



**Hibiya Engineering, Ltd.**

A large green hexagon containing the text 'ANNUAL REPORT' in white, bold, sans-serif capital letters. Below this, the year '2021' is written in blue, sans-serif font on a white rectangular background.

**ANNUAL  
REPORT**  
2021



## 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.

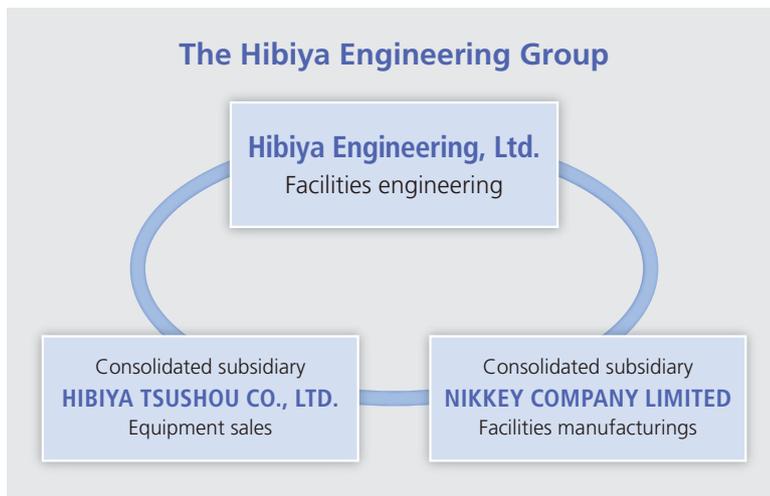
Our role as integrated facilities engineers is to create future possibilities and environments that enhance customer satisfaction. We will continue to contribute to society through innovative technologies and a passion to perform.

### The HIBIYA Vision

#### 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



#### Total engineering solutions for building facilities

(Planning, design, and installation of climate control, communications, electrical, water & drainage, and other sanitary facilities; maintenance and management of installed equipment; and upgrade and replacement)

**Clients**

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### Projections and Perspectives:

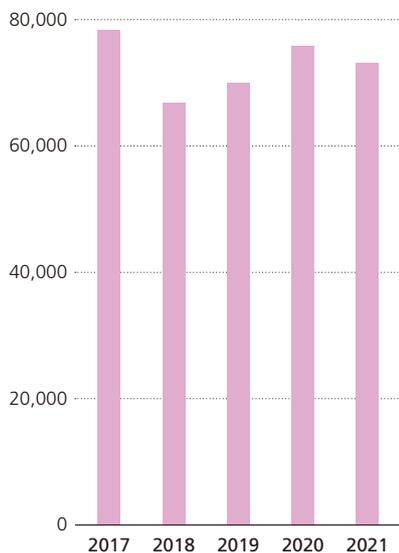
This Annual Report includes projections and descriptions of prospects regarding future plans, strategies and the operating performance of the Company. Such descriptions are not based on past facts, but rather on perspectives judged to be appropriate in view of assumptions and management convictions on the strength of information available to the Company as of March 31, 2021. 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

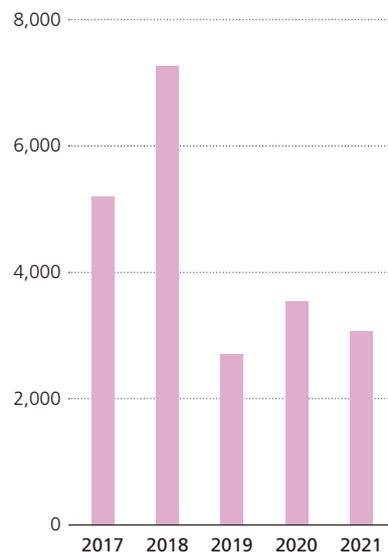
Hibiya Engineering, Ltd. and Consolidated Subsidiaries  
Years ended March 31

	2017	2018	2019	2020	2021
Millions of yen					
Net Sales	¥78,387	¥66,838	¥70,035	¥75,890	¥73,119
Profit attributable to owners of parent	5,207	7,273	2,711	3,537	3,075
Total Assets	93,661	82,931	82,396	83,632	86,138
Net Assets	63,719	58,580	60,026	58,294	62,593
Yen					
Per share:					
Net Assets	¥2,117.40	¥2,350.48	¥2,441.23	¥2,391.70	¥2,556.56
Profit attributable to owners of parent	178.49	262.00	111.34	147.43	128.90
Cash Dividend (non-consolidated basis)	50.00	60.00	80.00	80.00	80.00

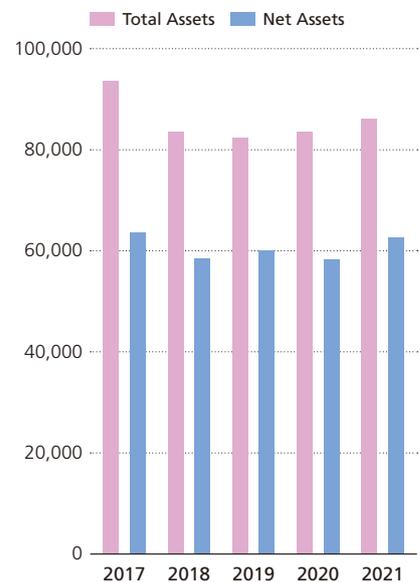
**Net Sales** (¥ million)



**Profit attributable to owners of parent** (¥ million)



**Total Assets & Net Assets** (¥ million)



# Corporate Vision

## » Corporate Philosophy – HIBIYA Vision

### Our Mission

#### We are dedicated to the following principles.

- Use light, water, air and information to give life to buildings and create safe, secure and comfortable environments for people and society.
- Meet the needs of customers by providing support spanning the entire life cycle of buildings as a building care manager.
- Constantly upgrade comprehensive engineering skills to help protect the global environment.
- Respect the interests of employees, customers and shareholders.

### Brand message

#### A resolute commitment to technology for today's needs

This brand message clearly and succinctly expresses the HIBIYA Vision for the purposes of raising awareness of Hibiya Engineering and fostering workforce solidarity. The message also embodies our responsibility to all stakeholders and determination to continue making progress. Furthermore, the brand message helps unify the thinking of all employees as a guideline for going back to the basics when unsure about which decision to choose.

## Seventh Medium-term Management Plan (April 2020 - March 2023)

### Fundamental goals

Business and corporate value growth by making core businesses more profitable and creating new business opportunities

Help create a sustainable society through the convergence of people and technologies

### Numerical Goals (final year)

Orders received <b>80.0</b> Billion yen	Net sales <b>80.0</b> Billion yen	Operating profit <b>4.5</b> Billion yen	Profit attributable to owners of parent <b>3.5</b> Billion yen	ROE <b>6.0%</b> or more
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### Core strategies

#### Business Strategy

More advanced life cycle total solutions that can benefit all stakeholders

Build a new customer base

Expand value-added business activities

#### Technology Strategy

Leading-edge technologies for higher productivity

Technologies / Competitive edge

Safety / Quality

#### Human Resources Strategy

"Smart WORK" working style reforms and workforce diversity

Human resources Diversity

Working style reforms

Health management

#### Governance

An infrastructure for sound management of the Hibiya Engineering Group

Establish an internal control system

Upgrade compliance programs

Ensure the transparency of management

## » Basic stance regarding all stakeholders

We place great importance on relationships with our stakeholders. We have established a Policy for Stakeholders in order to build and maintain sound relationships as well as clearly define our basic stance.

### For customers

- We are dedicated to improving our technologies and quality and providing safe, secure and comfortable environments for our customers and for society.
- Based on our respect for human life, we are constantly seeking more ways to eliminate work-related deaths and injuries and equipment accidents.
- We will respond to the needs of our customers with support that spans the entire lifecycle.

### For shareholders and investors

- We will maintain stable and uninterrupted dividends, taking into account our consolidated performance from a long-term perspective.
- We will disclose information in a timely and appropriate manner.

### For employees

- We will maintain a rewarding, productive and pleasant work environment.
- We will evaluate our employees fairly and always support them in the development of their skills and potential.
- We will respect human rights and provide secure jobs.

### For business partners

- We will always be a good partner when dealing with our customers and conduct our transactions in a fair and transparent manner.
- We will work together to ensure the safety of our construction activities at all times and to maintain and improve the quality of our construction work.

### For communities and society

- In all our business activities, we will always comply with the requirements of laws, regulations, social norms, common-sense rules of society and corporate ethics and act in accordance with ethical standards of behavior.
- As a responsible corporate citizen, we will promote participation in community activities and support these activities.

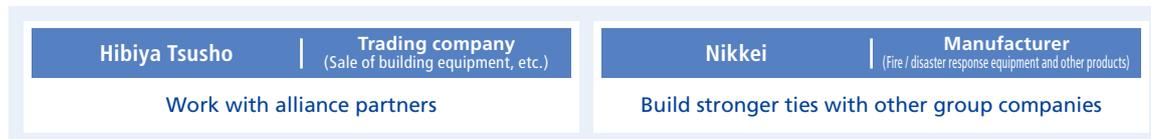
### For the environment

- We have a firm commitment to the development of environmental technologies.
- We position environmental businesses as one of our priorities.
- We conduct environmental activities at our offices, primarily the Fun to Share\* program.

\*Fun to Share is a climate-change fighting campaign of the Ministry of the Environment that started in 2014 for achieving a low-carbon society.

## ■ Group Strategy

A seamless value chain for the entire Hibiya Engineering Group



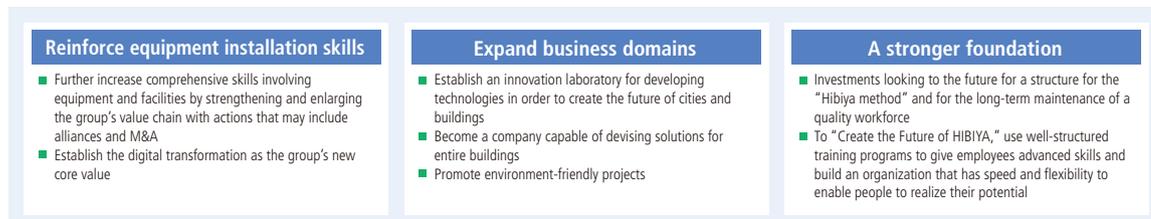
## ■ ESGs

Help create a sustainable society and aim corporate value growth



## ■ Create the Future of HIBIYA

Hibiya Engineering is looking ahead to the future by focusing on the following themes, all based on the concept of "creating new added value by envisioning the cities and buildings of the future."



## ■ Financial Strategy

Consistent growth by building a stronger profit structure for achieving the goals of the Seventh Medium-term Management Plan



# A Message from the President

## The Seventh Medium-term Management Plan

The Hibiya Engineering Group is currently in the second year of its Seventh Medium-term Management Plan, which covers the three-year period ending in March 2023. The plan has two main goals. First is increasing corporate value by making core businesses more profitable and creating new business opportunities. Second is helping create a sustainable society through the convergence of people and technologies. This plan builds on the goals and accomplishments of the previous medium-term plan, such as with the inclusion of many activities concerning DX (digital transformation) and ESG, which are important social issues.

## Activities to Make Core Businesses More Profitable

The business climate is becoming more and more difficult because of competition based on cost and other challenges. Our group has many strengths to overcome these challenges. One is a large number of customers spanning many industries that place orders with us repeatedly. This reflects our decades of experience and achievements involving projects for facilities of the NTT Group, as well as our reputation for quality and reliability that is backed by these achievements. Another strength is our growth in the renovation market. Contracts for updating and renovating facilities increased to 65.7% of our orders in the fiscal year that ended in March 2021. We are currently leveraging our expertise in this business sector to speed up the creation of medium and long-term proposals to customers for entire buildings, and are determined to continue growing rapidly in the market for renovation, replacement, and updating services.

To continue improving quality, we have formed a team encompassing our whole organization for ONE TEAM activities that support construction operations. Strengthening the oversight of job site operations by creating this team is already producing numerous benefits. For example, team members with many years of construction experience visit job sites for face-to-face activities aimed at quickly identifying and solving problems. Furthermore, synergies generated by these activities cut costs, reduce exposure to risk, and improve earnings, and even help with measures for the training of younger employees.

## Activities to Create New Business Opportunities

We are working on the creation of new business opportunities primarily in the DX Business Promotion Department, which started as the DX Business Promotion Office in July 2020. Establishing DX as a new core value of the Hibiya Engineering Group is a major objective of these activities, and we are moving forward simultaneously with seven initiatives: Growth of DX business; further progress with building information modeling (BIM); more efficient construction management; updating the core IT system; building a database; automating business processes; and upgrading technological skills. All of these activities share the common goals of expanding the solutions business and implementing working style reforms.

## Helping Create a Sustainable Society

The environment, society and governance (ESG) are among our highest priorities. In our business operations, we are planning on further growth of our renovation business, which includes proposals for updating entire buildings, and renovations to create net zero energy buildings (ZEB) in which net annual primary energy consumption is zero or even negative. In addition, our group's environmental business covers numerous activities, many involving energy conservation, CO2 emission reduction, and resilience to natural disasters for local governments throughout Japan.

We are also implementing a variety of measures concerning our workforce with emphasis on working style reforms we call "Smart WORK," and on the diversity of the people at our group. During the past fiscal year, we established an environment for telework and enacted more measures to enable women to continue working and advance their careers at the Hibiya Engineering Group. In the fiscal year ending in March 2022, we are further enlarging and strengthening existing programs to enable senior employees to continue working at our group and to remain in good health.

We established an ESG Promotion Office in June 2021 and will take more steps to establish and reinforce systems for managing our business operations with priority on the environment, society, and governance.

In the past fiscal year, we announced Create the Future of Hibiya, a long-term vision that looks ahead 10 years. The central goal of this vision is to play a role in creating a sustainable society by growing consistently as a green engineering company.

The rapid changes taking place in society and in the markets of the Hibiya Engineering Group are creating many opportunities for our group to evolve and grow. I am confident that we have the resources and the commitment needed to accomplish our long-term goals and vision.



Representative Director & President &  
Chief Executive Officer  
**Nagahiro Kuroda**

# Highlights of the Fiscal Year

## FY3/21 Results of Operations

Orders received	¥74,302 million (down 5.3% year-on-year)
Net sales	¥73,119 million (down 3.7% year-on-year)
Operating profit	¥3,997 million (up 8.3% year-on-year)
Profit attributable to owners of parent	¥3,075 million (down 13.1% year-on-year)

## Distributions to Shareholders

### Dividend for the fiscal year ended March 2021

#### Dividend

80 yen per share based on the earnings target in the Seventh Medium-term Management Plan

### Dividend for the fiscal year ending March 2022

#### Fundamental policy

A stable dividend and stock repurchases with flexibility

#### Dividends

80 yen per share/year (plan)

#### Large repurchase

500,000 shares/1 billion yen

## Seventh Medium-term Management Plan (April 2020 - March 2023)

### Fundamental goals

Business and corporate value growth by making core businesses more profitable and creating new business opportunities

Help create a sustainable society through the convergence of people and technologies

### Core strategies

More advanced life cycle total solutions that can benefit all stakeholders

Leading-edge technologies for higher productivity

“Smart WORK” working style reforms and workforce diversity

An infrastructure for sound management of the Hibiya Engineering Group

### Numerical Goals (final year)

Orders received	80.0Billion yen
Net sales	80.0Billion yen
Operating profit	4.5Billion yen
Profit attributable to owners of parent	3.5Billion yen
ROE	6.0% or more

# Feature1: Seventh Medium-term Management Plan Activities

Business strategy

## City/town hall renovation/ZEB business

 Kamigori-cho town office, Ako-gun, Hyogo

Needs

Complete renovation of the aging building

Big reduction of greenhouse gas emissions

Big reduction in building running costs

Used external thermal insulation for exterior wall renovation and replaced windows with vacuum-insulated double pane glass

Increased energy conservation by upgrading all heat exchangers



Kamigori Town Hall

Thermal burden calculation to downsize HVAC unit, use of LED lights, etc.

Solar power and storage battery units for disaster resilience

Used alliance with a consulting firm to complete a ZEB Ready\* building project

Starting a three-year demonstration project in FY3/22 for the optimization of equipment operation for energy conservation

Use Renovation ZEB accomplishments to capture local government orders nationwide

\*ZEB Ready is a building that has cut its energy consumption by at least 50%

## Utilization of ICT and digital technologies

### Demonstration of smart technologies

#### Environment sensor

CO<sub>2</sub> concentration in each room shows that the CO<sub>2</sub> level exceeds in rooms where people are crowded, such as when there are with visitors.

#### Position sensing

Increase the accuracy of employee location detection.

#### Thermo camera

Introduced 5 products from 4 companies to compare their functions and moved to the product evaluation stage.

Continued CO<sub>2</sub> concentration measurements.  
Improved accuracy of location sensing

To be completed within the current FY

Endeavor to expand air conditioning and ventilation renewal business.

### Utilize web camera

Used for site patrols, and safety and quality control rounds, monitoring dangerous processes, etc.



The president visits a job site (Hokuriku region)

### Vital sensor

#### Field workers' health and safety management

Wrist vital signs monitors facilitate the real-time oversight of an individual's health, level of work, current location and other items.

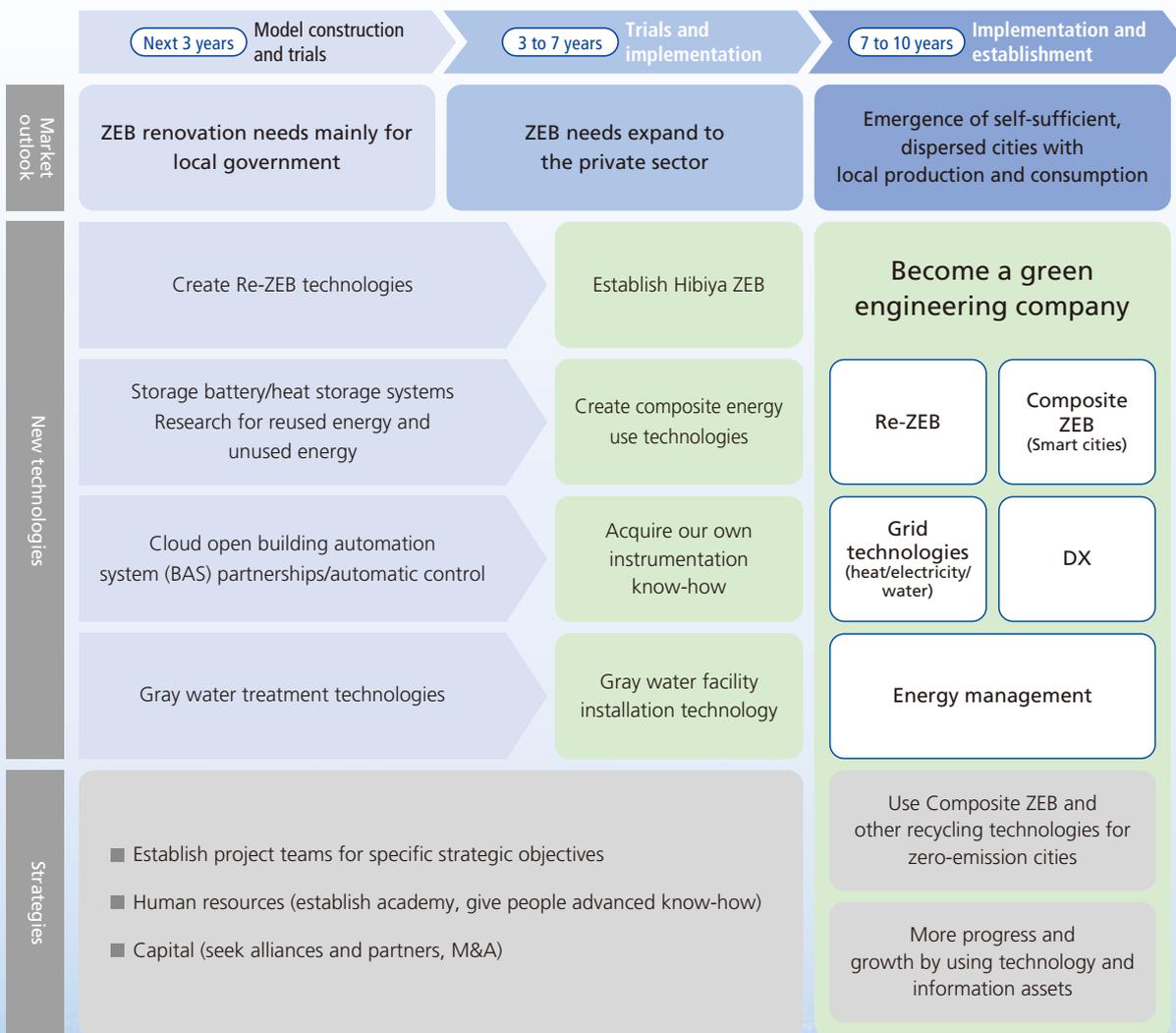


To be deployed at job sites nationwide

# Feature2: Create the Future of Hibiya

## Help create a sustainable society as a Clean Engineering Company with decarbonization and low-carbon technologies

### Roadmap for green engineering



## Feature3: The Digital Transformation

**We will strive to grow further develop the Solution business by providing new services using equipment with smart office and other ICT and digital technologies and by creating ideas for and building systems with substantial added value.**

### Business strategy

Assemble a framework for DX business activities to expand to new market sectors, develop and acquire new technologies, create proposals using new technologies, and demonstrate the benefits of new technologies

### Working style reforms

Use the DX for more efficient working styles and the use of many ways of doing jobs that are not restricted by time of day or locations (telework, shifts, etc.)



**Use these measures for standardizing business processes and DX progress**

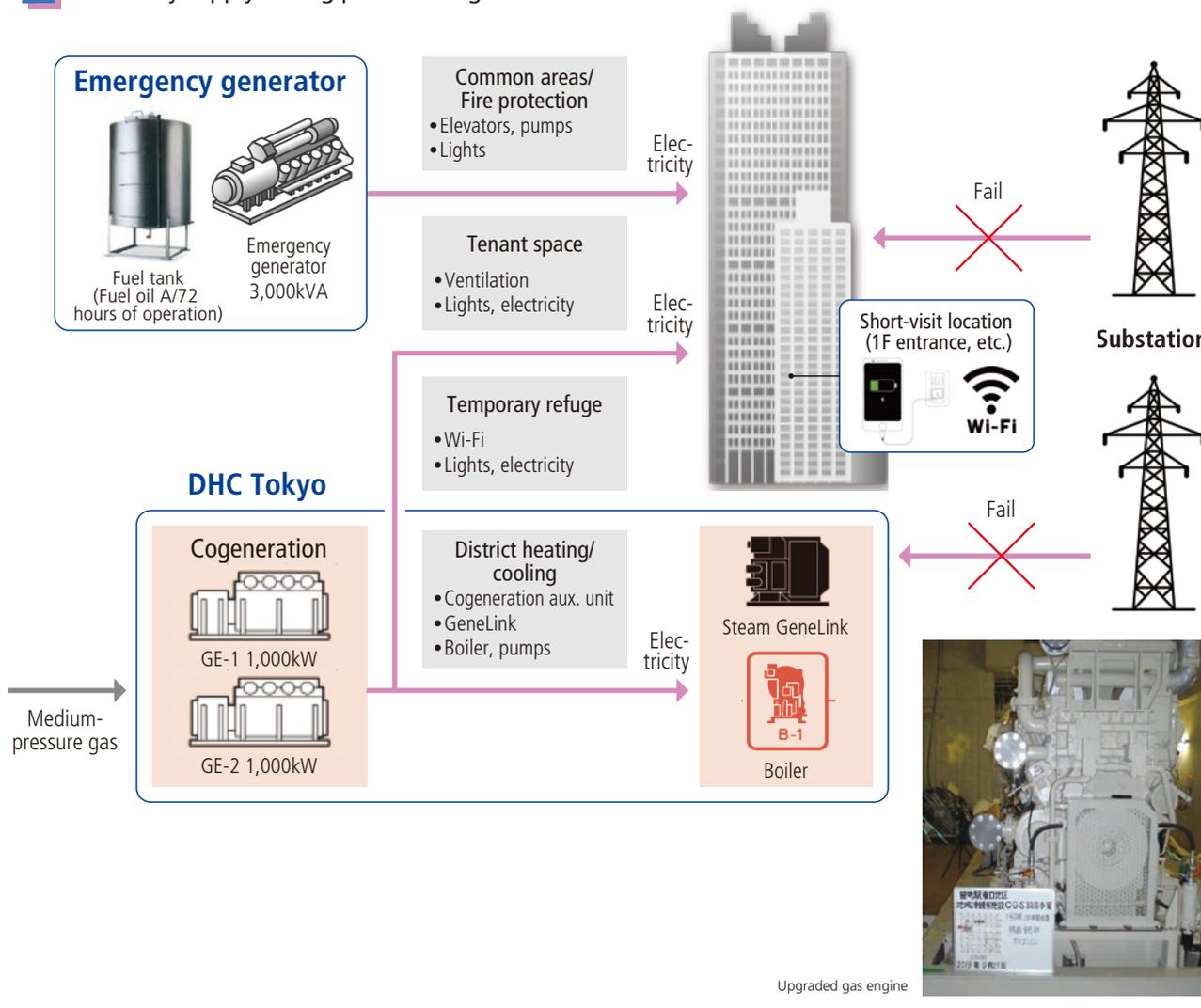
## Cogeneration system renewal for DHC Tokyo



An updating project for a cogeneration system of DHC Tokyo that was completed in March 2020 received a Special Award in the private sector category from the Advanced Cogeneration and Energy Utilization Center.

Hibiya Engineering received an order for updating the cogeneration system and for improvement and installation work for peripheral equipment. This project increased electricity produced by the system and added a steam GeneLink that uses hot water effluent from the cogeneration system. The electricity supply and other systems were also checked and improved. Overall, the project resulted in big improvements in energy conservation and the ability to continue operations even after a natural disaster or some other emergency.

### Electricity supply during power outage



## Topics2: Held online seminars

### Used the internet to continue holding seminars that are normally held on a regular basis at the Hibiya Information Plaza

#### How Hibiya Engineering renovations add value



#### Seminar topics

- Renovation projects, technologies and added value

#### Presentations

- Hibiya Engineering renovation technologies
- Added-value proposals and projects for local governments
- Technology session

#### Building facilities and the digital transformation

#### Seminar topics

- DX activities at Hibiya Engineering and activities at leading-edge companies

#### Presentations

- DX activities for providing more value to customers
- Smart buildings of the future

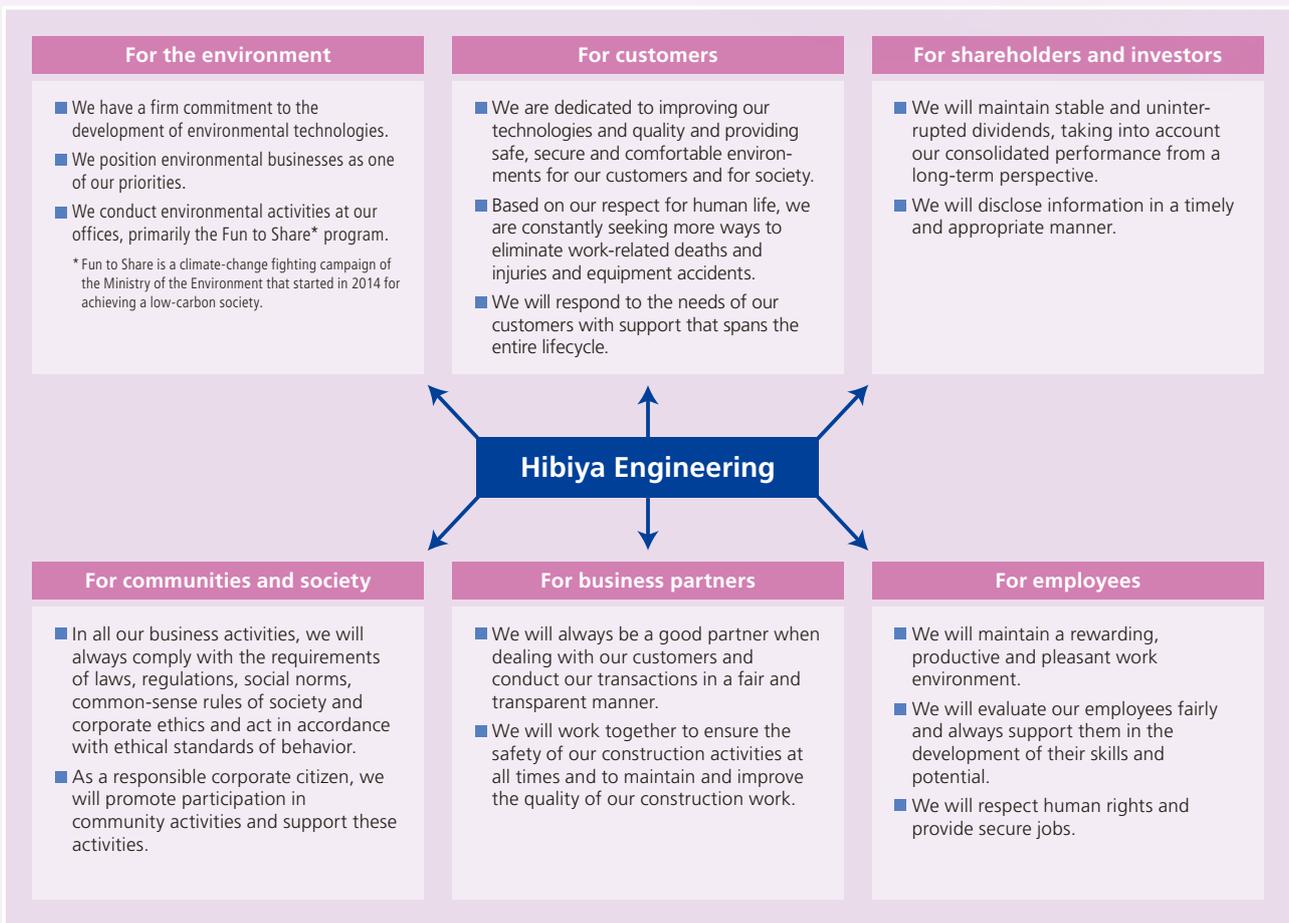


## Corporate Social Responsibility at Hibiya Engineering

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.



## 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 9 directors, including three outside directors, and four Audit & Supervisory Board Members including three outside Audit & Supervisory Board Members. 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 outside directors and two independent outside Audit & Supervisory Board Members.

### ■ Term of directors

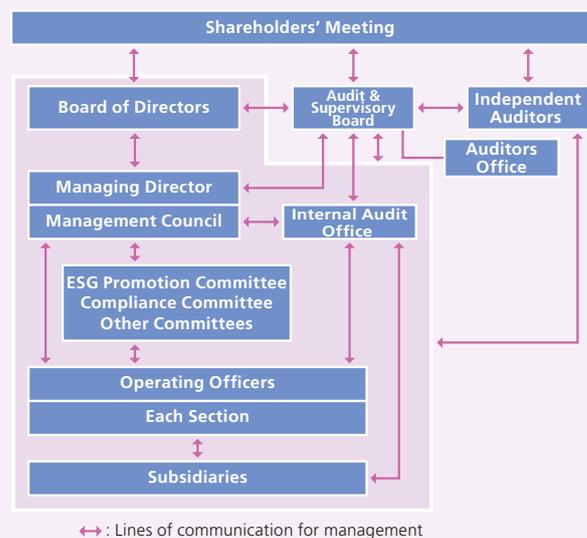
The term of directors was reduced from two years to one year in June 2008. The shorter term allows adapting more swiftly to changes in the operating environment and makes directors more accountable for management of the group during their respective terms.

### ■ Audit & Supervisory Board

Hibiya Engineering uses the Audit & Supervisory Board system. In June 2019, the number of full-time Audit & Supervisory Board Members was increased from one to two. There are now four, including three outside Audit & Supervisory Board Members. They attend Board of Directors meetings, Management Council and other important gatherings to perform audits and confirm that operations are conducted appropriately. They also cooperate with accounting auditors for audits in that field.

### ■ Internal audits

Audit & Supervisory Board Members perform audits with the four 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.



## 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.

# Major completed projects

Legend ▶ 1 Location 2 Floor area 3 Stories 4 Equipment installed

## MIYASHITA PARK

Commercial complex



- 1 Shibuya-ku, Tokyo
- 2 46,086m<sup>2</sup>
- 3 18 stories/2 stories below ground
- 4 Air conditioning

## Hotel LIVE MAX PREMIUM Nagoya Marunouchi

Hotel



- 1 Nagoya city, Aichi
- 2 4,530m<sup>2</sup>
- 3 12 stories
- 4 Air conditioning/sanitation

## Chiba Univ. (Inohana) Medical Building

Research facilities



(Photo: FOTOTECA)

- 1 Chiba city, Chiba
- 2 40,727m<sup>2</sup>
- 3 11 stories
- 4 Air conditioning

## NTT Shin-Kuhonji Building

Office



- 1 Kumamoto city, Kumamoto
- 2 6,833m<sup>2</sup>
- 3 6 stories
- 4 Air conditioning/sanitation

## WITH HARAJUKU

Commercial complex



(Photo: Yoji Watanabe)

- 1 Shibuya-ku, Tokyo
- 2 26,666m<sup>2</sup>
- 3 10 stories/3 stories below ground
- 4 Air conditioning/sanitation

## ESR Amagasaki Distribution Center

Distribution facilities



- 1 Amagasaki city, Hyogo
- 2 388,570m<sup>2</sup>
- 3 6 stories
- 4 Sanitation



# FINANCIAL SECTION

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# Management's Discussion and Analysis

## ■ Results of Operations

In the fiscal year that ended in March 2021, the global COVID-19 pandemic had a severe impact on the Japanese economy due to restrictions on economic activity and other effects. There was an upturn of the economy supported by economic measures of the Japanese government and improvements in overseas economies. However, there is still a risk of a downturn caused by another wave of infections. As a result, the economic outlook is unclear.

In Japan's construction industry, construction expenditures have been decreasing because of the completion of large private-sector projects and other reasons. The impact of the COVID-19 crisis on the building equipment sector differs in each category. This business climate requires activities that properly and accurately reflect changes in demand and the competition for new orders.

## Orders received/Net sales

The current fiscal year was the first year of the Hibiya Engineering Group's Seventh Medium-term Management Plan. The plan reflects numerous changes in the needs of society, particularly concerning the use of digital technologies and the importance of sustainability. Strategies and actions in this plan are based on the following goals and themes: (1) Become more profitable by using co-creation for the establishment of customer bases and by operating businesses with significant added value; (2) Increase productivity by using advanced technologies; (3) More progress with working style reforms and diversity; (4) Maintain the soundness of business operations; and (5) Continue to aim for growth based on the "Create the Future of Hibiya" vision.

During the current fiscal year, there were numerous activities based on the goals of the Seventh Medium-term Management Plan including taking advantage of alliances to capture more orders in the fields of decarbonization and energy conservation, upgrading support for job sites in order to reduce exposure to risk factors involving construction and manage expenses more closely and promoting working style reforms and measures to give women more job and career advancement opportunities.

To prevent infection by COVID-19, group companies are using staggered working hours to avoid peak commuting times, allowing people to work from home, using the internet for seminars and employee training, rigorously maintaining the safety of workplaces, and taking other actions.

Orders received during the fiscal year were 74,302 million yen, down 5.3% from the previous fiscal year mainly because of delays in sales activities early in the fiscal year and a decline in orders received from the NTT Group.

Sales decreased 3.7% to 73,119 million yen as the negative effect of the decrease in orders received and completions during the fiscal year offset the contribution to sales of completions of projects carried over from the previous fiscal year.

## Operating profit/Profit

Operating profit increased 8.3% to 3,997 million yen and ordinary profit was up 8.4% to 4,595 million yen primarily because of an improvement in the profitability of construction work resulting from the tighter management of expenses. The profit attributable to owners of parent was down 13.1% to 3,075 million yen.

## ■ Financial condition and Cash Flows

### Financial condition

#### Assets

Total assets increased 2,505 million yen from the end of the previous fiscal year to 86,138 million yen.

Current assets decreased 1,016 million yen and noncurrent

assets increased 3,522 million yen. An increase in investment securities resulting mainly from higher market prices was the primary reason for the increase in noncurrent assets.

#### Liabilities

Liabilities decreased 1,793 million yen to 23,545 million yen.

Decrease of 3,557 million yen in notes payable, accounts payable for construction contracts and other was partly offset by an increase of 740 million yen in income taxes payable.

#### Net Assets

Net assets totaled 62,593 million yen at the end of the fiscal year, including a contribution from profit attributable to owners of parent of 3,075 million yen.

#### Asset efficiency

Return on equity decreased to 5.2% from 6.1% in the previous fiscal year

#### Cash Flows

Net cash provided by operating activities increased 12,852 million yen to 10,771 million yen.

Net cash provided by investing activities decreased 12,181 million yen to 172 million yen. The main reason was a decrease in the proceeds from sales of investment securities.

Net cash used in financing activities decreased 576 million yen to 1,940 million yen. The main reason was a decrease in the purchase of treasury shares.

The result of these cash flows was a net increase of 9,003 million yen in cash and cash equivalents to 34,399 million yen at the end of the fiscal year.

## ■ Segment Information

Construction: Sales in this core business segment, which represents 88.4% of total sales, decreased 3.6% to ¥64,603 million and operating profit increased 8.8% to ¥3,593 million.

Equipment sales: Segment sales increased 1.6% to ¥6,521 million and operating profit increased 12.8% to ¥362 million.

Equipment manufacturing: Segment sales decreased 19.0% to ¥1,994 million and operating profit decreased 43.7% to ¥31 million.

## ■ Business Risks

This section explains items concerning business operations, finance and other matters that may have a significant effect on the decisions of investors. There is no information about the likelihood of any of these problems occurring or the probable severity of these problems because it is impossible to determine reliable predictions of how these risk factors may affect the activities of the Hibiya Engineering Group. Forward-looking statements are based on the judgments of the Hibiya Engineering Group as of March 31, 2021.

### 1. Risk of dependence on a specific customer

The Hibiya Engineering Group's sales are very dependent on Nippon Telegraph and Telephone Corporation (NTT) and its affiliates (NTT Group). If the NTT Group significantly reduces its construction expenditures for any reason, there may be a negative effect on the performance and financial position of the Hibiya Engineering Group. Since 2006, the Hibiya Engineering Group has been using the provision of building life cycle total solutions to receive orders for renovations of private-sector buildings, establish relationships with new customers and take other steps for increasing the volume of business with customers other than the NTT Group.

## 2. Risk related to business partners

If the financial condition of a customer of the Hibiya Engineering Group worsens, resulting in the inability to receive payments for trade receivable, there may be a negative effect on the group's performance and financial condition. The Hibiya Engineering Group has a risk management manual for new orders that includes assessing credit risk when starting a business relationship and having the Management Council perform examinations to make final decisions when necessary.

## 3. Risk involving prices of materials

If there is an increase in the prices of equipment and materials used by the Hibiya Engineering Group due to a shortage of raw materials such as iron and copper or to market volatility, there may be a negative effect on the group's performance and financial position. Prices of equipment and materials are checked prior to accepting an order so that an accurate estimate can be determined. After accepting an order, a procurement study group performs examinations, a purchasing center is used for centralized purchasing and other steps are taken to hold down the cost of each project.

## 4. Risk related to unprofitable projects

If a project becomes unprofitable because of additional construction expenses or other items caused by factors that were unforeseen before the project started, the provision for an allowance for losses on construction contracts may be necessary and the Hibiya Engineering Group's performance and financial position may be affected. Some projects are designated for extra oversight and a unified system combining people at the job site and at their supervisors and related departments is used for risk factors that can cause delays, additional work and other problems.

## 5. Risk involving safety

The Hibiya Engineering 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 Hibiya Engineering Group may be obligated to make a large, lump-sum compensation payment and performance and the financial position may be affected. Safety and quality patrols are used extensively, there are safety classes and seminars for partner companies, and the Hibiya Engineering Haneda Safety Training Center is used to maintain the highest standards of safety and quality.

## 6. Risk involving retirement benefit systems

Hibiya Engineering and certain consolidated subsidiaries participate in the Air-Conditioning and Sanitation Corporate Pension Fund. A decline in the financial position of this fund may result in a revision in benefits. Depending on the nature of the revision, the Hibiya Engineering Group's retirement benefit expenses may increase, affecting its performance and financial position.

## 7. Risk involving securities

The Hibiya Engineering Group may have to write down the value of stock that it holds because of stock market movements, changes in the performance of companies and other reasons. In addition, receiving a dividend from a stock as initially expected may not be possible.

For bonds, the Hibiya Engineering Group may be unable to receive interest or principal payments due to a default by an issuer. In addition, for bonds where interest is linked to foreign exchange rates, market interest rates and other market-based indicators, it may not be possible 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 Hibiya Engineering 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 Hibiya Engineering 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 there may be a negative effect on the group's performance and financial position.

## 9. Risk of a serious information leak

For its business operations, the Hibiya Engineering Group handles data about customers' technologies and other information about customers and other types of important information. If there is a leak of this information caused by some type of incident, the group's performance and financial position may be affected by the loss of trust among customers, the need to pay compensation for damages and other reasons. The Hibiya Engineering Group has a security management system and a security framework that fully recognizes the importance of properly managing information. Due to these activities, the group has received Information Security Management System (ISMS) certification.

## 10. Risk involving violations of laws and regulations

A violation of laws and regulations by the executives or employees of the Hibiya Engineering Group may restrict business operations and have a negative effect on the group's performance and financial condition. To reduce vulnerability to this risk, the group is further strengthening internal audit functions, making everyone aware of internal rules and the internal reporting system, conducting compliance education activities, and using other measures.

## 11. Risk involving natural disasters

There is a risk of a natural disaster, large-scale pandemic or some other event disrupting lifelines, suspending or delaying construction due to shortages of fuel, materials and labor, damaging buildings and equipment at business sites, or having other harmful effects on business operations. Any of these events may have a negative effect on the Hibiya Engineering Group's performance and financial condition. To be prepared for these types of events, group has a business continuity plan that places the highest priority on the safety of people. There is emergency response equipment, drills a business continuity planning manual, and an internal data infrastructure that facilitates teleworking in order to reduce exposure to these risk factors and minimize damage.

In response to the COVID-19 pandemic, the Hibiya Engineering Group is taking many actions to prevent infections and the spread of infections in accordance with government policies and requests. There are activities for the safety of workplaces, staggered working hours and teleworking, different ways to hold meetings, restrictions on business trips, and other measures.

## 12. 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, 2021 and 2020

	Millions of yen	
	2021	2020
Assets		
Current assets:		
Cash and cash equivalents (Note 4)	¥ 34,399	¥ 25,396
Notes receivable, accounts receivable from completed construction contracts and other (Note 4)	26,340	34,409
Short-term investments (Note 4)	502	802
Costs on uncompleted construction contracts and other (Note 3)	811	810
Other	840	2,493
Allowance for doubtful accounts	(4)	(5)
Total current assets	62,888	63,905
Property, plant and equipment:		
Buildings and structures	1,494	1,508
Land	94	94
Other	935	1,060
Total	2,523	2,662
Accumulated depreciation	(1,932)	(2,022)
Total property, plant and equipment	591	640
Investments and other assets:		
Investment securities (Note 4)	17,751	14,070
Insurance funds	1,788	1,674
Investments in silent partnership (Note 4)	1,234	695
Deferred tax assets (Note 5)	12	850
Asset for retirement benefits (Note 8)	520	391
Other	1,795	1,865
Allowance for doubtful accounts (Note 7)	(441)	(456)
Total investments and other assets	22,659	19,087
Total assets	¥ 86,138	¥ 83,632

See accompanying notes to consolidated financial statements.

	Millions of yen	
	2021	2020
Liabilities		
Current liabilities:		
Notes payable, accounts payable for construction contracts and other (Note 4)	¥ 13,539	¥ 17,097
Income taxes payable (Note 5)	1,536	795
Advances received on uncompleted construction contracts	532	375
Provision for bonuses	2,005	1,557
Provision for loss on construction contracts	326	431
Other	3,497	3,307
Total current liabilities	21,435	23,562
Long-term liabilities:		
Deferred tax liabilities (Note 5)	839	440
Liability for retirement benefits (Note 8)	1,245	1,307
Other	26	29
Total long-term liabilities	2,110	1,776
Total liabilities	23,545	25,338
Net assets		
Shareholders' equity: (Note 9)		
Capital stock:		
Authorized – 96,500,000 shares in 2021 and 2020	5,753	5,753
Issued – 25,006,321 shares in 2021 and 2020		
Capital surplus	6,028	6,028
Retained earnings	46,182	45,052
Treasury stock:		
936,979 shares in 2021 and 979,853 shares in 2020	(2,360)	(2,520)
Total shareholders' equity	55,603	54,313
Accumulated other comprehensive income		
Net unrealized holding gains or losses on securities	5,910	3,213
Accumulated adjustments for retirement benefits	(464)	(588)
Total accumulated other comprehensive income	5,446	2,625
Subscription rights to shares	178	202
Non-controlling interests	1,366	1,154
Total net assets	62,593	58,294
Total liabilities and net assets	¥ 86,138	¥ 83,632

See accompanying notes to consolidated financial statements.

# Consolidated Statements of Income

Hibiya Engineering, Ltd. and Consolidated Subsidiaries  
Years ended March 31, 2021 and 2020

	Millions of yen	
	2021	2020
Net sales	¥ 73,119	¥ 75,891
Cost of sales	60,855	63,904
Gross profit	12,264	11,987
Selling, general and administrative expenses (Note 6)	8,267	8,296
Operating income	3,997	3,691
Other income (expenses):		
Interest and dividend income	464	347
Interest expenses	(0)	(0)
Equity in earnings of affiliates	—	70
Gain on sales of investment securities	5	1,295
Provision of allowance for doubtful accounts (Note 7)	—	(431)
Other, net	134	118
Other income (expenses) - net	603	1,399
Profit before income taxes	4,600	5,090
Income taxes: (Note 5)		
Income taxes-current	1,607	1,812
Income taxes-deferred	(130)	(316)
Total income taxes	1,477	1,496
Profit	3,123	3,594
Profit attributable to non-controlling interests	47	56
Profit attributable to owners of parent (Note 12)	¥ 3,076	¥ 3,538

	Yen	
	2021	2020
Per share of common stock: (Note 12)		
Net assets	¥ 2,556.56	¥ 2,391.70
Profit		
Basic	128.90	147.43
Diluted	128.24	146.60
Cash dividend applicable to the year (Note 9)	¥ 80.00	¥ 80.00

See accompanying notes to consolidated financial statements.

# Consolidated Statements of Comprehensive Income

Hibiya Engineering, Ltd. and Consolidated Subsidiaries  
Years ended March 31, 2021 and 2020

	Millions of yen	
	2021	2020
Profit	¥ 3,123	¥ 3,594
Other comprehensive income (loss): (Note 11)		
Net unrealized holding gains (losses) on securities	2,863	(2,857)
Adjustments for retirements benefits	124	78
Share of other comprehensive loss of associates accounted for by using equity method	—	(97)
Total other comprehensive income (loss)	2,987	(2,877)
Comprehensive income	6,110	717
Comprehensive income attributable to:		
Owners of parent	5,897	658
Non-controlling interests	¥ 213	¥ 59

See accompanying notes to consolidated financial statements.

# Consolidated Statements of Changes in Net Assets

Hibiya Engineering, Ltd. and Consolidated Subsidiaries  
As of March 31, 2021 and 2020

	Number of shares of common stock (Shares)	Shareholders' equity				Total shareholders' equity
		Capital stock	Capital surplus	Retained earnings	Treasury stock	
		(Millions of yen)				
<b>Balance at April 1, 2019</b>	25,006,321	¥ 5,753	¥ 6,028	¥ 43,496	¥ (2,055)	¥ 53,222
Profit attributable to owners of parent	—	—	—	3,538	—	3,538
Dividend from surplus	—	—	—	(1,940)	—	(1,940)
Purchase of treasury stock	—	—	—	—	(568)	(568)
Disposal of treasury stock	—	—	—	(42)	103	61
Net changes of items other than shareholders' equity	—	—	—	—	—	—
<b>Balance at April 1, 2020</b>	25,006,321	¥ 5,753	¥ 6,028	¥ 45,052	¥ (2,520)	¥ 54,313
Profit attributable to owners of parent	—	—	—	3,076	—	3,076
Dividend from surplus	—	—	—	(1,924)	—	(1,924)
Purchase of treasury stock	—	—	—	—	(1)	(1)
Disposal of treasury stock	—	—	—	(22)	161	139
Net changes of items other than shareholders' equity	—	—	—	—	—	—
<b>Balance at March 31, 2021</b>	<b>25,006,321</b>	<b>¥ 5,753</b>	<b>¥ 6,028</b>	<b>¥ 46,182</b>	<b>¥ (2,360)</b>	<b>¥ 55,603</b>

See accompanying notes to consolidated financial statements.

	Accumulated other comprehensive income				Non-controlling interests	Total net assets
	Net unrealized holding gains or losses on securities	Accumulated adjustments for retirement benefits	Total Accumulated other comprehensive income	Subscription rights to shares		
	(Millions of yen)					
<b>Balance at April 1, 2019</b>	¥ 6,228	¥ (723)	¥ 5,505	¥ 204	¥ 1,095	¥ 60,026
Profit attributable to owners of parent	—	—	—	—	—	3,538
Dividend from surplus	—	—	—	—	—	(1,940)
Purchase of treasury stock	—	—	—	—	—	(568)
Disposal of treasury stock	—	—	—	—	—	61
Net changes of items other than shareholders' equity	(3,015)	135	(2,880)	(2)	59	(2,823)
<b>Balance at April 1, 2020</b>	¥ 3,213	¥ (588)	¥ 2,625	¥ 202	¥ 1,154	¥ 58,294
Profit attributable to owners of parent	—	—	—	—	—	3,076
Dividend from surplus	—	—	—	—	—	(1,924)
Purchase of treasury stock	—	—	—	—	—	(1)
Disposal of treasury stock	—	—	—	—	—	139
Net changes of items other than shareholders' equity	2,697	124	2,821	(24)	212	3,009
<b>Balance at March 31, 2021</b>	<b>¥ 5,910</b>	<b>¥ (464)</b>	<b>¥ 5,446</b>	<b>¥ 178</b>	<b>¥ 1,366</b>	<b>¥ 62,593</b>

See accompanying notes to consolidated financial statements.

# Consolidated Statements of Cash Flows

Hibiya Engineering, Ltd. and Consolidated Subsidiaries  
Years ended March 31, 2021 and 2020

	Millions of yen	
	2021	2020
<b>Cash flows from operating activities:</b>		
Profit before income taxes	¥ 4,601	¥ 5,090
Depreciation and amortization	168	173
Increase (decrease) in allowance for doubtful accounts	(16)	417
Decrease (increase) in asset for retirement benefits	50	(456)
Increase (decrease) in liability for retirement benefits	(62)	474
Increase (decrease) in provision for bonuses	449	1,101
Increase (decrease) in provision for loss on construction contracts	(105)	(320)
Interest and dividend income	(464)	(347)
Interest expenses	0	0
Loss (gain) on sales of investment securities	(5)	(1,295)
Loss (gain) on valuation of investment securities	—	14
Equity in (earnings) losses of affiliates	—	(70)
Decrease (increase) in notes and accounts receivable	8,068	(5,098)
Decrease (increase) in costs on uncompleted construction contracts and other	(1)	(141)
Increase (decrease) in notes and accounts payable	(3,558)	876
Increase (decrease) in advances received on uncompleted construction contracts	158	(4)
Other, net	546	175
Subtotal	9,829	589
Interest and dividend income received	470	426
Interest expenses paid	(0)	(0)
Income taxes paid	(927)	(3,097)
Income taxes refund	1,399	—
Net cash provided by (used in) operating activities	10,771	(2,082)
<b>Cash flows from investing activities:</b>		
Purchase of property, plant and equipment	(37)	(51)
Purchase of intangible assets	(28)	(80)
Purchase of investment securities	(16)	(1,026)
Proceeds from sales of investment securities	9	11,621
Proceeds from redemption of investment securities	800	800
Purchase of insurance funds	(141)	(65)
Proceeds from maturity of insurance funds	28	5
Payments for investments in silent partnership	(562)	—
Proceeds from withdrawal of investments in silent partnership	74	1,078
Other, net	45	72
Net cash provided by (used in) investing activities	172	12,354
<b>Cash flows from financing activities:</b>		
Purchase of treasury stock	(1)	(568)
Cash dividend	(1,924)	(1,940)
Cash dividends paid to non-controlling shareholders	(1)	(1)
Other, net	(14)	(8)
Net cash provided by (used in) financing activities	(1,940)	(2,517)
Net increase (decrease) in cash and cash equivalents	9,003	7,755
Cash and cash equivalents at beginning of period	25,396	17,641
Cash and cash equivalents at end of period	¥ 34,399	¥ 25,396

See accompanying notes to consolidated financial statements.

# Notes to Consolidated Financial Statement

Hibiya Engineering, Ltd. consolidated financial statements and notes  
March 31, 2021 and 2020

## 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. Accordingly, supplementary information included in the statutory Japanese language consolidated financial statements is not presented in the accompanying consolidated financial statements.

## 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." and "NIKKEY Company Limited". All significant inter-company balances and transactions are eliminated in consolidation.

"HIT Engineering, Ltd.," a former consolidated subsidiary of the Company, was dissolved in an absorption-type merger with the Company as the surviving company on January 1, 2021, resulted in the removal from the scope of consolidation during the fiscal year ended March 31, 2021.

Number of affiliates accounted for under the equity method:  
N/A

Investments in one affiliate, whose income or losses are not significant for the Company's equity, are carried at cost.

As a result of the Company selling all the shares held in Nihon Meccs Corporation on January 1, 2020, which was an affiliate accounted for under the equity method, that affiliate was removed from the scope of the equity method during the fiscal year ended March 31, 2020.

### (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 neither trading securities nor 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 charged to cost of sales for the years ended March 31, 2021 and 2020 are ¥326 million and ¥431 million, respectively.

### (6) Construction contracts

Revenues 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 by the specific identification method. Inventories other than construction contracts are stated at cost by 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 (excluding leased assets) is computed using the declining-balance method at rates based on their useful lives prescribed in the Japanese tax regulations. However, the straight-line method is used for facilities attached to buildings and structures acquired on or after April 1, 2016. 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 and

retirement benefit expenses as allowed under Japanese GAAP. Under the simplified methods, 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 are considered to be cash and cash equivalents.

#### **(11) Amounts per share**

Profit per share is calculated by dividing profit available to common shareholders by the weighted average number of common stock 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) Significant accounting estimates**

Revenue recognition through the percentage-of-completion method

##### **1. Amount recorded in our consolidated financial statements for fiscal year ended March 31, 2021**

¥52,702 million in net sales from the percentage-of-completion method

##### **2. Information on the details of significant accounting estimates associated with recognized items**

The Companies apply the percentage-of-completion method for the revenue recognition of designated construction contracts. Revenue under the percentage-of-completion method are recognized based on the percentage of construction completion determined by the proportion of total incurred costs to the estimated total construction costs based on the project budget for each project as the progress toward construction completion.

Accurate estimates of the percentage of construction completion are significant in this method. When performing work that is not stipulated in the construction contract, changes in the work details and schedule require revisions to the estimate of total construction costs. These significant estimates include the total construction costs based on the project budget, the total revenue in the construction contract, and other assumptions.

In the percentage-of-completion method, changes to these significant estimates could have a material impact on the monetary amounts recognized in the consolidated financial statements in the coming fiscal year.

##### **(13) New accounting standards not yet adopted by the Companies**

– “Accounting Standard for Revenue Recognition” (ASBJ Statement No. 29, March 31, 2020)

– “Guidance on Accounting Standard for Revenue Recognition” (ASBJ Guidance No. 30, March 26, 2021)

##### **1. Summary**

The International Accounting Standards Board (“IASB”) and Financial Accounting Standards Board (“FASB”) jointly developed comprehensive revenue recognition standards and issued

“Revenue from Contracts with Customers” in May 2014 (IASB’s IFRS 15 and FASB’s Topic 606). Considering that IFRS 15 shall apply to fiscal years beginning on or after January 1, 2018, and Topic 606 shall apply to fiscal years beginning after December 15, 2017, the ASBJ developed a comprehensive accounting standard on revenue recognition and thus issued the accounting standard together with the implementation guidance.

The ASBJ established the accounting standard on revenue recognition by following the basic policies in developing it. The basic policies were: firstly, incorporating the core principle of IFRS 15 as the starting point from the perspective of facilitating comparability among financial statements, which is one of the benefits of ensuring consistency with IFRS 15; secondly, adding alternative treatments, but to the extent not impairing comparability, where consideration should be given to the practice having been used in Japan.

##### **2. Date of application**

These ASBJ statement and guidance will be applied from the beginning of the fiscal year ending March 31, 2022.

##### **3. Effects of application of the standards**

The impact of the application of the “Accounting Standard for Revenue Recognition” and its guidance on the consolidated financial statements is considered minimal.

##### **(14) Changes in presentation**

“Accounting Standard for Disclosure of Accounting Estimates” (ASBJ Statement No. 31, March 31, 2020) will be applied to our consolidated financial statements for the year ended March 31, 2021, and we have provided notes on important accounting estimates in our consolidated financial statements.

However, details for the previous fiscal year are not listed in these notes due to rules on past handling stipulated in paragraph (11) of these accounting standards.

##### **(15) Additional information**

(Performance-linked stock compensation plan)

##### **1. Summary of transactions**

The Company introduced a performance-linked stock compensation plan (the “Plan”) for directors and corporate officers (excluding external directors and non-residents of Japan; the “Directors, etc.”) in August 2017.

The Plan employs a scheme called the board incentive plan trust (the “BIP Trust”). The BIP Trust is a plan where the Company’s stock and money equivalent to the amount of money converted from the Company’s stock are delivered and paid to the Directors, and the officers, depending on title, the degree of target achievement of the Medium-term Management Plan, and other indicators as is the case with performance shares and restricted stock in Europe and the U.S.

##### **2. Company’s stock remaining in BIP Trust**

The Company’s stock remaining in the BIP Trust was recorded as treasury stock under the net assets section at the book value in the BIP Trust (excluding the amount of incidental expenses). The book value and the number of shares of such treasury stock for the years ended March 31, 2021 and 2020 were ¥456 million and 189,722 shares, and ¥529 million and 219,982 shares, respectively.

### 3. Costs on uncompleted construction contracts and other

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

	Millions of yen	
	2021	2020
Costs on uncompleted construction contracts	¥ 221	¥ 257
Merchandise and finished goods	345	291
Work in process	32	23
Raw materials	213	239
Total	¥ 811	¥ 810

### 4. Financial instruments

#### (1) Overview

Information on financial instruments for the years ended March 31, 2021 and 2020 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 to financial instruments. 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 and other receivables of the Companies 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 securities.

##### 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 which governs the level and volatilities monitored 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, 2021 and 2020, book values, fair values and their differences were as follows;

		Millions of yen		
		Book value	2021 Fair value	Difference
Assets				
Cash and cash equivalents	(*1)	¥ 34,399	¥ 34,399	¥ —
Notes receivable, accounts receivable from completed construction contracts and other	(*1)	26,340	26,340	—
Short-term investments	(*2)	502	502	—
Investment securities measured at fair value	(*2)	16,510	16,510	—
Investments not measured at fair value	(*3)	1,241	—	—
Investments in silent partnership	(*3)	1,234	—	—
Liabilities				
Notes payable, accounts payable for construction contracts and other		¥ 13,539	¥ 13,539	¥ —

		Millions of yen		
		2020		
		Book value	Fair value	Difference
<b>Assets</b>				
Cash and cash equivalents	(*1)	¥ 25,396	¥ 25,396	¥ —
Notes receivable, accounts receivable from completed construction contracts and other	(*1)	34,409	34,409	—
Short-term investments	(*2)	802	802	—
Investment securities measured at fair value	(*2)	12,829	12,829	—
Investments not measured at fair value	(*3)	1,241	—	—
Investments in silent partnership	(*3)	695	—	—
<b>Liabilities</b>				
Notes payable, accounts payable for construction contracts and other		¥ 17,097	¥ 17,097	¥ —

(\*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	
	2021	2020
Short-term investments	¥ 502	¥ 802
Investment securities	17,751	14,070
<b>Total</b>	<b>¥ 18,253</b>	<b>¥ 14,872</b>
Available-for-sale securities with fair value	17,012	13,631
Available-for-sale securities without fair value	1,239	1,239
Equity securities issued by subsidiaries and affiliates	2	2
<b>Total</b>	<b>¥ 18,253</b>	<b>¥ 14,872</b>

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

As of March 31, 2021 and 2020, book values (fair values) and acquisition costs of available-for-sale securities with fair values were as follows:

	Millions of yen		
	2021		
	Book value	Acquisition cost	Difference
<b>Securities whose book values (fair values) exceed their acquisition costs:</b>			
Equity securities	¥ 14,397	¥ 5,365	¥ 9,032
Debt securities:			
Government and municipal bonds	—	—	—
Corporate bonds	577	500	77
Other bonds	1,504	1,500	4
Other	—	—	—
<b>Sub-total</b>	<b>¥ 16,478</b>	<b>¥ 7,365</b>	<b>¥ 9,113</b>
<b>Securities whose book values (fair values) do not exceed their acquisition costs:</b>			
Equity securities	34	46	(12)
Debt securities:			
Corporate bonds	—	—	—
Other bonds	500	501	(1)
Other	—	—	—
<b>Sub-total</b>	<b>¥ 534</b>	<b>¥ 547</b>	<b>¥ (13)</b>
<b>Total</b>	<b>¥ 17,012</b>	<b>¥ 7,912</b>	<b>¥ 9,100</b>

	Millions of yen		
	2020		
	Book value	Acquisition cost	Difference
<b>Securities whose book values (fair values) exceed their acquisition costs:</b>			
Equity securities	¥ 10,151	¥ 5,228	¥ 4,923
Debt securities:			
Government and municipal bonds	—	—	—
Corporate bonds	580	500	80
Other bonds	—	—	—
Other	—	—	—
<b>Sub-total</b>	<b>¥ 10,731</b>	<b>¥ 5,728</b>	<b>¥ 5,003</b>
<b>Securities whose book values (fair values) do not exceed their acquisition costs:</b>			
Equity securities	150	173	(23)
Debt securities:			
Corporate bonds	503	504	(1)
Other bonds	2,247	2,300	(53)
Other	—	—	—
<b>Sub-total</b>	<b>¥ 2,900</b>	<b>¥ 2,977</b>	<b>¥ (77)</b>
<b>Total</b>	<b>¥ 13,631</b>	<b>¥ 8,705</b>	<b>¥ 4,926</b>

**(b) Proceeds from sales, and gross realized gains and losses from the sale of available-for-sale securities for the years ended March 31, 2021 and 2020 were as follows:**

	Millions of yen	
	2021	2020
Proceeds from sales		
Equity securities	¥ 9	¥ 363
Other	—	—
<b>Total</b>	<b>¥ 9</b>	<b>¥ 363</b>
Gross realized gains		
Equity securities	¥ 5	¥ 284
Other	—	—
<b>Total</b>	<b>¥ 5</b>	<b>¥ 284</b>

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

	Millions of yen			
	2021			
	Within 1 year	1 to 5 years	5 to 10 years	Over 10 years
Cash and cash equivalents	¥ 34,399	¥ —	¥ —	¥ —
Notes receivable, accounts receivable from completed construction contracts and other	26,340	—	—	—
Short-term investments and investment securities				
Securities with maturities:				
(1) Government and municipal bonds	—	—	—	—
(2) Corporate bonds	—	—	—	500
(3) Other bonds	500	1,500	—	—
Investments in silent partnership	—	1,234	—	—
<b>Total</b>	<b>¥ 61,239</b>	<b>¥ 2,734</b>	<b>¥ —</b>	<b>¥ 500</b>

	Millions of yen			
	2020			
	Within 1 year	1 to 5 years	5 to 10 years	Over 10 years
Cash and cash equivalents	¥ 25,396	¥ —	¥ —	¥ —
Notes receivable, accounts receivable from completed construction contracts and other	34,409	—	—	—
Short-term investments and investment securities				
Securities with maturities:				
(1) Government and municipal bonds	—	—	—	—
(2) Corporate bonds	500	—	—	500
(3) Other bonds	300	2,000	—	—
Investments in silent partnership	—	194	500	—
<b>Total</b>	<b>¥ 60,605</b>	<b>¥ 2,194</b>	<b>¥ 500</b>	<b>¥ 500</b>

**(5) Derivative transactions**

Derivative transactions to which hedge accounting is not applied

Compound financial instruments whose 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 inhabitant taxes. The aggregate statutory tax rates on profit before income taxes were approximately 30.6% for the years ended March 31, 2021 and 2020, respectively.

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, 2021 and 2020.

	2021	2020
Statutory tax rate	30.6%	30.6%
Permanent non-deductible expenses such as entertainment expense	0.9	1.1
Permanent non-taxable income such as dividend income	(0.9)	(6.2)
Per capita inhabitant tax	1.2	1.1
Valuation allowance	(0.1)	2.3
Equity in earnings of affiliates	—	(0.4)
Other	0.4	0.9
<b>Effective tax rate</b>	<b>32.1%</b>	<b>29.4%</b>

Significant components of the Companies' deferred tax assets and liabilities as of March 31, 2021 and 2020 were as follows:

	Millions of yen	
	2021	2020
Deferred tax assets:		
Loss on valuation of investment securities	¥ 172	¥ 172
Enterprise taxes payable	100	102
Provision for bonuses	621	478
Provision for loss on construction contracts	100	132
Liability for retirement benefits	851	909
Allowance for doubtful accounts	125	129
Other	347	418
Sub-total	¥ 2,316	¥ 2,340
Valuation allowance	(404)	(504)
Total deferred tax assets	¥ 1,912	¥ 1,836
Deferred tax liabilities:		
Net unrealized holding gains on securities	¥ (2,737)	¥ (1,426)
Other	(2)	(0)
Total deferred tax liabilities	¥ (2,739)	¥ (1,426)
Net deferred tax assets (liabilities)	¥ (827)	¥ 410

## 6. Selling, general and administrative expenses

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

	Millions of yen	
	2021	2020
Employees' salaries and allowances	¥ 2,521	¥ 2,561
Provision for bonuses	816	625
Retirement benefit expenses	211	219
Depreciation	122	127
Rents	1,171	1,145
Research and development expenses	62	100
Others	3,364	3,519
Total	¥ 8,267	¥ 8,296

## 7. Other income /expenses

Fiscal year ended March 31, 2021 (From April 1, 2020 to March 31, 2021)  
No items to list

Fiscal year ended March 31, 2020 (From April 1, 2019 to March 31, 2020)

As the Company separately considered the recoverability of accounts receivable (¥582 million) associated with fictitious orders arising from the misconduct of a former employee, provision of allowance for doubtful accounts of ¥431 million was recorded for that matter in other expenses.

## 8. Retirement benefits

The Company and two consolidated subsidiaries have funded and unfunded defined benefit plans to prepare for the payment of employees' retirement benefits.

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 consolidated subsidiary participate in the Air-Conditioning Companies' Pension Fund (*Kucho Eisei Kigyo Nenkin Kikin*) as a defined benefit corporate pension plan, and the amount of plan assets proportionate to their contributions cannot be calculated in a reasonable manner. Therefore, the pension assets are accounted for as the case in the defined contribution plan.

Defined benefit plans

**(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, 2021 and 2020 were as follows:**

	Millions of yen	
	2021	2020
Funded retirement benefit obligations	¥ 5,704	¥ 5,575
Plan assets	(5,124)	(4,801)
Net	580	774
Unfunded retirement benefit obligations	145	142
Net balance of liability and asset recorded on the consolidated balance sheets	¥ 725	¥ 916
Liability for retirement benefits	¥ 1,245	¥ 1,307
Asset for retirement benefits	(520)	(391)
Net balance of liability and asset recorded on the consolidated balance sheets	¥ 725	¥ 916

Note: Plans applying the simplified method are included.

**(b) Reconciliation between retirement benefit obligations at beginning of period and end of period (excluding plans applying the simplified method) for the years ended March 31, 2021 and 2020 were as follows:**

	Millions of yen	
	2021	2020
Retirement benefit obligation at beginning of period	¥ 5,234	¥ 5,168
Current service costs	274	276
Interest costs	25	16
Actuarial gains and losses arising during period	27	(25)
Retirement benefits paid	(189)	(201)
Retirement benefit obligation at end of period	¥ 5,371	¥ 5,234

**(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, 2021 and 2020 were as follows:**

	Millions of yen	
	2021	2020
Plan assets at beginning of period	¥ 4,432	¥ 4,291
Expected return on plan assets	56	54
Actuarial gains and losses arising during period	89	(48)
Contribution from employer	280	249
Retirement benefit paid	(102)	(114)
Plan assets at end of period	¥ 4,755	¥ 4,432

**(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, 2021 and 2020 were as follows:**

	Millions of yen	
	2021	2020
Liability for retirement benefits at beginning of period	¥ 114	¥ 133
Retirement benefit expenses	22	20
Retirement benefit paid	(10)	(22)
Contribution to plans	(17)	(17)
Liability for retirement benefits at end of period	¥ 109	¥ 114

**(e) The components of retirement benefit expenses for the years ended March 31, 2021 and 2020 were as follows:**

	Millions of yen	
	2021	2020
Current service costs	¥ 274	¥ 276
Interest costs	25	16
Expected return on plan assets	(56)	(54)
Amortization of actuarial gains and losses	130	152
Amortization of past service costs	(13)	(17)
Retirement benefit expenses applying the simplified method	22	20
Retirement benefit expenses under defined benefit plans	¥ 382	¥ 393

#### (f) Adjustments for retirement benefits

Components of items recorded in adjustments for retirement benefits, before tax, for the years ended March 31, 2021 and 2020 were as follows:

	Millions of yen	
	2021	2020
Past service costs	¥ (13)	¥ (17)
Actuarial gains and losses	192	129
Total	¥ 179	¥ 112

#### (g) Accumulated adjustments for retirements benefits

Components of items recorded in accumulated adjustments for retirement benefits, before tax, as of March 31, 2021 and 2020 were as follows:

	Millions of yen	
	2021	2020
Unrecognized past service costs	¥ 30	¥ 43
Unrecognized actuarial gains and losses	(698)	(890)
Total	¥ (668)	¥ (847)

#### (h) Plan assets

##### i. Components of plan assets

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

	2021	2020
Debt securities	28%	29%
Equity securities	6	4
General account	45	45
Cash and cash equivalents	11	12
Other	10	10
Total	100%	100%

Note: Retirement benefit trusts set up for defined benefit corporate pension plans constituted 45% and 48% of the total plan assets as of March 31, 2021 and 2020, 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, 2021 and 2020 were as follows:

	2021	2020
Discount rate	0.3%	0.3%
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 consolidated subsidiary participate in several contributory funded multi-employer defined benefit corporate 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 defined benefit corporate pension plans that should be accounted for in the same manner as defined contribution plans were ¥179 million and ¥179 million for the years ended March 31, 2021 and 2020, respectively. Most recent available information about the multi-employer plans was as follows:

	Millions of yen	
	As of March 31, 2020	As of March 31, 2019
Fair value of plan assets	¥ 11,474	¥ 10,888
Benefit obligations under pension funding programs	16,772	16,824
Deficit	¥ (5,298)	¥ (5,936)
Balance of actuarial past service costs	(7,455)	(8,100)
Surplus	¥ 2,157	¥ 2,164
Ratio of total salaries of the Companies to total funds of plans (*1)	13.0%	12.9%

#### 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 ¥104 million and ¥104 million related to the amortization as expenses in the consolidated financial statements for the years ended March 31, 2021 and 2020, respectively.

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

## 9. Net assets

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

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

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

Dividend paid to shareholders was as follows:

Date of approval	Resolution approved by	Type of shares	Amount (Millions of yen)	Amount per share (Yen)	Record date	Effective date
June 27, 2019	Annual shareholders' meeting	Common stock	¥ 971	¥ 40.00	March 31, 2019	June 28, 2019
November 6, 2019	Board of directors	Common stock	¥ 969	¥ 40.00	September 30, 2019	December 2, 2019
June 24, 2020	Annual shareholders' meeting	Common stock	¥ 961	¥ 40.00	March 31, 2020	June 25, 2020
November 6, 2020	Board of directors	Common stock	¥ 963	¥ 40.00	September 30, 2020	December 7, 2020

Note 1: The amount of dividend resolved by the board of directors on November 6, 2019 includes dividend on the Company's stock held by the BIP Trust of ¥9 million.

Note 2: The amount of dividend resolved by the annual shareholders' meeting on June 24, 2020 includes dividend on the Company's stock held by the BIP Trust of ¥9 million.

Note 3: The amount of dividend resolved by the board of directors on November 6, 2020 includes dividend on the Company's stock held by the BIP Trust of ¥8 million.

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)	Paid from	Amount per share (Yen)	Record date	Effective date
June 23, 2021	Annual shareholders' meeting	Common stock	¥ 963	Retained earnings	¥ 40.00	March 31, 2021	June 24, 2021

Note: The amount of dividend includes dividend on the Company's stock held by the BIP Trust of ¥8 million.

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.

## 10. Stock option plan

1. Stock option expense that was accounted for as general and administrative expenses on the consolidated statements of income for the years ended March 31, 2021 and 2020 amounted to ¥42 million and ¥53 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	June 29, 2016
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	8 directors of the Company 14 corporate officers of the Company
Number of options granted	38,000 common shares	25,800 common shares	30,500 common shares	32,000 common shares
Date of grant	July 22, 2013	July 22, 2014	July 21, 2015	July 25, 2016
Vesting condition	No provisions	No provisions	No provisions	No provisions
Requisite service period	No provisions	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 *	July 26, 2016 – July 25, 2046 *

Date of approval	June 29, 2017	June 28, 2018	June 27, 2019	June 24, 2020
Persons granted	6 directors of the Company 15 corporate officers of the Company	6 directors of the Company 15 corporate officers of the Company	6 directors of the Company 15 corporate officers of the Company	6 directors of the Company 11 corporate officers of the Company
Number of options granted	26,200 common shares	25,100 common shares	34,400 common shares	27,800 common shares
Date of grant	July 24, 2017	July 23, 2018	July 22, 2019	July 20, 2020
Vesting condition	No provisions	No provisions	No provisions	No provisions
Requisite service period	No provisions	No provisions	No provisions	No provisions
Exercise period	July 25, 2017 - July 24, 2047 *	July 24, 2018 - July 23, 2048 *	July 23, 2019 - July 22, 2049 *	July 21, 2020 - July 20, 2050 *

\* 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, 2021.

##### a) Number of stock options

Date of approval	June 26, 2009	June 29, 2010	June 29, 2011	June 28, 2012
Fiscal year ended March 31, 2020				
Non-vested	(Share)	(Share)	(Share)	(Share)
April 1, 2020 – Outstanding	—	—	—	—
Granted	—	—	—	—
Forfeited	—	—	—	—
Vested	—	—	—	—
March 31, 2021 – Outstanding	—	—	—	—
Vested				
April 1, 2020 – Outstanding	1,800	2,200	3,900	5,200
Vested	—	—	—	—
Exercised	—	—	1,600	1,700
Forfeited	—	—	—	—
March 31, 2021 – Outstanding	1,800	2,200	2,300	3,500

Date of approval	June 27, 2013	June 27, 2014	June 26, 2015	June 29, 2016
Fiscal year ended March 31, 2020				
Non-vested	(Share)	(Share)	(Share)	(Share)
April 1, 2020 – Outstanding	—	—	—	—
Granted	—	—	—	—
Forfeited	—	—	—	—
Vested	—	—	—	—
March 31, 2021 – Outstanding	—	—	—	—
Vested				
April 1, 2020 – Outstanding	7,200	8,100	12,400	19,900
Vested	—	—	—	—
Exercised	1,500	1,900	2,600	8,300
Forfeited	—	—	—	—
March 31, 2021 – Outstanding	5,700	6,200	9,800	11,600

Date of approval	June 29, 2017	June 28, 2018	June 27, 2019	June 24, 2020
Fiscal year ended March 31, 2020				
Non-vested	(Share)	(Share)	(Share)	(Share)
April 1, 2020 – Outstanding	—	—	—	—
Granted	—	—	—	27,800
Forfeited	—	—	—	—
Vested	—	—	—	27,800
March 31, 2021 – Outstanding	—	—	—	—
Vested				
April 1, 2020 – Outstanding	19,400	20,500	34,400	—
Vested	—	—	—	27,800
Exercised	8,000	7,700	9,900	—
Forfeited	—	—	—	—
March 31, 2021 – Outstanding	11,400	12,800	24,500	27,800

## b) Price information

Date of approval	June 26, 2009	June 29, 2010	June 29, 2011	June 28, 2012
Exercise price	¥ 1 per share			
Average exercise price	—	—	¥ 1,849	¥ 1,849
Fair value at grant date	¥ 686	¥ 633	¥ 594	¥ 728

Date of approval	June 27, 2013	June 27, 2014	June 26, 2015	June 29, 2016
Exercise price	¥ 1 per share			
Average exercise price	¥ 1,849	¥ 1,849	¥ 1,849	¥ 1,849
Fair value at grant date	¥ 904	¥ 1,479	¥ 1,544	¥ 1,508

Date of approval	June 29, 2017	June 28, 2018	June 27, 2019	June 24, 2020
Exercise price	¥ 1 per share			
Average exercise price	¥ 1,849	¥ 1,849	¥ 1,849	—
Fair value at grant date	¥ 1,763	¥ 1,841	¥ 1,551	¥ 1,517

## (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 24, 2020
Expected volatility of the underlying stock	(*1)	29.2%
Expected life of the option	(*2)	5 years
Expected dividend on stock	(*3)	¥ 80.0 per share
Risk-free interest rate during the expected option term	(*4)	(0.13)%

(\*1) The volatility of the stock option is calculated based on the actual stock prices during five years from July 21, 2015 to July 20, 2020.

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

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

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

## 11. Comprehensive income (loss)

Reclassification adjustments and income tax benefit (expense) on other comprehensive income (loss) for the years ended March 31, 2021 and 2020 were as follows:

	Millions of yen	
	2021	2020
Net unrealized holding gains or losses on securities:		
Gains (losses) arising during the period	¥ 4,178	¥ (3,764)
Reclassification adjustments	(5)	(325)
Sub-total, before tax	¥ 4,173	¥ (4,089)
Income tax benefit (expense)	(1,310)	1,232
Net unrealized holding gains or losses on securities	2,863	(2,857)
Adjustments for retirements benefits gains or losses on securities:		
Gains (losses) arising during the period	56	(21)
Reclassification adjustments	123	133
Sub-total, before tax	¥ 179	¥ 112
Income tax benefit (expense)	(55)	(34)
Net unrealized holding gains (losses) on securities	124	78
Share of other comprehensive income of associates accounted for using equity method:		
Gains (losses) arising during the period	—	88
Reclassification adjustments	—	(185)
Share of other comprehensive income (loss) of associates accounted for using equity method	—	(97)
Total other comprehensive income (loss)	¥ 2,987	¥ (2,877)

## 12. Profit per share

Reconciliation of the differences between basic and diluted profit per share ("EPS") for the years ended March 31, 2021 and 2020 were as follows:

2021	Millions of yen	Thousands of shares	Yen
	Profit	Weighted average number of shares	EPS
For the year ended March 31, 2021			
Basic EPS			
Profit available to common shareholders	¥ 3,075	23,863	¥ 128.90
Effect of dilutive securities			
Stock acquisition rights	—	121	—
Diluted EPS			
Profit for computation	¥ 3,075	23,984	¥ 128.24
2020			
	Millions of yen	Thousands of shares	Yen
	Profit	Weighted average number of shares	EPS
For the year ended March 31, 2020			
Basic EPS			
Profit available to common shareholders	¥ 3,537	23,997	¥ 147.43
Effect of dilutive securities			
Stock acquisition rights	—	135	—
Diluted EPS			
Profit for computation	¥ 3,537	24,132	¥ 146.60

In computing basic and diluted EPS, the Company's stock held by the BIP Trust was included in treasury stock deducted for computing the weighted average number of shares (weighted average number of shares of such treasury stock for the year ended March 31, 2021 and 2020 were 190 thousand shares and 220 thousand shares, respectively).

## 13. Segment information

### 1. General information about reportable segments

Reportable segments are the constituent units of the Hibiya Engineering, Ltd. (the "Group") for each of which separate and discrete 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, 2021 and 2020 were as follows:

	Millions of yen					
	2021					
	Construction	Equipment sales	Equipment manufacturing	Total	Adjustments (*1)	Consolidated
Net sales:						
Outside customers	¥ 64,603	¥ 6,522	¥ 1,994	¥ 73,119	¥ —	¥ 73,119
Intersegment	—	3,757	545	4,303	(4,303)	—
Total	¥ 64,603	¥ 10,279	¥ 2,539	¥ 77,422	¥ (4,303)	¥ 73,119
Segment income (*2)	3,594	362	31	3,987	10	3,997
Segment assets	28,468	9,908	2,291	40,667	45,471	86,138
Other items:						
Depreciation and amortization	145	8	15	168	—	168
Increase in tangible and intangible fixed assets	¥ 45	¥ 6	¥ 13	¥ 64	¥ —	¥ 64
	Millions of yen					
	2020					
	Construction	Equipment sales	Equipment manufacturing	Total	Adjustments (*1)	Consolidated
Net sales:						
Outside customers	¥ 67,010	¥ 6,418	¥ 2,463	¥ 75,891	¥ —	¥ 75,891
Intersegment	—	3,780	524	4,304	(4,304)	—
Total	¥ 67,010	¥ 10,198	¥ 2,987	¥ 80,195	¥ (4,304)	¥ 75,891
Segment income (*2)	3,302	321	55	3,678	13	3,691
Segment assets	38,434	8,409	2,438	49,281	34,351	83,632
Other items:						
Depreciation and amortization	145	9	19	173	—	173
Increase in tangible and intangible fixed assets	¥ 111	¥ 1	¥ 19	¥ 131	¥ —	¥ 131

(\*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, 2021 and 2020 were ¥47,696 million and ¥35,977 million, respectively, mainly consisting of cash and cash equivalents, short-term investments, investment securities, and others of the Company. Moreover, intersegment transaction eliminations included in the adjustments of segment assets as of March 31, 2021 and 2020 were ¥2,225 million and ¥1,626 million, respectively.

(\*2) Segment income is reconciled to operating income in the consolidated statements of income.

(Related Information)

### (1) Information by major customer for the years ended March 31, 2021 and 2020 were as follows:

2021	Net sales	
	Millions of yen	Related reportable segments
Name of customer		
NTT FACILITIES, INC.	¥ 7,950	Construction, Equipment sales, Equipment manufacturing
NIPPON TELEGRAPH AND TELEPHONE WEST CORPORATION	¥ 7,492	Construction
2020	Net sales	
	Millions of yen	Related reportable segments
Name of customer		
NTT FACILITIES, INC.	¥ 7,999	Construction, Equipment sales, Equipment manufacturing
Takenaka Corporation	¥ 7,743	Construction, Equipment sales

## 14. Related party transactions and balances

(Related party transactions and balances)

Related party transactions and fiscal year-end balances were as follows:

Fiscal year ended March 31, 2021 (From April 1, 2020 to March 31, 2021)

Not applicable.

Fiscal year ended March 31, 2020 (From April 1, 2019 to March 31, 2020)

2020						
Category	Company name	Location	Capital or investments in capital Millions of yen	Business description	Ownership percentage of voting rights (%)	Relationship
Affiliate	Nihon Meccs Corporation	Chuo-ku, Tokyo	(Capital) ¥ 120	Property maintenance and management	(Owning) direct 39.1	Construction work for facilities engineering  Interlocking directorates

2020			
Details of transaction	Transaction amount (*1) (*3) Millions of yen	Account	Year-end balance (*3) Millions of yen
Sales of shares in an associate (*2)			
Sales proceeds	¥ 11,200	—	—
Gain on sales	956	—	—

(\*1) Terms of price were determined after price negotiation and terms of settlement were the same as those with general customers in accordance with the basic agreement.

(\*2) The Company sold all shares in Nihon Meccs Corporation held by the Company to Nihon Meccs Corporation, and the terms of price were reasonably determined after consultation on the basis of net assets, and other factors.

With this transaction, Nihon Meccs Corporation was no longer an affiliate, and the above items are based on the situation at the time that this transaction was carried out.

(\*3) The transaction amount is exclusive of consumption taxes, and the year-end balance is inclusive of consumption taxes.



## Independent auditor's report

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

### Opinion

We have audited the accompanying consolidated financial statements of Hibiya Engineering, Ltd. ("the Company") and its consolidated subsidiaries (collectively referred to as "the Group"), which comprise the consolidated balance sheets as at March 31, 2021 and 2020, the consolidated statements of income, comprehensive income, changes in net assets and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies, other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at March 31, 2021 and 2020, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with accounting principles generally accepted in Japan.

### Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in Japan. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Japan, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

### Reasonableness of the Company's estimate of total construction costs in applying the percentage - of - completion method

#### The key audit matter

As described in Note 2, "Summary of significant accounting policies, (12) Significant Accounting Estimates" to the consolidated financial statements, Hibiya Engineering, Ltd. ("hereinafter, the "Company") and its consolidated subsidiaries recognized net sales of ¥73,119 million in the consolidated financial statements for the year ended March 31, 2021, which included net sales of ¥52,702 million recognized using the percentage-of-completion method, representing approximately 72.1% of net sales in the consolidated financial statements.

As described in Note 2, "Summary of significant accounting policies, (6) Construction contracts" to the consolidated financial statements, the percentage-of-completion method is applied to construction contracts for which the realization of the completed portion is assured at March 31, 2021, and the estimate of the percentage of construction completion as the progress toward completion is based on the proportion of costs incurred to date to the estimated total construction costs. In applying the percentage-of-completion method, it is necessary to reasonably estimate total construction revenue and costs.

The construction work and period for construction contracts of the Company may be changed due to the effect of changes in the construction contracts and revisions to the construction process and method during the progress of construction.

Total construction costs, which are the basis for revenue recognition using the percentage-of-completion method, are estimated based on a project budget for each construction. Management's judgment as to whether changes in construction work and period were reflected in the project budget in a timely and appropriate manner had a significant effect on the estimate of total construction costs. Accordingly, the estimate involved a high degree of uncertainty.

We, therefore, determined that our assessment of the reasonableness of the Company's estimate of total construction costs in applying the percentage-of-completion method was one of the most significant in our audit of the consolidated financial statements as of March 31, 2021 and for the year then ended, and accordingly, a key audit matter.

#### How the matter was addressed in our audit

The primary procedures we performed to assess whether the Company's estimate of total construction costs in applying the percentage-of-completion method was reasonable included the following:

##### (1) Internal control testing

We tested the design and operating effectiveness of certain of the Company's internal controls relevant to the process of preparing a project budget, which provided the basis for estimating total construction costs. In the assessment, we focused our testing on controls designated to address the uncertainty in estimating total construction costs as a result of changes in construction work and period, which were necessary to complete construction.

##### (2) Assessment of the reasonableness of the estimated total construction costs

In order to assess whether the Company's estimate of total construction costs based on a project budget prepared for each construction contract was reasonable, we performed the following procedures for constructions whose contract value exceeded a certain amount, and those selected based on qualitative risks such as delay in construction progress:

- evaluated the accuracy of the project budget by comparing the total incurred costs of completed constructions with their project budget and examining variances between the two, and assessed the effect on total construction costs of other constructions;
- identified construction projects with incurred costs that were significantly different from the cost trend of past construction projects, after analyzing a correlation between the progress toward completion in terms of construction period and the progress toward construction under the percentage-of-completion method for past construction projects, and then inquired of the personnel responsible for construction work about the reasons for the significant difference, as well as assessed whether the incurred costs of the constructions and the estimated total construction costs at March 31, 2021 were reasonable by inspecting documents associated with the construction schedule and order planning and other materials; and
- inspected meeting minutes with materials on the progress toward completion of the construction and inquired of the personnel responsible for construction work about any changes in circumstances that occurred during construction and their judgment on whether to update the project budget. In addition, when additional costs were expected to be incurred due to the effect of changes in the contract terms and revisions to the construction process and method, we evaluated whether the additional costs were reflected in the estimated total construction costs in a timely and appropriate manner by inspecting documents associated with the construction schedule and order planning and other materials.

## **Responsibilities of Management and Audit & Supervisory Board Members and Audit & Supervisory Board for the Consolidated Financial Statements**

Management is responsible for the preparation and fair presentation of the 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.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern in accordance with accounting principles generally accepted in Japan and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Audit & supervisory board members and audit & supervisory board are responsible for overseeing the directors' performance of their duties with regard to the design, implementation and maintenance of the Group's financial reporting process.

## **Auditor's Responsibilities for the Audit of the Consolidated Financial Statements**

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with auditing standards generally accepted in Japan will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of our audit in accordance with auditing standards generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, while the objective of the audit is not to express an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate whether the presentation and disclosures in the consolidated financial statements are in accordance with accounting standards generally accepted in Japan, the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with audit & supervisory board members and audit & supervisory board regarding, among other matters, the planned scope and timing of the audit, significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide audit & supervisory board members and audit & supervisory board with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with audit & supervisory board members and audit & supervisory board, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

## **Interest required to be disclosed by the Certified Public Accountants Act of Japan**

We do not have any interest in the Group which is required to be disclosed pursuant to the provisions of the Certified Public Accountants Act of Japan.

/S/ Kotetsu Nonaka  
Designated Engagement Partner  
Certified Public Accountant

/S/ Kenji Ishino  
Designated Engagement Partner  
Certified Public Accountant

KPMG AZSA LLC  
Tokyo Office, Japan  
August 30, 2021

Notes to the Reader of Independent Auditor's Report:

This is a copy of the Independent Auditor's Report and the original copies are kept separately by the Company and KPMG AZSA LLC.

# Corporate Data

## Investor Information

As of March 31, 2021

Total number of shares authorized	96,500,000 shares
Total number of shares issued	25,006,321 shares
Number of shareholders	3,440

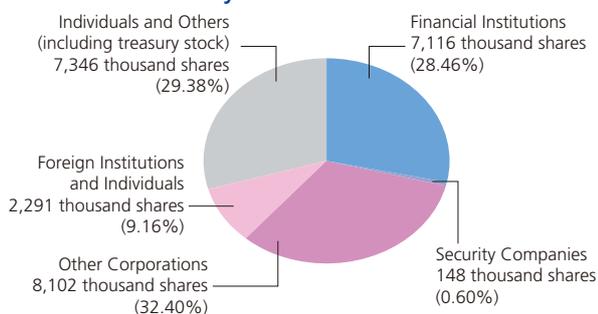
### Major Shareholders

Name of shareholders	Number of held (thousands shares)	Percentage of shares in issue(%)
1 The Master Trust Bank of Japan, Ltd. (Trust account)	1,512	6.29
2 Hibiya Engineering Customer Stock Ownership Plan	1,327	5.52
3 NTT Urban Development Co.	920	3.82
4 Sumitomo Realty & Development Co., Ltd.	920	3.82
5 The Master Trust Bank of Japan, Ltd. (Retirement benefit trust account, Hyakujushi Bank account)	900	3.74
6 Hibiya Engineering Employee Stock Ownership Plan	719	2.99
7 Custody Bank of Japan, Ltd. (Trust account)	699	2.90
8 Telecommunications Mutual Benefit Association	698	2.90
9 Kyoritsu Construction Co., Ltd.	594	2.47
10 Kyowa Exeo Corporation	530	2.20

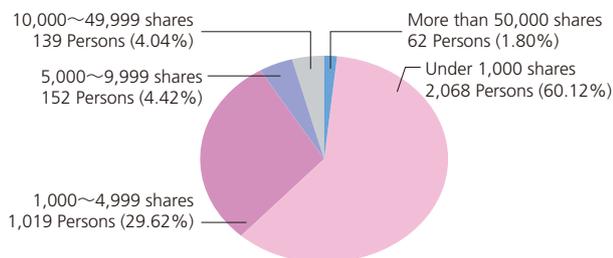
#### Notes

Share ownership percentages do not include 936 thousand shares of treasury stock. Hibiya Engineering stock held by the Board Incentive Plan Trust, which is used for performance-linked stock remuneration, is not included in treasury stock.

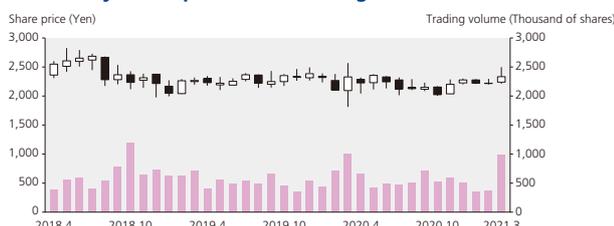
### Share distribution by owner



### Share distribution by size of holding



### Monthly share prices and trading volume



## Board of Directors

As of June 23, 2021

Representative Director & President & Chief Executive Officer	Nagahiro Kuroda
Representative Director & Senior Executive Vice President	Shigehito Katsuki
Director and Managing Executive Officer	Hiroshi Jitsukawa
Director and Managing Executive Officer	Yuuji Yamauchi
Director and Managing Executive Officer	Satoshi Tomie
Director and Senior Executive Officer	Hirohiko Kyouho
Director	Seiichi Hashimoto
Director	Masako Osuna
Director	Junko Ogushi
Audit & Supervisory Board Member (standing)	Kouji Kuwahara
Audit & Supervisory Board Member (standing)	Hidekazu Uekusa
Audit & Supervisory Board Member	Hiroataka Tadakoshi
Audit & Supervisory Board Member	Shohei Harada

#### Notes

- Seiichi Hashimoto, Masako Osuna and Junko Ogushi are outside directors.
- Kouji Kuwahara, Hiroataka Tadakoshi and Shohei Harada are outside Audit & Supervisory Board Members.
- The Company has notified the Tokyo Stock Exchange that Seiichi Hashimoto and Masako Osuna, Junko Ogushi are independent directors and Kouji Kuwahara and Shohei Harada are independent Audit & Supervisory Board Members.

## Offices

As of March 31, 2021

### Head Office

3-5-27 Mita, Minato-ku, Tokyo

### Tokyo Main Office

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

### Branches

Hokkaido, Tohoku, Yokohama, Tokai, Hokuriku, Kansai, Chugoku, Shikoku, Kyushu, Okinawa

### Offices

Hakodate, Iwate, Niigata, Toyama, Nagano, Ibaraki, Kita-Kanto, Chiba, Shizuoka, Kobe, Okayama, Kumamoto, Kagoshima

### Research Facilities

Noda in Chiba Prefecture



## **Hibiya Engineering,Ltd.**

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