend from surplus	—	—	—	—	—	—	(1,075)
Purchase of treasury stock	—	—	—	—	—	—	(705)
Disposal of treasury stock	—	—	—	—	—	—	24
Net changes of items other than shareholders' equity	(1,598)	1	(485)	(2,082)	24	180	(1,878)
Balance at March 31, 2016	**¥ 3,095**	**¥ 1**	**¥ (558)**	**¥ 2,538**	**¥ 163**	**¥ 2,045**	**¥ 59,947**

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
	(Thousands of U.S. dollars (Note 1))				
Balance at April 1, 2015	$ 51,056	$ 52,645	$ 371,601	$ (11,022)	$ 464,280
Profit attributable to owners of parent	—	—	41,196	—	41,196
Dividend from surplus	—	—	(9,540)	—	(9,540)
Purchase of treasury stock	—	—	—	(6,257)	(6,257)
Disposal of treasury stock	—	—	(124)	337	213
Net changes of items other than shareholders' equity	—	—	—	—	—
Balance at March 31, 2016	**$ 51,056**	**$ 52,645**	**$ 403,133**	**$ (16,942)**	**$ 489,892**

	Accumulated other comprehensive income				Subscription rights to shares	Non-controlling interests	Total net assets
	Net unrealized holding gains or losses on securities	Deferred gains or losses on hedges	Accumulated adjustments for retirement benefits	Total Accumulated other comprehensive income			
	(Thousands of U.S. dollars (Note 1))						
Balance at April 1, 2015	$ 41,649	—	$ (648)	$ 41,001	$ 1,234	$ 16,551	$ 523,066
Profit attributable to owners of parent	—	—	—	—	—	—	41,196
Dividend from surplus	—	—	—	—	—	—	(9,540)
Purchase of treasury stock	—	—	—	—	—	—	(6,257)
Disposal of treasury stock	—	—	—	—	—	—	213
Net changes of items other than shareholders' equity	(14,182)	9	(4,305)	(18,478)	213	1,598	(16,667)
Balance at March 31, 2016	**$ 27,467**	**$ 9**	**$ (4,953)**	**$ 22,523**	**$ 1,447**	**$ 18,149**	**$ 532,011**

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Hibiya Engineering, Ltd. and Consolidated Subsidiaries
As of March 31, 2016 and 2015

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	**2016**
Cash flows from operating activities:			
Profit before income taxes	**¥ 6,835**	¥ 4,127	**$ 60,659**
Depreciation and amortization	**117**	152	**1,038**
Increase (decrease) in allowance for doubtful accounts	**(36)**	(89)	**(319)**
Decrease (increase) in asset for retirement benefits	**(65)**	(84)	**(577)**
Increase (decrease) in liability for retirement benefits	**(57)**	(89)	**(506)**
Increase (decrease) in provision for bonuses	**1,443**	54	**12,806**
Increase (decrease) in provision for loss on construction contracts	**(250)**	106	**(2,219)**
Interest and dividend income	**(247)**	(255)	**(2,192)**
Interest expenses	**1**	3	**9**
Loss (gain) on sales of investment securities	**(1,258)**	(1,067)	**(11,164)**
Loss (gain) on valuation of investment securities	**4**	—	**35**
Loss (gain) on cancellation of insurance contract	**763**	—	**6,771**
Equity in (earnings) losses of affiliates	**(1,206)**	(654)	**(10,703)**
Decrease (increase) in notes and accounts receivable	**(7,337)**	(3,375)	**(65,114)**
Decrease (increase) in costs on uncompleted construction contracts and other	**64**	(97)	**568**
Increase (decrease) in notes and accounts payable	**4,069**	(1,272)	**36,111**
Increase (decrease) in advances received on uncompleted construction contracts	**(451)**	(331)	**(4,002)**
Other, net	**468**	35	**4,154**
Subtotal	**2,857**	(2,836)	**25,355**
Interest and dividend income received	**255**	259	**2,263**
Interest expenses paid	**(1)**	(3)	**(9)**
Income taxes paid	**(1,241)**	(805)	**(11,013)**
Net cash provided by (used in) operating activities	**1,870**	(3,385)	**16,596**
Cash flows from investing activities:			
Proceeds from withdrawal of time deposits	**—**	300	**—**
Purchase of property, plant and equipment	**(40)**	(64)	**(355)**
Purchase of intangible assets	**(29)**	(19)	**(257)**
Purchase of investment securities	**(1,870)**	(357)	**(16,596)**
Proceeds from sales of investment securities	**1,553**	1,610	**13,782**
Proceeds from redemption of investment securities	**1,200**	1,510	**10,650**
Purchase of insurance funds	**(1,489)**	(112)	**(13,214)**
Proceeds from maturity of insurance funds	**2,096**	11	**18,601**
Payments for investments in silent partnership	**(500)**	(300)	**(4,437)**
Other, net	**82**	55	**727**
Net cash provided by (used in) investing activities	**1,003**	2,634	**8,901**
Cash flows from financing activities:			
Net increase (decrease) in short-term bank loans	**—**	(330)	**—**
Purchase of treasury stock	**(705)**	(730)	**(6,257)**
Proceeds from disposal of treasury stock	**0**	0	**0**
Cash dividend	**(1,075)**	(939)	**(9,540)**
Cash dividend paid to minority shareholders	**(6)**	(6)	**(53)**
Other, net	**(5)**	(3)	**(45)**
Net cash provided by (used in) financing activities	**(1,791)**	(2,008)	**(15,895)**
Net increase (decrease) in cash and cash equivalents	**1,082**	(2,759)	**9,602**
Cash and cash equivalents at beginning of period	**4,864**	7,623	**43,167**
Cash and cash equivalents at end of period	**¥ 5,946**	¥ 4,864	**$ 52,769**

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Hibiya Engineering, Ltd. and Consolidated Subsidiaries
As of March 31, 2016 and 2015

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, 2016, which was ¥112.68 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

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

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

(2) Securities

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

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

(3) Allowance for doubtful accounts

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

(4) Provision for bonuses

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

(5) Provision for loss on construction contracts

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

The net provision for loss on construction contracts that were changed to cost of sales for the years ended March 31, 2016 and 2015 are ¥98 million ($870 thousand) and ¥348 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 specific identification method. Inventories other than construction contracts are stated at cost using the specific identification method and periodic average method for finished goods and work in process, and by the last purchase cost method for raw materials. Each book value is written down in accordance with the declining profitability of each asset.

(8) Property, plant and equipment, and depreciation

Depreciation of property, plant and equipment (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 as allowed under Japanese GAAP. Under the simplified method, benefits payable assuming the voluntary retirement of all eligible employees at the fiscal year-end are deemed as retirement benefit obligation.

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

In preparing the consolidated statements of cash flows, cash on hand, readily-available deposits, short-term highly liquid investments with maturities within three months from the time of purchase and with insignificant risk of change in value 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 fiscal year including those dividends declared and to be paid after the fiscal year-end.

(12) Change in accounting policy

For the year ended March 31, 2016

(Application of Accounting Standard for Business Combinations, etc.)

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

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

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

For the year ended March 31, 2015

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

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

3. Costs on uncompleted construction contracts and other

Costs on uncompleted construction contracts and other consist of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	**2016**
Costs on uncompleted construction contracts	**¥ 206**	¥ 205	**$ 1,828**
Merchandise and finished goods	**353**	374	**3,133**
Work in process	**10**	32	**89**
Raw materials	**319**	341	**2,831**
Total	**¥ 888**	952	**$ 7,881**

4. Financial instruments

(1) Overview

Information on financial instruments for the years ended March 31, 2016 and 2015 were as follows:

(a) Policy for financial instruments

Surplus cash from cash and cash equivalents after deduction of operating funds, new business investments and policy investments is invested.

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

(b) Details and risks of financial instruments

Operating receivables of the Companies (notes receivable, accounts receivable from completed construction contracts and other) are exposed to customer credit risk that the receivables may not be collected due to deterioration of the counterparty's financial condition. In addition, operating receivables and payables denominated in foreign currencies are exposed to the risk of fluctuation in exchange rates, and the Companies use forward exchange contracts to hedge such fluctuation risk.

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

Derivative transactions conducted by the Companies are primarily forward exchange contracts for the purpose of hedging against the exchange rate fluctuation risk associated with operating receivables and payables denominated in foreign currencies.

(c) Risk management for financial instruments

Credit risk management

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

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

Market risk management

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

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

Supplemental information on the fair value of financial instruments

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

(2) Fair values of financial instruments

As of March 31, 2016 and 2015, book values, fair values and their differences were as follows.

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

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

		Thousands of U.S. dollars (Note 1)		
		2016		
		Book value	Fair value	Difference
Assets				
Cash and cash equivalents	(*1)	**$52,769**	**$52,769**	**$ —**
Notes receivable, accounts receivable from completed construction contracts and other	(*1)	**385,419**	**385,419**	—
Short-term investments	(*2)	**17,794**	**17,794**	—
Investment securities measured at fair value	(*2)	**106,816**	**106,816**	—
Investments not measured at fair value	(*3)	**173,527**	—	—
Investments in silent partnership	(*3)	**15,389**	—	—
Liabilities				
Notes payable, accounts payable for construction contracts and other		**$ 206,239**	**$ 206,239**	**$ —**

(*1) The book value is used as fair value because these are settled in a short period and their fair value approximates the book value.
(*2) The market price on securities exchanges is used as fair value of equity securities. The market price on securities exchanges or the price quoted by financial institutions is used as fair value of debt securities.
(*3) Fair value is not disclosed since these investments do not have quoted market prices and it is extremely difficult to estimate the fair value.

(3) Securities

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	**2016**
Short-term investments	**¥ 2,005**	¥ 1,201	**$ 17,794**
Investment securities	**31,589**	33,736	**280,343**
Total	**¥ 33,594**	¥ 34,937	**$ 298,137**
Available-for-sale securities with fair value	**14,041**	16,461	**124,610**
Available-for-sale securities without fair value	**1,464**	1,465	**12,993**
Equity securities issued by subsidiaries and affiliates	**18,089**	17,011	**160,534**
Total	**¥ 33,594**	¥ 34,937	**$ 298,137**

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

As of March 31, 2016 and 2015, book values (fair values) and acquisition costs of available-for-sale securities with fair values were as follows:

	Millions of yen		
	2016		
	Book value	Acquisition cost	Difference
Securities whose book values (fair values) exceed their acquisition costs:			
Equity securities	**¥ 7,863**	**¥ 3,618**	**¥ 4,245**
Debt securities:			
Government and municipal bonds	—	—	—
Corporate bonds	**1,003**	**896**	**107**
Other bonds	**3,549**	**3,500**	**49**
Other	—	—	—
Sub-total	**¥ 12,415**	**¥ 8,014**	**¥ 4,401**
Securities whose book values (fair values) do not exceed their acquisition costs:			
Equity securities	**¥ 191**	**¥ 208**	**¥ (17)**
Debt securities:			
Other bonds	**1,435**	**1,500**	**(65)**
Other	—	—	—
Sub-total	**¥ 1,626**	**¥ 1,708**	**¥ (82)**
Total	**¥ 14,041**	**¥ 9,722**	**¥ 4,319**

	Millions of yen		
	2015		
	Book value	Acquisition cost	Difference
Securities whose book values (fair values) exceed their acquisition costs:			
Equity securities	¥ 10,347	¥ 3,717	¥ 6,630
Debt securities:			
Government and municipal bonds	301	300	1
Corporate bonds	972	892	80
Other bonds	3,424	3,400	24
Other	—	—	—
Sub-total	¥ 15,044	¥ 8,309	¥ 6,735
Securities whose book values (fair values) do not exceed their acquisition costs:			
Equity securities	¥ 34	¥ 37	¥ (3)
Debt securities:			
Other bonds	1,383	1,400	(17)
Other	1,500	1,500	—
Sub-total	¥ 2,917	¥ 2,937	¥ (20)
Total	¥ 17,961	¥ 11,246	¥ 6,715

	Thousands of U.S. dollars (Note 1)		
	2016		
	Book value	Acquisition cost	Difference
Securities whose book values (fair values) exceed their acquisition costs:			
Equity securities	**$ 69,782**	**$ 32,109**	**$ 37,673**
Debt securities:			
Government and municipal bonds	—	—	—
Corporate bonds	**8,901**	**7,952**	**949**
Other bonds	**31,496**	**31,061**	**435**
Other	—	—	—
Sub-total	**$ 110,179**	**$ 71,122**	**$ 39,057**
Securities whose book values (fair values) do not exceed their acquisition costs:			
Equity securities	**$ 1,695**	**$ 1,846**	**$ (151)**
Debt securities:			
Other bonds	**12,736**	**13,312**	**(576)**
Other	—	—	—
Sub-total	**$ 14,431**	**$ 15,158**	**$ (727)**
Total	**$ 124,610**	**$ 86,280**	**$ 38,330**

(b) Proceeds from sales, and gross realized gains and losses from the sale of available-for-sale securities for the years ended March 31, 2016 and 2015 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	**2016**
Proceeds from sales			
Equity securities	**¥ 1,553**	¥ 1,270	**$ 13,782**
Other	—	340	—
Total	**¥ 1,553**	¥ 1,610	**$ 13,782**
Gross realized gains			
Equity securities	**¥ 1,258**	¥ 1,013	**$ 11,164**
Other	—	59	—
Total	**¥ 1,258**	¥ 1,072	**$ 11,164**
Gross realized losses			
Equity securities	**¥ —**	¥ 5	**$ —**
Other	—	—	—
Total	**¥ —**	¥ 5	**$ —**

(c) Securities with impairment losses

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

(4) Redemption schedule of monetary receivables and maturities of securities with maturities were as follows:

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

	Millions of yen			
	2015			
	Within 1 year	1 to 5 years	5 to 10 years	Over 10 years
Cash and cash equivalents	¥ 4,864	¥ —	¥ —	¥ —
Notes receivable, accounts receivable from completed construction contracts and other	36,093	—	—	—
Short-term investments and investment securities				
Securities with maturities:				
(1) Government and municipal bonds	300	—	—	—
(2) Corporate bonds	—	400	—	—
(3) Other bonds	2,400	3,000	900	500
Investments in silent partnership	—	1,544	—	—
Total	¥ 43,657	¥ 4,944	¥ 900	¥ 500

	Thousands of U.S. dollars (Note 1)			
	2016			
	Within 1 year	1 to 5 years	5 to 10 years	Over 10 years
Cash and cash equivalents	**$ 52,769**	**$ —**	**$ —**	**$ —**
Notes receivable, accounts receivable from completed construction contracts and other	**385,419**	—	—	—
Short-term investments and investment securities				
Securities with maturities:				
(1) Government and municipal bonds	—	—	—	—
(2) Corporate bonds	—	**3,550**	—	**4,437**
(3) Other bonds	**17,749**	**17,749**	**8,875**	—
Investments in silent partnership	**2,547**	**10,952**	**4,437**	—
Total	**$ 458,484**	**$ 32,251**	**$13,312**	**$ 4,437**

(5) Derivative transactions

Derivative transactions to which hedge accounting is not applied

Compound financial instruments for which embedded derivative cannot be measured separately are measured at fair value as a whole and included in Available-for-sale securities with fair values described in note 4 (3) (a) above.

5. Income taxes

Income taxes consist of corporate, enterprise and inhabitants taxes. The aggregate statutory tax rates on income before income taxes were approximately 33.1% and 35.6% for the years ended March 31, 2016 and 2015, respectively.

The actual effective tax rate in the accompanying consolidated statements of income differed from the statutory tax rate primarily as a result of expenses not deductible for tax purposes.

The following table summarizes the significant differences between the statutory tax rate and the Companies' effective tax rate for consolidated financial statement purposes for the years ended March 31, 2016 and 2015.

	2016	2015
Statutory tax rate	**33.1%**	35.6%
Non-deductible expenses	**0.7**	1.0
Non-taxable dividend income	**(0.2)**	(0.7)
Per capita inhabitant tax	**0.7**	1.1
Valuation allowance	**0.1**	(0.5)
Equity in earnings of affiliates	**(5.8)**	(5.7)
Tax credits for salary growth	**(0.6)**	—
Adjustment of deferred tax assets and liabilities for enacted changes in tax laws and rates	**1.7**	2.6
Other	**(0.3)**	0.1
Effective tax rate	**29.4%**	33.5%

Significant components of the Companies' deferred tax assets and liabilities as of March 31, 2016 and 2015 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	**2016**
Deferred tax assets:			
Loss on valuation of investment securities	**¥ 200**	¥ 214	**$ 1,775**
Enterprise taxes payable	**162**	83	**1,438**
Provision for bonuses	**749**	322	**6,647**
Provision for loss on construction contracts	**30**	115	**266**
Liability for retirement benefits	**627**	638	**5,564**
Net unrealized holding losses on securities	**26**	7	**231**
Other	**442**	411	**3,923**
Valuation allowance	**(424)**	(444)	**(3,763)**
Sub-total	**¥ 1,812**	¥ 1,346	**$ 16,081**
Less : deferred tax liabilities-describe	**(641)**	(695)	**(5,689)**
Total deferred tax assets	**¥ 1,171**	¥ 651	**$ 10,392**
Current deferred tax assets	**1,082**	608	**9,602**
Non-current deferred tax assets	**89**	43	**790**
Deferred tax liabilities:			
Net unrealized holding gains on securities	**¥ (1,224)**	¥ (2,049)	**$ (10,863)**
Other	**88**	(84)	**781**
Sub-total	**¥ (1,136)**	¥ (2,133)	**$ (10,082)**
Less : deferred tax assets-describe	**641**	695	**5,689**
Total tax liabilities	**¥ (495)**	¥ (1,438)	**$ (4,393)**

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

The "Act for Partial Amendment of the Income Tax Act, etc." (Act No. 15 of 2016) and the "Act on Partial Amendment of the Local Tax Act, etc." (Act No. 13 of 2016) were promulgated on March 29, 2016. With this amendment, the corporate income tax rates, etc. are to be reduced effective from the fiscal year beginning on or after April 1, 2016. In conjunction with this, the statutory effective tax rate used to calculate deferred tax assets and deferred tax liabilities was changed from the previous rate of 33.1%. The rate will be 30.9% for temporary differences expected to be reversed in the fiscal year beginning on April 1, 2016 and the fiscal year beginning on April 1, 2017 and 30.6% for temporary differences expected to be reversed in the fiscal year beginning on April 1, 2018 and subsequent fiscal years.

As a result, deferred tax assets (after deducting deferred tax liabilities), investment securities and accumulated adjustments for retirement benefits decreased by ¥64 million ($568 thousand), ¥3 million ($27 thousand) and ¥13 million ($115 thousand) respectively, and net unrealized holding gains or losses on securities and income taxes - deferred (debit) increased by ¥56 million ($497 thousand) and ¥111 million ($985 thousand) respectively.

6. Selling, general and administrative expenses

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

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	2016
Employees' salaries and allowances	¥ 2,377	¥ 2,302	$ 21,095
Provision for bonuses	1,025	435	9,097
Retirement benefit expenses	193	207	1,713
Provision of allowance for doubtful accounts	29	9	257
Depreciation	75	108	666
Rents	1,002	991	8,892
Research and development expenses	141	104	1,251

7. Retirement benefits

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

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

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

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

The Company and one of the consolidated subsidiaries participate in the Tokyo Air-Conditioning and Plumbing Contractors Employees' Pension Fund (Tokyo Kucho Eisei Koujigyo Kosei Nenkin Kikin) as a welfare pension fund system, and the amount of plan assets proportionate to their contributions cannot be calculated in a reasonable manner. Therefore, the pension assets are accounted for as the case in the defined contribution plan. On January 1, 2015, the Companies obtained an approval from the Minister of Health, Labour and Welfare for an exemption from payments of benefit obligations for future employee services related to the substitutional portion of the welfare pension fund managed on behalf of the government.

Defined benefit plans (excluding plans applying the simplified method)

(a) Reconciliation between retirement benefit obligations and plan assets at end of period and liability for retirement benefits and asset for retirement benefits on the consolidated balance sheets as of March 31, 2016 and 2015 is as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	2016
Funded retirement benefit obligations	¥ 4,844	¥ 4,340	$ 42,989
Plan assets	(4,703)	(4,667)	(41,738)
Net	141	(327)	1,251
Unfunded retirement benefit obligations	148	139	1,314
Net balance of liability and asset recorded on the consolidated balance sheets	¥ 289	¥ (188)	$ 2,565
Liability for retirement benefits	389	255	3,452
Asset for retirement benefits	(100)	(443)	(887)
Net balance of liability and asset recorded on the consolidated balance sheets	¥ 289	¥ (188)	$ 2,565

Note: Plans applying the simplified method are included.

(b) Reconciliation between retirement benefit obligations at beginning of period and end of period for the years ended March 31, 2016 and 2015 is as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	**2016**
Retirement benefit obligation at beginning of period	**¥ 3,979**	¥ 4,170	**$ 35,312**
Current service costs	**196**	194	**1,739**
Interest costs	**60**	63	**532**
Actuarial gains and losses arising during period	**623**	(105)	**5,529**
Retirement benefits paid	**(369)**	(343)	**(3,275)**
Retirement benefit obligation at end of period	**¥ 4,489**	¥ 3,979	**$ 39,837**

(c) Reconciliation between plan assets at beginning of period and end of period (excluding plans applying the simplified method) for the years ended March 31, 2016 and 2015 is as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	**2016**
Plan assets at beginning of period	**¥ 4,299**	¥ 4,107	**$ 38,152**
Expected return on plan assets	**54**	52	**479**
Actuarial gains and losses arising during period	**(69)**	92	**(612)**
Contribution from employer	**243**	243	**2,157**
Retirement benefit paid	**(198)**	(195)	**(1,757)**
Plan assets at end of period	**¥ 4,329**	¥ 4,299	**$ 38,419**

(d) Reconciliation between liabilities for retirement benefits of plans applying the simplified method at beginning of period and end of period for the years ended March 31, 2016 and 2015 is as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	**2016**
Liability for retirement benefits at beginning of period	**¥ 132**	¥ 144	**$ 1,171**
Retirement benefit expenses	**26**	21	**231**
Retirement benefit paid	**(10)**	(9)	**(89)**
Contribution to plans	**(19)**	(24)	**(169)**
Liability for retirement benefits at end of period	**¥ 129**	¥ 132	**$ 1,144**

(e) The components of retirement benefit expenses for the years ended March 31, 2016 and 2015 is as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	**2016**
Current service costs	**¥ 196**	¥ 194	**$ 1,739**
Interest costs	**59**	62	**524**
Expected return on plan assets	**(54)**	(52)	**(479)**
Amortization of actuarial gains and losses	**106**	39	**941**
Amortization of past service costs	**(12)**	(12)	**(106)**
Retirement benefit expenses applying the simplified method	**26**	21	**231**
Retirement benefit expenses under defined benefit plans	**¥ 321**	¥ 252	**$ 2,850**

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

	Millions of yen	Thousands of U.S. dollars (Note 1)
	2016	**2016**
Past service costs	**¥ (12)**	**$ (106)**
Actuarial gains and losses	**(586)**	**(5,201)**
Total	**¥ (598)**	**$ (5,307)**

(g) Accumulated adjustments for retirements benefits

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

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	**2016**
Unrecognized past service costs	**¥ 56**	¥ 68	**$ 497**
Unrecognized actuarial gains and losses	**(629)**	(43)	**(5,582)**
Total	**¥ (573)**	¥ 25	**$ (5,085)**

(h) Plan assets

i. Components of plan assets

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

	2016	2015
Debt securities	**29%**	40%
Equity securities	**5**	5
General account	**44**	43
Cash and cash equivalents	**11**	—
Other	**11**	12
Total	**100%**	100%

Note: Retirement benefit trusts set up for defined benefit corporate pension plans constituted 48% and 49% of the total plan assets as of March 31, 2016 and 2015, respectively.

ii. Determination of expected long-term rate of return

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

(i) Actuarial assumptions

Major actuarial assumptions for the years ended March 31, 2016 and 2015 are as follows:

	2016	2015
Discount rate	**0.3%**	1.5%
Expected long-term rate of return on plan assets	**1.0% – 1.5%**	1.0% – 1.5%

(j) Multi-employer pension plans

The Company and one of the consolidated subsidiaries participate in several contributory funded multi-employer pension plans, for which the required contributions are accounted for as the employees' retirement benefit expenses. The amounts of required contribution to the employees' pension fund under multi-employer pension plans that should be accounted for in the same manner as defined contribution plans were ¥162 million ($1,438 thousand) and ¥254 million for the years ended March 31, 2016 and 2015, respectively. Latest information about the multi-employer plans was as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	As of March 31, 2015	As of March 31, 2014	As of March 31, 2015
Fair value of plan assets	**¥ 41,829**	¥ 37,499	**$ 371,219**
Benefit obligations under pension funding programs	**53,355**	50,287	**473,509**
Deficit	**¥ (11,526)**	¥ (12,788)	**$ (102,290)**
Balance of actuarial past service costs	**(12,693)**	(13,217)	**$ (112,646)**
Surplus	**1,167**	429	**10,356**
Ratio of total salaries of the Companies to total funds of plans (*1)	**12.4%**	12.3%	

Supplemental information

The amounts of principal and interest of past service costs under the plans are amortized equally over 18 years, and the Companies recorded special contributions of ¥118 million ($1,047 thousand) and ¥118 million related to the amortization as expenses in the consolidated financial statements for the years ended March 31, 2016 and 2015, respectively.

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

8. Net assets

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

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

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

Dividend paid to shareholders was as follows:

Date of approval	Resolution approved by	Type of shares	Amount (Millions of yen)	Amount (Thousands of U.S. dollars) (Note 1)	Amount per share (Yen)	Amount per share (U.S. dollars) (Note 1)	Record date	Effective date
June 27, 2014	Annual shareholders' meeting	Common stock	**¥456**		**¥15.00**		March 31, 2014	June 30, 2014
November 7, 2014	Board of directors	Common stock	**¥483**		**¥16.00**		September 30, 2014	December 9, 2014
June 26, 2015	Annual shareholders' meeting	Common stock	**¥479**	**$4,251**	**¥16.00**	**$0.14**	March 31, 2015	June 29, 2015
November 6, 2015	Board of directors	Common stock	**¥596**	**$5,289**	**¥20.00**	**$0.18**	September 30, 2015	December 9, 2015

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

Date of approval	Resolution approved by	Type of shares	Amount (Millions of yen)	Amount (Thousands of U.S. dollars) (Note 1)	Paid from	Amount per share (Yen)	Amount per share (U.S.dollars) (Note 1)	Record date	Effective date
June 29, 2016	Annual shareholders' meeting	Common stock	**¥590**	**$5,236**	Retained earnings	**¥20.00**	**$0.18**	March 31, 2016	June 30, 2016

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

9. Stock option plan

1. Stock option expense that was accounted for as general and administrative expenses on the consolidated statements of income for the years ended March 31, 2016 and 2015 amounted to ¥47 million ($417 thousand) and ¥38 million, respectively.

2. Outline of stock options

(1) Summary of stock option plans

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

Date of approval	June 27, 2013	June 27, 2014	June 26, 2015
Persons granted	9 directors of the Company 10 corporate officers of the Company	9 directors of the Company 12 corporate officers of the Company	9 directors of the Company 12 corporate officers of the Company
Number of options granted	38,000 common shares	25,800 common shares	30,500 common shares
Date of grant	July 22, 2013	July 22, 2014	July 21, 2015
Vesting condition	No provisions	No provisions	No provisions
Requisite service period	No provisions	No provisions	No provisions
Exercise period	July 23, 2013 – July 22, 2043 *	July 23, 2014 – July 22, 2044 *	July 22, 2015 – July 21, 2045 *

* 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, 2016.

a) Number of stock options

Date of approval	June 26, 2009	June 29, 2010	June 29, 2010	June 28, 2012
Fiscal year ended March 31, 2016				
Non-vested	(Share)	(Share)	(Share)	(Share)
April 1, 2015 – Outstanding	—	—	—	—
Granted	—	—	—	—
Forfeited	—	—	—	—
Vested	—	—	—	—
March 31, 2016 – Outstanding	—	—	—	—
Vested				
April 1, 2015 – Outstanding	12,900	26,900	30,900	34,100
Vested	—	—	—	—
Exercised	3,700	4,400	4,400	6,200
Forfeited	—	—	—	—
March 31, 2016 – Outstanding	9,200	22,500	26,500	27,900

Date of approval	June 27, 2013	June 27, 2014	June 26, 2015
Fiscal year ended March 31, 2016			
Non-vested	(Share)	(Share)	(Share)
April 1, 2015 – Outstanding	—	—	—
Granted	—	—	30,500
Forfeited	—	—	—
Vested	—	—	30,500
March 31, 2016 – Outstanding	—	—	—
Vested			
April 1, 2015 – Outstanding	35,000	25,800	—
Vested	—	—	30,500
Exercised	5,800	3,700	—
Forfeited	—	—	—
March 31, 2016 – Outstanding	29,200	22,100	30,500

b) Price information

Date of approval	June 26, 2009	June 29, 2010	June 29, 2011	June 28, 2012
Exercise price	¥1 per share	¥1 per share	¥1 per share	¥1 per share
	($0.01 per share)	($0.01 per share)	($0.01 per share)	($0.01 per share)
Average exercise price	¥1,644 ($14.59)	¥1,644 ($14.59)	¥1,644 ($14.59)	¥1,644 ($14.59)
Fair value at grant date	¥686 ($6.09)	¥633 ($5.62)	¥594 ($5.27)	¥728 ($6.46)

Date of approval	June 27, 2013	June 27, 2014	June 26, 2015
Exercise price	¥1 per share	¥1 per share	¥1 per share
	($0.01 per share)	($0.01 per share)	($0.01 per share)
Average exercise price	¥1,644 ($14.59)	¥1,644 ($14.59)	—
Fair value at grant date	¥904 ($8.02)	¥1,479 ($13.13)	¥1,544 ($13.70)

(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 26, 2015
Expected volatility of the underlying stock	(*1)	28.5%
Expected life of the option	(*2)	6 years
Expected dividend on stock	(*3)	¥32.0 ($0.28) per share
Risk-free interest rate during the expected option term	(*4)	0.12%

(*1) The volatility of the stock option is calculated based on the actual stock prices during five years from July 13, 2009 to July 13, 2015.
(*2) The expected life of the option is the estimated average period from valuation dates to each director's and corporate officer's expected retirement date.
(*3) The actual dividend during the past 12 months.
(*4) Yield of Japanese government bond whose remaining period corresponds to the above expected life of the option.

10. Comprehensive income

Reclassification adjustments and income tax benefit (expense) on other comprehensive income for the years ended March 31, 2016 and 2015 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	**2016**
Net unrealized holding gains or losses on securities:			
Gains (losses) arising during the period	**¥ (1,141)**	¥ 1,903	**$ (10,126)**
Reclassification adjustments	**(1,254)**	(1,067)	**(11,129)**
Sub-total, before tax	**¥ (2,395)**	¥ 836	**$ (21,255)**
Income tax benefit (expense)	**845**	(121)	**7,499**
Net unrealized holding gains or losses on securities	**¥ (1,550)**	¥ 715	**$ (13,756)**
Deferred gains or losses on hedges			
Gains (losses) arising during the period	**¥ 1**	¥ —	**$ 9**
Income tax benefit (expense)	**0**	—	**0**
Deferred gains or losses on hedges	**¥ 1**	¥ —	**$ 9**
Adjustments for retirements benefits gains or losses on securities:			
Gains (losses) arising during the period	**¥ (622)**	¥ 177	**$ (5,520)**
Reclassification adjustments	**24**	46	**213**
Sub-total, before tax	**¥ (598)**	¥ 223	**$ (5,307)**
Income tax benefit (expense)	**183**	(78)	**1,624**
Net unrealized holding gains or losses on securities	**¥ (415)**	¥ 145	**$ (3,683)**
Share of other comprehensive income of associates accounted for using equity method:			
Gains (losses) arising during the period	**¥ (118)**	¥ (98)	**$ (1,047)**
Total other comprehensive income	**¥ (2,082)**	¥ 762	**$ (18,477)**

11. Net income per share

Reconciliation of the differences between basic and diluted net income per share ("EPS") for the years ended March 31, 2016 and 2015 ware as follows:

	Millions of yen	Thousands of shares	Yen	U.S. dollars (Note 1)
	Net income	Weighted average number of shares	EPS	EPS
For the year ended March 31, 2016				
Basic EPS				
Net income available to common shareholders	**¥ 4,641**	**29,586**	**¥ 156.88**	**$ 1.39**
Effect of dilutive securities				
Stock acquisition rights	—	**165**	—	—
Diluted EPS				
Net income for computation	**¥ 4,641**	**29,751**	**¥ 156.01**	**$ 1.39**

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

12. Segment information

1. General information about reportable segments

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

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

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

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

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

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

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

Segment information as of and for the fiscal years ended March 31, 2016 and 2015 was as follows:

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

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

	Thousands of U.S. dollars (Note 1)					
	2016					
	Construction	Equipment sales	Equipment manufacturing	Total	Adjustments (*1)	Consolidated
Net sales:						
Outside customers	**$ 627,281**	**$ 48,261**	**$ 29,126**	**$ 704,668**	**$ —**	**$ 704,668**
Intersegment	**44**	**42,448**	**11,510**	**54,002**	**(54,002)**	**—**
Total	**$ 627,325**	**$ 90,709**	**$ 40,636**	**$ 758,670**	**$ (54,002)**	**$ 704,668**
Segment income (*2)	**$ 36,005**	**$ 1,961**	**$ 3,452**	**$ 41,418**	**$ 80**	**$ 41,498**
Segment assets	**$ 402,725**	**$ 79,366**	**$ 32,490**	**$ 514,581**	**$ 301,003**	**$ 815,584**
Other items:						
Depreciation and amortization	**$ 745**	**$ 53**	**$ 240**	**$ 1,038**	**$ —**	**$ 1,038**
Increase in tangible and intangible fixed assets	**319**	**9**	**293**	**621**	**—**	**621**

(*1) Adjustments of segment income are mainly due to intersegment transaction eliminations.
Corporate assets (not allocated to specific segments) included in the adjustments of segment assets as of March 31, 2016 and 2015 were ¥37,052 million ($328,825 thousand) and ¥38,109 million, respectively, mainly consisting of cash and cash equivalents, short-term investments, investment securities, etc. of the Company. Moreover, intersegment transaction eliminations included in the adjustments of segment assets as of March 31, 2016 and 2015 were ¥(3,135) million ($(27,822) thousand) and ¥(3,025) million, respectively.
(*2) Segment income is adjusted for consistency with operating income in the consolidated statements of income.

(Related Information)

(1) Information by major customer for the years ended March 31, 2016 and 2015 was as follows:

2016	Net sales		
Name of customer	Millions of yen	Thousands of U.S. dollars (Note 1)	Related reportable segments
NTT FACILITIES, INC.	**¥ 11,731**	**$ 104,109**	Construction, Equipment sales, Equipment manufacturing
NIPPON TELEGRAPH AND TELEPHONE EAST CORPORATION	**¥ 10,762**	**$ 95,509**	Construction

2015	Net sales	Related reportable segments
Name of customer	Millions of yen	
NTT FACILITIES, INC.	¥ 11,698	Construction, Equipment sales, Equipment manufacturing

13. Related party transactions and balances

The condensed financial information of major affiliates

The condensed financial information of Nihon Meccs Corporation, the significant affiliate, as of and for the years ended March 31, 2016 and 2015 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	**2016**
Current assets	**¥ 43,413**	¥ 37,397	**$ 385,277**
Non-current assets	**14,146**	14,170	**125,541**
Current liabilities	**15,855**	12,303	**140,708**
Long-term liabilities	**2,708**	2,676	**24,033**
Net assets	**38,997**	36,587	**346,086**
Net sales	**61,088**	52,357	**542,137**
Income before income taxes	**4,069**	2,360	**36,111**
Net income	**2,598**	1,360	**23,056**

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, 2016 and 2015, and the consolidated statements of income, statements of comprehensive income, statements of changes in net assets and statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our 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, 2016 and 2015, 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, 2016 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note1 to the consolidated financial statements.

KPMG AZSA LLC

July 29, 2016
Tokyo, Japan

Corporate Data

Investor Information

As of March 31, 2016

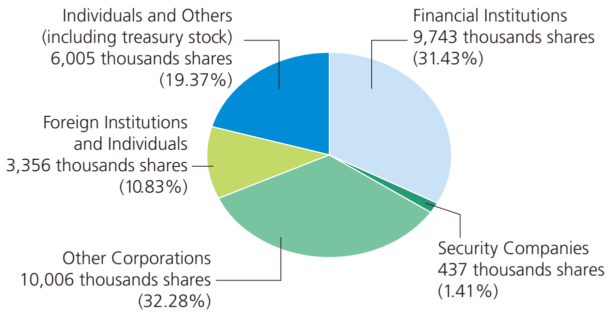
Total number of shares authorized	96,500,000 shares
Total number of shares issued	31,000,309 shares
Number of shareholders	2,679

■ Major Shareholders

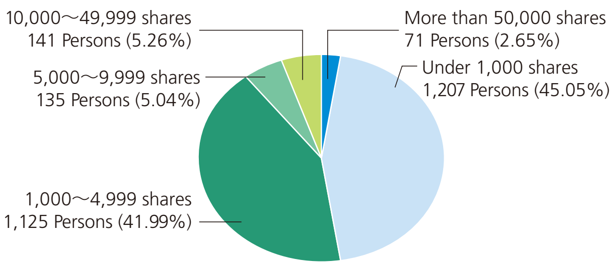
	Name of shareholders	Number of held thousands shares	Percentage of shares in issue(%)
1	Japan Trustee Services Bank, Ltd. (Trust account)	1,473	4.75
2	NTT Urban Development Co.	1,371	4.42
3	Hibiya Engineering Customer Stock Ownership Plan	1,236	3.98
4	The Master Trust Bank of Japan, Ltd. (Retirement benefit trust account, Hyakujushi Bank account)	900	2.90
5	Sumitomo Mitsui Banking Corporation	853	2.75
6	The Japan Telecommunications Welfare Associations	838	2.70
7	Sumitomo Realty & Development Co., Ltd.	828	2.67
8	The Dai-ichi Mutual Life Insurance Company (Standing proxy: Trust & Custody Services Bank, Ltd.)	818	2.63
9	Resona Bank, Limited.	601	1.94
10	Kyoritsu Construction Co., Ltd.	594	1.91

Notes
1) Treasury stock held by the company: 1,451 thousand shares (4.68% of outstanding shares) – excluding the above large shareholder
2) Of the above, shares placed in trust are as follows:
Japan Trustee Services Bank, Ltd.: 1,473 thousand shares
Japan Trustee Services Bank, Ltd. (Retirement Benefit Trust Account, The Hyakujushi Bank, Ltd. account): 900 thousand shares
(Assets placed in trust by The Hyakujushi Bank, Ltd.; the right to issue instructions for the exercise of voting rights is reserved by The Hyakujushi Bank, Ltd.)
3) Based on the Amended Large Shareholding Report filed by Brandes Investment Partners, L.P. with the Director of Kanto Finance Bureau on May 21, 2015, Hibiya Engineering received a report on May 14, 2015 to the effect that Brandes Investment Partners owned Hibiya Engineering shares as follows. However, the Company was unable to confirm the shareholding as of the end of the end of the current fiscal year. It should be noted that the content of the Amended Large Shareholding Report is as follows:
Shares owned by Brandes Investment Partners, L.P.: 1,798,400 (5.80% of outstanding shares)

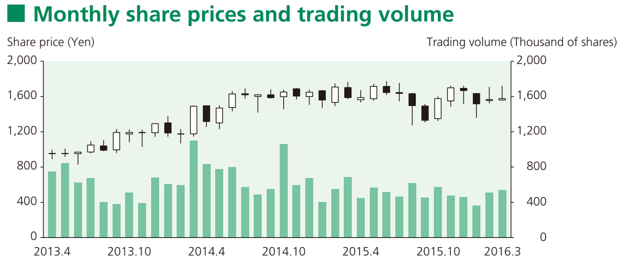
■ Share distribution by owner



■ Share distribution by size of holding



■ Monthly share prices and trading volume



Board of Directors

As of June 29, 2016

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

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

Offices

As of March 31, 2016

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

Research Facilities
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Printed in Japan