



TOWARDS A CLEANER FUTURE

PROFILE

Innovation has always been Tsukishima Kikai's defining trait. Since our foundation in 1905, we have, over more than a century, developed extensive expertise in diverse technology fields, ranging from water purification facilities, sewage treatment facilities and incinerators to industrial waste treatment, filtration, separation and other technologies.

Operations of
the Tsukishima Kikai Group

TSK
TSUKISHIMA
KIKAI

Basic technologies and
applications associated with
sugar refining

Core technologies

Reaction, Crystallization,
Distillation, Centrifuge separation,
Filtration, Dehydration,
Incineration, Combustion,
Melting, Vacuum processing

Applications

Applications

Water Environmental Business

Water: Filtration and purification,
Wastewater treatment

Sewage: Sewage treatment, Sludge treatment

Affiliated companies

- Tsukishima Technology Maintenance Service Co., Ltd.
- Samukawa Water Service Co., Ltd.

Industrial Business

Industrial plant, equipment and machinery, Sugar
and biotechnology, Incineration, Vacuum processing

Affiliated companies

- Tsukishima Kankyo Engineering Co., Ltd.
- SUN ECO THERMAL Co., Ltd.
- Tsukishima Machine Sales Co., Ltd.
- Daido Chemical Engineering Corp.
- TSK Engineering (Thailand) Co., Ltd.
- BOKELA GmbH
- TSK Engineering China Co., Ltd.



BUSINESS SEGMENTS



Subsegments	Business description
Plants and process equipment	Various plants and equipment
Life cycle business	PFI/DBO/Comprehensive O&M contracts
Operation and maintenance	One-year/multi-year O&M contracts/Maintenance/Parts/Repair/Chemicals

Subsegments	Business description
Plants and process equipment	Various plants and equipment
Incineration	Incineration plants and equipment
Operation and maintenance	Maintenance/Parts
Other	Intermediary treatment of industrial and non-industrial waste (incineration)



KAZUHIKO YAMADA

President and Chief Executive Officer,
Representative Director

Building a Broader Base for Steady Growth

I am pleased to present our 2016 Annual Report, which covers the period from April 1, 2015 to March 31, 2016.

Market trends in Japan in the first half of the year ended March 2016 were influenced by a gradual recovery in the Japanese economy. However, the second half brought increasing uncertainty about the economic outlook because of stock market and foreign exchange market trends and a slump in resource prices. There was also continuing uncertainty in some overseas markets affected by a downtrend in the prices of oil and other resources, as well as the risk of economic downswings in emerging countries.

As the final year of a three-year medium-term management plan launched in the year ended March 2013, the year under review was a particularly important period for the Tsukishima Kikai Group. The key strategic directions for our business activities were an increased emphasis on the environment and energy fields, the expansion of overseas business, and group-wide cost reductions.

In the Water Environmental Business segment, we targeted demand for the expansion and renovation of water supply and sewage treatment facilities in Japan. We also continued to market our services, including facility operation, management, maintenance and repair. Our other marketing priorities were private finance initiatives (PFI^{*1}) and design-build-operate (DBO^{*2}) projects combining facility construction with long-term operation and maintenance, as well as feed-in tariff (FIT^{*3}) projects in the electric power generation sector.

In the Industrial Business segment, our goal was to capture demand for capital investment through wide-ranging marketing activities targeting industrial plant, process equipment and environment-related equipment in the Japan and overseas markets. We also worked to complete projects in hand, while continuing to reduce costs through strategies that included the outsourcing of production of some types of key equipment to overseas contractors.

Net Sales and Income

Our consolidated financial results for the year ended March 2016 are shown in the graphs on the right.

*1 Private finance initiative (PFI): This structure allows private sector funds, technology, and efficient operating expertise to be used to provide public services that require facility development.

*2 Design, build, operate (DBO): With this approach, a business corporation is entrusted with the design, building, and operation of facilities, while the government arranges finance and assumes ownership.

*3 Feed-in tariff (FIT): This system requires electric power companies to purchase electricity generated using renewable energy resources at a fixed, predetermined price.

Segment Results

Water Environmental Business

Firmness in public investment in the first half of the year ended March 2016 contrasted with a steady, gradual decline in the second. There was sustained growth in orders, including orders for multiyear work and comprehensive operation and maintenance (O&M^{*4}) services, as well as PFI and DBO projects combining facility construction with long-term operation and maintenance services.

Our priority for the Tsukishima Kikai Group in this business environment was to win contracts for the expansion and renovation of sludge treatment systems for water supply and sewage facilities in Japan by strengthening our marketing activities for sludge digestion gas equipment used in wastewater treatment plants, and next-generation sludge incineration system. In the O&M field, we focused our marketing activities on repair work and comprehensive O&M services. In the area of sludge treatment equipment, these efforts resulted in a continuous flow of orders for next-generation sludge incineration system. Also in the O&M field, we were able to win orders for large-scale maintenance work and other projects that reflect a trend toward facility lifespan extension, as well as large-scale comprehensive O&M service contracts that include the maintenance and management of sewage treatment plants and multiple peripheral facilities, and utility procurement. In addition, we worked to increase the percentage of projects with the potential to produce stable, long-term income flows. For example, we



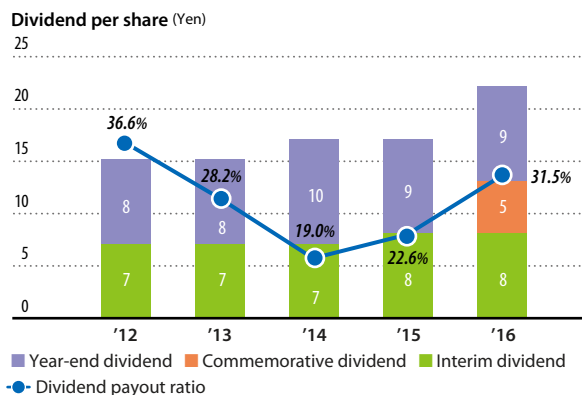
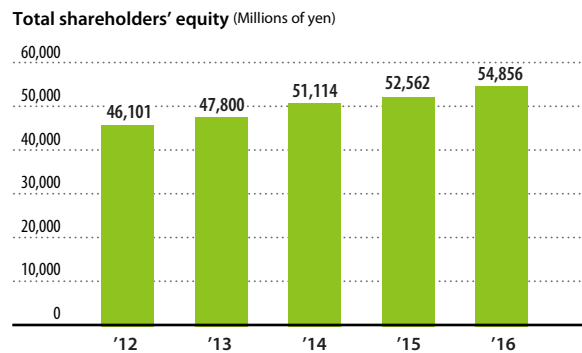
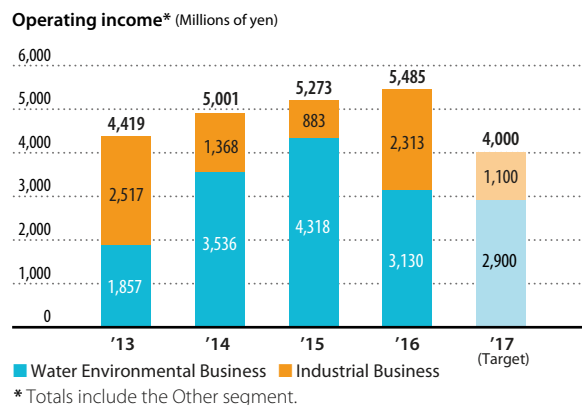
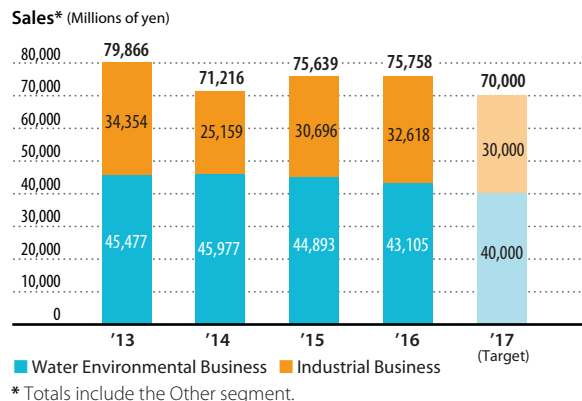
secured first refusal rights for a FIT-based project involving the use of sludge digestion gases to generate electricity. Results for this segment are shown in the graph on the right.

*4 Comprehensive operation and maintenance (O&M) services: These services encompass not only facility operation, but also maintenance and the supply of chemicals, etc.

Industrial Business

In Japan, the economy followed a gradual recovery trend in the first half of the year ended March 2016, but the second half brought increased uncertainty about the economic outlook due to trends in the stock market and foreign exchange rates, and the slump in resource prices. Some overseas markets were affected by continuing uncertainties, including the slump in the prices of oil and other resources, as well as the growing risk of economic downswings in emerging countries.

The Tsukishima Kikai Group responded to this environment by marketing various types of industrial plants, as well as dewatering systems, separators, filtration systems, gas holders and other products, in Japan and overseas. Our priority was to capture capital investment demand and replacement demand in the chemical and food industries in the Japan and overseas markets. Environment-related activities included the marketing of liquid and solid waste combustion systems and waste acid treatment facilities. Results for this segment are shown in the graph on the right. We look forward to the continuing support and cooperation of our shareholders, investors and customers.



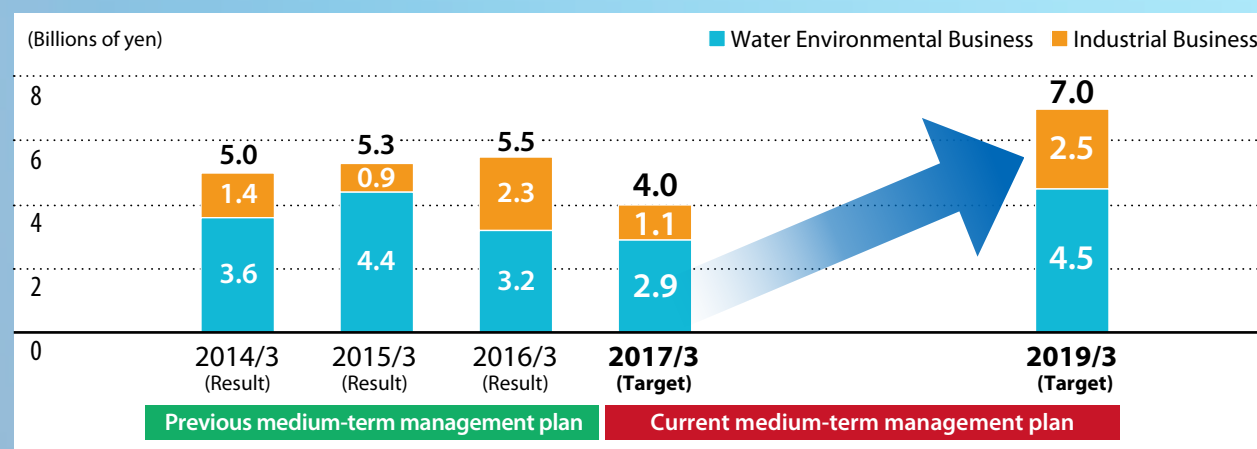
NEW MEDIUM-TERM MANAGEMENT PLAN (APRIL 1, 2016—MARCH 31, 2019)

We recently formulated and announced a new medium-term management plan covering the period from April 1, 2016 to March 31, 2019. It will form the framework for business activities targeting sustainable growth in both business segments. The plan calls for the realization of this goal through policies focusing on the creation of both a stable income base and a growth base. Our specific targets under the medium-term management plan are shown below.

Numerical Targets

	2016/3 result	2019/3 target	Increase
Net sales	¥75.8 billion	¥100.0 billion	+32.0%
Operating income	¥5.5 billion	¥7.0 billion	+27.6%
Operating income ratio	7.2%	7.0%	—
Ordinary income	¥5.5 billion	¥7.2 billion	+30.2%
Profit attributable to owners of parent	¥3.1 billion	¥4.4 billion	+44.0%

Operating Income Results and Target by Segment





Basic Policies

We aim to achieve the numerical targets in the medium-term management plan through business activities guided by the following basic policies.

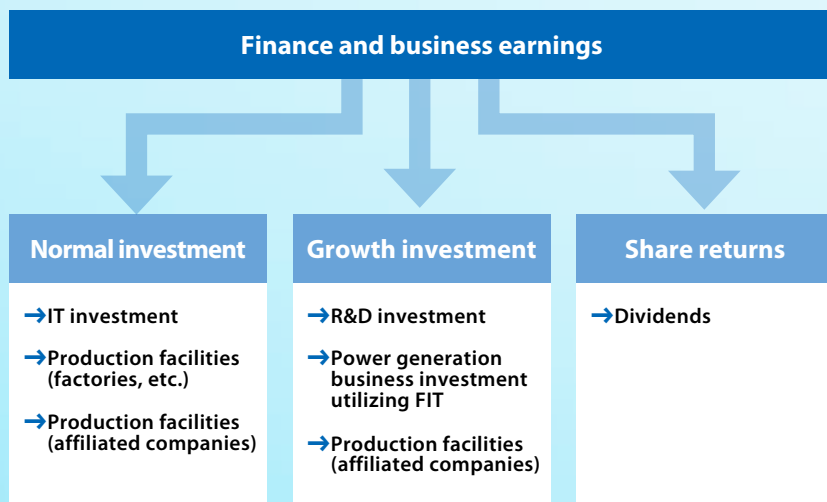
01 Establishment of a stable income base

02 Establishment of a growth base

03 Strategic investment

Strategic Investment and Capital Policy

Our basic policy goals under the medium-term management plan are the creation of a stable income base and a growth base. In addition to normal investment, we aim to realize these goals through flexible strategic investment totaling ¥19 billion during the period covered by the plan. This includes ¥10 billion for M&A investment and ¥4 billion for related R&D investment in both business segments, and ¥5 billion for FIT projects investment in the Water Environmental Business segment.



Topic 01

Ministerial Awards for a Next-generation Sludge Incineration System



Our environmental and energy-related products include a next-generation sludge incineration system. Recently this product won the following two awards from the Minister of Economy, Trade and Industry and the Minister of Land, Infrastructure, Transport and Tourism.

**Excellent Environmental Equipment Award
—Minister of Economy, Trade and Industry**

Sponsored by the Ministry of Economy, Trade and Industry (then the Ministry of International Trade and Industry), this award was created in 1974 with the aim of encouraging research and development in the field of environmental protection and promoting increased use of excellent environmental equipment. To be eligible for this award, equipment must contribute to the protection of the global environment. It must also have been on the market for no longer than 10 years and in practical use for at least six months.



**Infrastructure Technology Development Award
—Minister of Land, Infrastructure, Transport and Tourism**

This award was established to encourage active research and development relating to social capital improvement. It covers a wide range of technologies, including not only hardware but also software technologies. The aim is to stimulate research and development and raise the level of construction technology.

To be selected for an award, the technology must have been developed and commercialized over the past few years. The scope of the award encompasses a wide range of technologies relating to social capital development and land and infrastructure management, including survey and measurement methods, planning and design methods, construction technologies and systems, maintenance management methods, including inspection, diagnosis and monitoring technologies, materials, products, machinery, electric power and telecommunications technology, and new applications for traditional technology.

Topic 02

Order for Sludge Drying and Incineration Equipment for Shanghai City, China

Overseas achievements in the Water Environmental Business segment include a contract to supply sewage sludge drying and incineration systems to the Shanghai Shidongkou Wastewater Treatment Plant. Tsukishima Kikai was awarded the contract for these systems, each of which has a capacity of 165 tons per day, through a Chinese engineering company.

This project resulted from the excellent reputation that we had built through our involvement in the construction of sludge drying and incineration facilities at a wastewater treatment plant in the Chuk Yuen district of Shanghai.

Our sludge drying and incineration systems have an excellent track record and are recognized as among the best in Japan. We will continue to target demand for these systems through active marketing in China and other Asian markets, as well as in Europe. We will also continue our efforts to provide the world with advanced, highly efficient environmental technology.





Completion of Our Biggest Linz-Donawitz Gas Holder



Tsukishima Kikai completed and delivered a large-scale gas holder ordered by JFE Steel Corporation, a major steel manufacturer. The gas holder will be used to contain Linz-Donawitz converter gas (LDG).

Gas holders are one of our flagship products. Our systems offer superior earthquake-resistance and maintainability, and to date we have delivered over 500 sets in Japan and overseas. With a capacity of 125 thousand cubic meters, the recently completed gas holder is the biggest that we have ever built for use with LDG for steelworks.

Manufacturers today actively recover and utilize energy, and many steel companies recover, store and use combustible gases produced during the steel-making process. Tsukishima Kikai has built a track record in this area by supplying a wide variety of equipment, including flue gas desulfurization facilities, and large-scale coal dryers, as well as LDG holders. Steel manufacturers in Japan and overseas place a high value on our environmental technology, including systems to support the conservation and effective utilization of energy. We will continue to contribute to efficient and environment-friendly steel manufacturing by actively marketing these types of equipment and machinery.



Order for High-silica Zeolite Manufacturing Plant from Customer in Malaysia

Tsukishima Kikai, in collaboration with TSK Engineering Malaysia Sdn. Bhd., won an order from Tosoh Advanced Materials Sdn. Bhd., a subsidiary of Tosoh Corporation, for a high-silica zeolite (HSZ[®]) manufacturing facility.

HSZ[®] is a synthetic zeolite used as a catalyst for vehicle exhaust gas cleaning systems and petrochemical production. It is also used to absorb and remove volatile organic compounds (VOCs). There is strong demand for HSZ[®] in Japan, the United States and Europe, and demand is also expected to expand in the Asian market. In anticipation of this demand, Tosoh has established Tosoh Advanced Materials in Malaysia and is building an HSZ[®] manufacturing plant in the Kemaman district of Terengganu, a state of Malaysia.



The Tsukishima Kikai Group was awarded this order because of its track record and reputation as a contractor of chemical plants in Malaysia and other overseas countries. We have delivered numerous chemical plants and key items of equipment to manufacturers of basic chemical products and intermediate materials in Japan and overseas.

Capital investment demand is expected to expand in emerging countries, especially in Asia. We will continue to work actively to win contracts for the construction of new chemical plants and the expansion of existing facilities in these markets.



BOARD OF DIRECTORS

From left

BUNYU FUTAMURA

Board Member

MASASHI TERANISHI

Board Member

TORAHIKO MAKI

Board Member,
Managing
Executive Officer

AKIHIKO WATANABE

Board Member,
Managing
Executive Officer

HISAO SHIGEKANE

Board Member

From left

KAZUO NAKAJIMA

Board Member,
Senior Managing Executive Officer

KAZUHIKO YAMADA

President and Chief Executive Officer,
Representative Director

KIKUO MAKISHIMA

Senior Managing Executive Officer,
Representative Director

FINANCIAL SECTION

Five-Year Summary (Consolidated)

TSUKISHIMA KIKAI CO., LTD. and its consolidated subsidiaries
Years ended March 31

	Millions of yen (Note 1)					Thousands of U.S. dollars (Note 1)
	2016	2015	2014	2013	2012	2016
For the year:						
Net sales.....	¥75,758	¥ 75,639	¥71,216	¥79,866	¥72,480	\$672,328
Operating income.....	5,485	5,273	5,001	4,419	3,256	48,677
Profit before income taxes.....	5,065	5,794	6,850	4,048	3,630	44,950
Profit attributable to owners of parent.....	3,055	3,344	3,986	2,369	1,822	27,112
At year-end:						
Total assets.....	99,753	105,002	98,688	92,095	89,261	885,276
Total shareholders' equity.....	¥54,856	¥ 52,562	¥51,114	¥47,800	¥46,101	\$486,829
Per share:						
Basic earnings.....	¥ 69.82	¥ 75.25	¥ 89.57	¥ 53.24	¥ 40.93	\$ 0.61
Dividends.....	¥ 22.00	¥ 17.00	¥ 17.00	¥ 15.00	¥ 15.00	\$ 0.19
Number of shares outstanding (in thousands).....						
	45,625	45,625	45,625	45,625	45,625	

Notes: 1. U.S. dollar amounts are translated from yen at the rate of ¥112.68 to US\$1, solely for the convenience of the reader.

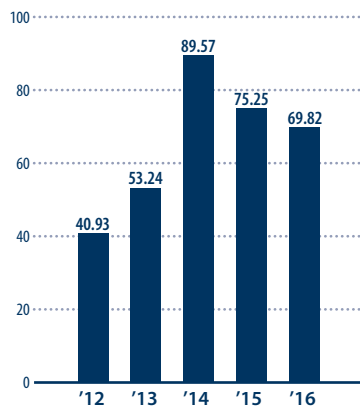
Amounts less than ¥1 million, \$1 thousand and the number of shares outstanding in thousands have been rounded down.

2. The fiscal year ended March 31, 2016 dividend includes a commemorative dividend of ¥5.00 per share.

3. Effective from the fiscal year ended March 31, 2016 the Company has applied the "Accounting standard for Business Combinations" (ASBJ Statement No. 21 September 13, 2013), etc., and the previous accounting item "net income" is now presented as "profit attributable to owners of parent."

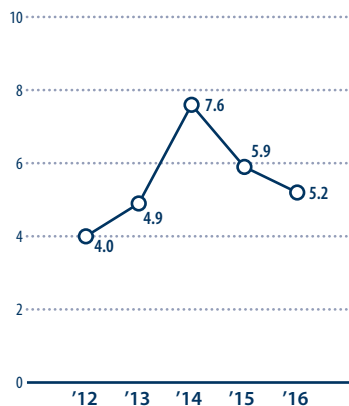
Basic Earnings per Share

(Yen)



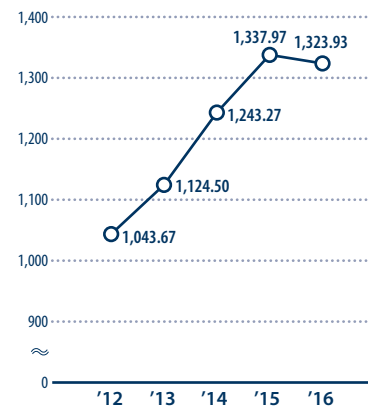
Return on Equity

(%)



Equity per Share

(Yen)



Consolidated Balance Sheets

TSUKISHIMA KIKAI CO., LTD. and its consolidated subsidiaries
Years ended March 31, 2016 and 2015

	Millions of yen (Note 1)		Thousands of U.S. dollars (Note 1)
	2016	2015	2016
ASSETS			
Current assets:			
Cash and time deposits (Notes 8, 11)	¥ 17,698	¥ 15,920	\$ 157,064
Marketable securities (Notes 2, 8, 9)	—	1,500	—
Notes and accounts receivable (Notes 8, 10, 11).....	40,871	41,846	362,717
Less: allowance for doubtful accounts (Note 2).....	(175)	(161)	(1,553)
Work in process (Note 2).....	1,929	2,239	17,119
Raw materials and supplies (Note 2).....	268	190	2,378
Deferred income taxes (Note 14).....	1,542	2,269	13,684
Other current assets (Note 11).....	1,552	1,268	13,773
Total current assets	63,686	65,073	565,193
Property, plant and equipment (Note 2):			
Land	4,009	3,942	35,578
Buildings and structures	10,984	11,849	97,479
Machinery and equipment.....	15,436	14,554	136,989
Lease assets.....	828	761	7,348
Construction in progress.....	975	322	8,652
	32,234	31,430	286,066
Less: accumulated depreciation	(19,032)	(19,089)	(168,903)
Net property, plant and equipment.....	13,201	12,340	117,154
Investments and other assets:			
Goodwill (Note 2)	2,827	233	25,088
Software	556	399	4,934
Lease assets (Note 2).....	52	58	461
Investments in securities (Notes 2, 8, 9, 11).....	17,478	25,291	155,111
Long-term loans receivable (Note 11).....	230	169	2,041
Deferred income taxes (Note 14).....	1,136	1,075	10,081
Other assets.....	1,153	797	10,232
Less: allowance for doubtful accounts (Note 2).....	(571)	(437)	(5,067)
Total investments and other assets	22,865	27,587	202,919
Total assets	¥ 99,753	¥105,002	\$ 885,276

See Notes to Consolidated Financial Statements.

LIABILITIES AND NET ASSETS

	Millions of yen (Note 1)		Thousands of U.S. dollars (Note 1)
	2016	2015	2016
Current liabilities:			
Notes and accounts payable.....			
Trade (Notes 8, 10).....	¥12,348	¥ 18,021	\$109,584
Other.....	2,108	2,754	18,707
Electronically recorded obligations.....	3,639	—	32,294
Short-term loans payable (Notes 8, 11).....	128	592	1,135
Current portion of long-term loans payable (Notes 8, 10, 11).....	367	390	3,257
Lease obligations (Note 11).....	187	183	1,659
Accrued income taxes (Note 14).....	336	914	2,981
Accrued expenses.....	2,619	2,581	23,242
Accrued warranty (Note 2).....	674	909	5,981
Reserve for losses on contracts (Note 2).....	282	645	2,502
Advances received.....	2,691	2,350	23,881
Other current liabilities.....	2,322	2,144	20,607
Total current liabilities.....	27,707	31,489	245,891
Long-term liabilities:			
Long-term loans payable (Notes 5, 8, 10, 11).....	3,445	3,939	30,573
Lease obligations (Note 11).....	268	350	2,378
Deferred tax liabilities (Note 14).....	1,708	2,849	15,157
Net defined benefit liability (Notes 2, 12).....	7,284	6,809	64,643
Reserve for retirement payments to officers (Note 2).....	209	112	1,854
Asset retirement obligations.....	194	156	1,721
Other long-term liabilities.....	205	326	1,819
Total long-term liabilities.....	13,316	14,545	118,175
Contingent liability (Note 15)			
Net assets:			
Shareholders' equity:			
Common stock,			
Authorized: 180 million shares in 2016 and 2015			
Issued: 45,625,800 shares in 2016 and 2015.....	6,646	6,646	58,981
Additional paid-in capital.....	5,485	5,485	48,677
Retained earnings.....	44,161	42,140	391,915
Treasury stock (Note 5).....	(1,437)	(1,710)	(12,752)
Total shareholders' equity.....	54,856	52,562	486,829
Accumulated other comprehensive income			
Net unrealized gains or losses on available-for-sale securities.....	4,166	6,343	36,971
Deferred gains or losses on hedges.....	(30)	(202)	(266)
Foreign currency translation adjustment (Note 2).....	(205)	150	(1,819)
Remeasurements of defined benefit plans (Note 12).....	(708)	(436)	(6,283)
Total accumulated other comprehensive income.....	3,222	5,855	28,594
Non-controlling interests (Note 3).....	649	548	5,759
Total net assets.....	58,729	58,966	521,201
Total liabilities and net assets.....	¥99,753	¥105,002	\$885,276

See Notes to Consolidated Financial Statements.

Consolidated Statements of Income

TSUKISHIMA KIKAI CO., LTD. and its consolidated subsidiaries
Years ended March 31, 2016 and 2015

	Millions of yen (Note 1)		Thousands of U.S. dollars (Note 1)
	2016	2015	2016
Net Sales (Notes 2, 19)	¥75,758	¥75,639	\$672,328
Cost of sales (Note 13)	58,900	60,431	522,719
Gross profit.....	16,858	15,208	149,609
Selling, general and administrative expenses (Note 13)	11,373	9,934	100,931
Operating income (Note 19).....	5,485	5,273	48,677
Other income (expenses):			
Interest and dividend income.....	335	327	2,973
Interest expenses.....	(112)	(85)	(993)
Gain on sales of investments in securities.....	183	404	1,624
Gain on sales of property, plant and equipment.....	0	181	0
Loss on sales and disposal of property, plant and equipment.....	(165)	(78)	(1,464)
Loss on sales of investments in securities.....	—	(184)	—
Provision of allowance for doubtful accounts.....	(128)	—	(1,135)
Impairment loss.....	—	(274)	—
Equity in earnings of affiliates (Note 2).....	44	5	390
Loss on valuation of investments in securities.....	(343)	—	(3,044)
Depreciation.....	—	(16)	—
Taxes and dues.....	(18)	(18)	(159)
Office transfer expenses.....	(58)	—	(514)
Other, net (Note 16).....	(157)	262	(1,393)
Other income (expenses), net.....	(420)	521	(3,727)
Profit before income taxes.....	5,065	5,794	44,950
Income taxes (Notes 2, 14):			
Current.....	1,085	2,148	9,629
Deferred.....	817	219	7,250
Total income taxes.....	1,903	2,367	16,888
Profit (Note 3).....	3,162	3,426	28,061
Profit attributable to non-controlling interests (Note 3)	(106)	(82)	(940)
Profit attributable to owners of parent (Note 3)	¥ 3,055	¥ 3,344	\$ 27,112
Per share			
Basic earnings.....	¥ 69.82	¥ 75.25	\$ 0.61
Dividends.....	¥ 22.00	¥ 17.00	\$ 0.19

See Notes to Consolidated Financial Statements.

Consolidated Statements of Comprehensive Income

TSUKISHIMA KIKAI CO., LTD. and its consolidated subsidiaries
Years ended March 31, 2016 and 2015

	Millions of yen (Note 1)		Thousands of U.S. dollars (Note 1)
	2016	2015	2016
Profit (Note 3)	¥ 3,162	¥3,426	\$ 28,061
Other comprehensive income (Note 6)			
Net unrealized gains or losses on available-for-sale securities	(2,176)	1,812	(19,311)
Deferred gains or losses on hedges.....	172	(154)	1,526
Foreign currency translation adjustment.....	(419)	142	(3,718)
Remeasurements of defined benefit plans.....	(272)	(95)	(2,413)
Share of other comprehensive income of associates accounted for using equity method.....	(0)	0	(0)
Total other comprehensive income.....	(2,696)	1,704	(23,926)
Comprehensive income	¥ 465	¥5,131	\$ 4,126
(Breakdown)			
Comprehensive income attributable to owners of parent (Note 3).....	¥ 413	¥4,979	\$ 3,665
Comprehensive income attributable to non-controlling interests (Note 3).....	¥ 51	¥ 151	\$ 452

See Notes to Consolidated Financial Statements.

Consolidated Statements of Changes in Net Assets

TSUKISHIMA KIKAI CO., LTD. and its consolidated subsidiaries
Years ended March 31, 2016 and 2015

	Thousands	Millions of yen (Note 1)												
	Number of shares of common stock issued	Shareholders' equity					Accumulated other comprehensive income						Non-controlling interests	Total net assets
		Common stock	Additional paid-in capital	Retained earnings	Treasury stock	Total shareholders' equity	Net unrealized gains or losses on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income			
Balance as of April 1, 2014	45,625	¥6,646	¥5,485	¥39,580	¥ (599)	¥51,114	¥4,530	¥ (42)	¥ 72	¥(340)	¥4,219	¥399	¥55,734	
Cumulative effects of changes in accounting policies.....	—	—	—	68	—	68	—	—	—	—	—	—	68	
Restated balance.....	45,625	6,646	5,485	39,649	(599)	51,182	4,530	(42)	72	(340)	4,219	399	55,802	
Dividends.....	—	—	—	(801)	—	(801)	—	—	—	—	—	—	(801)	
Profit attributable to owners of parent for the year ended March 31, 2015.....	—	—	—	3,344	—	3,344	—	—	—	—	—	—	3,344	
Change of scope of consolidation...	—	—	—	—	—	—	—	—	—	—	—	—	—	
Change of scope of equity method..	—	—	—	(51)	—	(51)	—	—	—	—	—	—	(51)	
Purchase of treasury stock.....	—	—	—	—	(1,123)	(1,123)	—	—	—	—	—	—	(1,123)	
Disposal of treasury stock.....	—	—	—	—	12	12	—	—	—	—	—	—	12	
Net changes of items other than those in shareholders' equity.....	—	—	—	—	—	—	1,812	(159)	78	(95)	1,635	148	1,783	
Balance as of March 31, 2015	45,625	¥6,646	¥5,485	¥42,140	¥(1,710)	¥52,562	¥6,343	¥(202)	¥150	¥(436)	¥5,855	¥548	¥58,966	

	Thousands	Millions of yen (Note 1)												
	Number of shares of common stock issued	Shareholders' equity					Accumulated other comprehensive income						Non-controlling interests	Total net assets
		Common stock	Additional paid-in capital	Retained earnings	Treasury stock	Total shareholders' equity	Net unrealized gains or losses on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income			
Balance as of April 1, 2015	45,625	¥6,646	¥5,485	¥42,140	¥(1,710)	¥52,562	¥ 6,343	¥(202)	¥ 150	¥(436)	¥ 5,855	¥548	¥58,966	
Cumulative effects of changes in accounting policies.....	—	—	—	—	—	—	—	—	—	—	—	—	—	
Restated balance.....	45,625	6,646	5,485	42,140	(1,710)	52,562	6,343	(202)	150	(436)	5,855	548	58,966	
Dividends.....	—	—	—	(979)	—	(979)	—	—	—	—	—	—	(979)	
Profit attributable to owners of parent for the year ended March 31, 2016.....	—	—	—	3,055	—	3,055	—	—	—	—	—	—	3,055	
Change of scope of consolidation...	—	—	—	(55)	—	(55)	—	—	—	—	—	—	(55)	
Change of scope of equity method..	—	—	—	—	—	—	—	—	—	—	—	—	—	
Purchase of treasury stock.....	—	—	—	—	(0)	(0)	—	—	—	—	—	—	(0)	
Disposal of treasury stock.....	—	—	0	—	272	272	—	—	—	—	—	—	272	
Net changes of items other than those in shareholders' equity.....	—	—	—	—	—	—	(2,176)	172	(355)	(272)	(2,632)	101	(2,530)	
Balance as of March 31, 2016	45,625	¥6,646	¥5,485	¥44,161	¥(1,437)	¥54,856	¥ 4,166	¥ (30)	¥(205)	¥(708)	¥ 3,222	¥649	¥58,729	

	Thousands	Thousands of U.S. dollars (Note 1)												
	Number of shares of common stock issued	Shareholders' equity					Accumulated other comprehensive income						Non-controlling interests	Total net assets
		Common stock	Additional paid-in capital	Retained earnings	Treasury stock	Total shareholders' equity	Net unrealized gains or losses on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income			
Balance as of April 1, 2015	45,625	\$58,981	\$48,677	\$373,979	\$(15,175)	\$466,471	\$ 56,292	\$(1,792)	\$ 1,331	\$(3,869)	\$ 51,961	\$4,863	\$523,304	
Cumulative effects of changes in accounting policies.....	—	—	—	—	—	—	—	—	—	—	—	—	—	
Restated balance.....	45,625	58,981	48,677	373,979	(15,175)	466,471	56,292	(1,792)	1,331	(3,869)	51,961	4,863	523,304	
Dividends.....	—	—	—	(8,688)	—	(8,688)	—	—	—	—	—	—	(8,688)	
Profit attributable to owners of parent for the year ended March 31, 2016.....	—	—	—	27,112	—	27,112	—	—	—	—	—	—	27,112	
Change of scope of consolidation...	—	—	—	(488)	—	(488)	—	—	—	—	—	—	(488)	
Change of scope of equity method..	—	—	—	—	—	—	—	—	—	—	—	—	—	
Purchase of treasury stock.....	—	—	—	—	(0)	(0)	—	—	—	—	—	—	(0)	
Disposal of treasury stock.....	—	—	0	—	2,413	2,413	—	—	—	—	—	—	2,413	
Net changes of items other than those in shareholders' equity.....	—	—	—	—	—	—	(19,311)	1,526	(3,150)	(2,413)	(23,358)	896	(22,452)	
Balance as of March 31, 2016	45,625	\$58,981	\$48,677	\$391,915	\$(12,752)	\$486,829	\$ 36,971	\$ (266)	\$(1,819)	\$(6,283)	\$ 28,594	\$5,759	\$521,201	

See Notes to Consolidated Financial Statements.

Consolidated Statements of Cash Flows

TSUKISHIMA KIKAI CO., LTD. and its consolidated subsidiaries
Years ended March 31, 2016 and 2015

	Millions of yen (Note 1)		Thousands of U.S. dollars (Note 1)
	2016	2015	2016
Cash flows from operating activities:			
Profit before income taxes	¥ 5,065	¥ 5,794	\$ 44,950
Adjustments for:			
Depreciation and amortization	1,230	1,057	10,915
Impairment loss	—	274	—
Amortization of goodwill	210	46	1,863
Increase (decrease) in net defined benefit liability	67	(30)	594
Increase (decrease) in accrued bonus to employees	(19)	70	(168)
Increase (decrease) in reserve for retirement payments to officers	34	20	301
Increase (decrease) in allowance for doubtful accounts	111	104	985
Increase (decrease) in accrued warranty	(243)	(223)	(2,156)
Increase (decrease) in reserve for losses on contracts	(363)	275	(3,221)
Interest and dividend income	(335)	(327)	(2,973)
Interest expenses	112	85	993
Equity in (earnings) losses of affiliates	(44)	(5)	(390)
Loss (gain) on sales and disposal of property, plant and equipment	165	(102)	1,464
Loss (gain) on sales of investments in securities	(183)	(219)	(1,624)
Loss (gain) on valuation of investments in securities	343	—	3,044
(Increase) decrease in notes and accounts receivable	1,240	(8,658)	11,004
Increase (decrease) advances received	(982)	(2,104)	(8,714)
(Increase) decrease in inventories	1,300	498	11,537
Increase (decrease) in notes and accounts payable, trade	(2,542)	3,209	(22,559)
Other	(277)	2,146	(2,458)
Subtotal	4,890	1,911	43,397
Interest and dividend income received	342	335	3,035
Interest expenses paid	(113)	(86)	(1,002)
Income taxes paid	(2,170)	(2,865)	(19,258)
Net cash provided by (used in) operating activities	2,948	(704)	26,162
Cash flows from investing activities:			
Purchase of property, plant and equipment	(1,447)	(1,304)	(12,841)
Proceeds from sales of property, plant and equipment	0	616	0
Payments for retirement of property, plant and equipment	(162)	—	(1,437)
Purchase of intangible fixed assets	(298)	(118)	(2,644)
Purchase of investments in securities	(231)	(859)	(2,050)
Proceeds from sales of investments in securities	304	1,132	2,697
Purchase of shares of subsidiaries and associates	—	(4,325)	—
Payments for loans receivable	(41)	(27)	(363)
Collection of loans receivable	13	12	115
Other	59	17	523
Net cash provided by (used in) investing activities	(1,803)	(4,854)	(16,001)
Cash flows from financing activities			
Increase (decrease) in short-term loans payable	(454)	470	(4,029)
Proceeds from long-term loans payable	—	1,125	—
Repayments of long-term loans payable	(654)	(397)	(5,804)
Repayments of lease obligations	(203)	(186)	(1,801)
Proceeds from issuance of common stock assigned to non-controlling interests	—	16	—
Additions of treasury stock	(0)	(1,123)	(0)
Proceeds from sales of treasury stock	237	12	2,103
Dividends paid	(979)	(801)	(8,688)
Dividends paid to non-controlling interests	(24)	(19)	(212)
Net cash provided by (used in) financing activities	(2,078)	(904)	(18,441)
Effect of exchange rate change on cash and cash equivalents	(214)	222	(1,899)
Net increase (decrease) in cash and cash equivalents	(1,147)	(6,241)	(10,179)
Cash and cash equivalents at beginning of period (Notes 2, 7)	17,420	23,661	154,597
Increase in cash and cash equivalents from newly consolidated subsidiaries	1,306	—	11,590
Cash and cash equivalents at end of period (Notes 2, 7)	¥17,578	¥17,420	\$155,999

See Notes to Consolidated Financial Statements.

Notes to Consolidated Financial Statements

1. Basis of Presenting Consolidated Financial Statements

The accompanying consolidated financial statements of TSUKISHIMA KIKAI Co., Ltd. ("the Company") and its consolidated subsidiaries have been prepared from the financial statements filed with the Financial Services Agency as required by the Japanese Financial Instruments and Exchange Law in accordance with accounting principles and practices generally accepted in Japan, which are different from the accounting and disclosure requirements of International Accounting Standards.

Certain reclassifications have been made to present the accompanying consolidated financial statements in a format that is familiar to readers outside Japan.

For the convenience of the reader, the accompanying consolidated financial statements have been presented in U.S. dollars by translating all Japanese yen amounts at the exchange rate of ¥112.68 to \$1, the approximate rate of exchange at March 31, 2016.

Amounts less than ¥1 million have been rounded down. U.S. dollars are translated from these amounts and have been rounded down.

The total amounts in Japanese yen and translated U.S. dollars shown in the consolidated financial statements and notes do not necessarily agree with the sum of the individual amounts.

2. Summary of Significant Accounting Policies

(a) Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Company and its subsidiaries. Significant intercompany accounts and transactions have been eliminated in consolidation.

The 10 major subsidiaries that have been consolidated with the Company are listed below:

- Tsukishima Technology Maintenance Service Co., Ltd.
- SUN ECO THERMAL Co., Ltd.
- Tsukishima Kankyo Engineering Ltd.
- Samukawa Water Service Co., Ltd.
- Tsukishima Machine Sales Co., Ltd.
- Tsukishima Business Support Co., Ltd.
- TSK Engineering (Thailand) Co., Ltd.
- TSK Engineering China Co., Ltd.
- Daido Chemical Engineering Corp.
- BOKELA GmbH

Daido Chemical Engineering Corp. and BOKELA GmbH have become consolidated subsidiaries from this fiscal year because of their increased materiality.

The fiscal year-end of all entities is March 31, except for 3 consolidated foreign subsidiaries that use a December 31 year-end, and adjustment is made for any significant transactions between the different fiscal year-ends.

(b) Accounting for Investments in Unconsolidated Subsidiaries and Affiliates

The equity method is applied to the investments in 6 affiliates.

The cost method is applied to investments in the remaining unconsolidated subsidiaries and affiliates since they are not material for the consolidated financial statements.

The affiliates accounted for by the equity method are listed below:

- Edogawa Water Service Co., Ltd.
- Biocoal Hiroshima-West Co., Ltd.
- Biocoal Plant Service Co., Ltd.
- Biocoal Kumamoto-South Co., Ltd.
- Biocoal Osaka-Hirano Co., Ltd.
- Hybrid Chemical Co., Ltd.

(c) Marketable Securities and Investments in Securities

All of the Group's securities are classified as follows: i) Held-to-maturity securities, which management has the positive intent and ability to hold to maturity, are reported at amortized cost. ii) Available-for-sale securities are reported at fair value, with unrealized gains and losses, net of applicable taxes, reported in a separate component of net assets. The cost of securities sold is determined based on the moving-average method.

Non-marketable available-for-sale securities are stated at cost, determined by the moving-average method.

(d) Inventories

The Company and its consolidated subsidiaries apply the cost method based on the methods mentioned below, which determines the amount of inventories shown in the balance sheet by writing them down based on the decrease in their profitability.

- (1) Work in process is stated at cost, which is determined by the specific cost method.
- (2) Raw materials are stated at cost, which is determined by the periodic average method.
- (3) Supplies are stated at cost, which is determined by the moving-average method.

(e) Property, Plant and Equipment Excluding Lease Assets

Property, plant and equipment are carried at cost. Depreciation of property, plant and equipment of the Company and its consolidated domestic subsidiaries is principally computed by the declining balance method over the estimated useful lives of the assets, while the straight-line method is applied to buildings placed in service after April 1, 1998 (excluding facilities incidental to buildings), power generating equipment and property, plant and equipment of foreign subsidiaries. The range of useful lives is from 3 to 60 years for buildings and structures and from 2 to 20 years for machinery and equipment.

(f) Lease Assets

Depreciation of assets on finance leases that do not transfer ownership of the leased assets to the lessee are calculated by the straight-line method over the lease period with their residual value zero.

(g) Allowance for Doubtful Accounts

The allowance for doubtful accounts is provided for in an amount sufficient to cover possible losses on collection. It consists of the estimated uncollectible amount with respect to identified doubtful receivables and an amount calculated on the historical loss experience with respect to remaining receivables.

(h) Accrued Warranty

The accrued warranty is provided for based on amounts determined as a certain percentage (which is distinguished between domestic and overseas construction) of the amount of completed construction contracts for the year, which is computed as a ratio of the actual repair costs incurred under the warranty against the amounts of completed construction contracts during the past years.

In addition, the estimated repair costs for identified individual construction contracts are provided.

(i) Reserve for Losses on Contracts

A reserve for losses on contracts is provided for an estimated amount of probable losses to be incurred in future years in respect of construction projects in progress.

(j) Net Defined Benefit Liability

The benefit formula basis is applied as the method for attributing the expected retirement benefit to periods of service for the calculation of the retirement benefit obligation.

Actuarial differences are amortized over a seven-year period, which is within the average remaining service period of employees, using the straight-line method from the fiscal year following the respective fiscal year of recognition.

Prior service cost is amortized as incurred over a eleven-year or a fourteen-year period, which is within the average remaining service period of employees, using the straight-line method from the time when the prior service cost was generated.

Certain consolidated subsidiaries use the simplified method for the calculation of projected benefit obligations.

(k) Reserve for Retirement Payments to Officers

Certain of the Company's consolidated subsidiaries have provided for reserve for retirement payments to officers under the retirement benefits plan, which are calculated by the estimated amount to be paid if all officers retired at the balance sheet date.

With respect to officers' resignations, the retirement payments calculated under the retirement benefits plan are normally paid subject to approval of the shareholders. The retirement payments to officers should be provided for when such costs can be reasonably estimated.

(l) Income Taxes

The Company and its consolidated subsidiaries have adopted the asset-liability method of tax effect accounting to recognize the effect of all temporary differences in the recognition of the tax basis assets and liabilities and their financial reporting amounts.

(m) Translation of Foreign Currency Financial Statements of Foreign Subsidiaries

In translating the financial statements of foreign subsidiaries into Japanese yen, all assets and liabilities are translated into yen at current exchange rates while capital accounts and retained earnings are translated at historical rates, and revenue and expense items are translated at the average exchange rates during the year. The resulting translation adjustments are shown as "Foreign currency translation adjustment" in the accompanying consolidated balance sheets as of March 31, 2016 and 2015.

(n) Research and Development Costs

Research and development costs are charged to income as incurred.

(o) Recognition of Contract Revenue

The Company and its consolidated subsidiaries apply the percentage-of-completion method for the construction contracts that fulfill the conditions that the outcome of the construction activity is deemed certain during the course of the activity. Otherwise, the Company and its consolidated subsidiaries apply the completed-contract method.

(p) Goodwill

Any difference between the cost of an investment in a subsidiary and the amount of underlying equity in net assets of the subsidiary is treated as an asset, as the case may be, and amortized over a period of 10 or 20 years using the straight-line method.

(q) Cash Equivalents

For the purpose of the consolidated statements of cash flows, cash and cash equivalents include cash on hand, at-call deposits with banks, and highly liquid investments that can be withdrawn without any restriction and with minimum market risk.

(r) Derivative Financial Instruments

The Company and certain consolidated subsidiaries use derivative financial instruments to manage their exposures to fluctuations in foreign exchange and interest rates. Foreign exchange forward contracts and interest rate swaps are utilized by the Company and certain consolidated subsidiaries to reduce foreign currency exchange risks and interest rate risks.

If interest rate swap contracts meet certain hedging criteria, the net amount to be paid or received under these swap contracts are added to or deducted from the interest on the assets or liabilities for which the swap contracts were executed ("Short-cut method").

The Company and certain consolidated subsidiaries do not enter into derivatives for trading or speculative purposes.

3. Change in Accounting Policy

The Company has applied the revised "Accounting Standard for Business Combinations" (ASBJ Statement No. 21, September 13, 2013), the "Accounting Standard for Consolidated Financial Statements" (ASBJ Statement No. 22, September 13, 2013), and the "Accounting Standard for Business Divestitures" (ASBJ Statement No. 7, September 13, 2013), from this consolidated fiscal year. As a result, differences arising from changes in the equity portion of subsidiaries that the Company continues to control are entered in additional paid-in capital, and costs associated with the acquisition of shares are treated as expenses in the consolidated fiscal year in which they are incurred.

In addition, for business combinations which occur after the beginning of the current consolidated fiscal year, any change to the allocation of the acquisition cost arising from confirmation of the provisional accounting treatment must now be reflected in the consolidated financial statements for the year in which the business combination occurred.

Furthermore, the Company has changed some of the presentation methods of net income, and "Minority interests" to "Non-controlling interests". To reflect these changes, the Company has reclassified its consolidated financial statements for the previous consolidated fiscal year.

The Company has applied these standards in accordance with the transitional treatment prescribed in Article 58-2 (4) of the "Business Combinations Accounting Standard", Article 44-5 (4) of the "Consolidated Financial Statements Accounting Standard", and Article 57-4 (4) of the "Business Divestitures Accounting Standard", and will continue to apply these standards from the beginning of this consolidated fiscal year into the future.

In the consolidated cash flow statements for this consolidated fiscal year, the cash flows related to purchases or sales of shares of subsidiaries that are not accompanied by a change in the scope of consolidation have been included in "Cash flows from financing activities", and cash flows related to expenses arising due to purchases of shares of subsidiaries accompanied by a change in the scope of consolidation or cash flows related to expenses due to purchases or sales of shares of subsidiaries that are not accompanied by a change in the scope of consolidation have been included in "Cash flows from operating activities".

These changes in accounting policies have no effect on the consolidated financial statements and per share information for this consolidated fiscal year.

4. New Accounting Pronouncement

Implementation Guidance on Recoverability of Deferred Tax Assets (ASBJ Guidance No. 26 as of March 28, 2016)

(1) Summary

Regarding the treatments of recoverability of deferred tax assets, the treatments below have been revised basically following the framework of the JICPA Audit Committee Report No.66 "Audit Treatment of Judgments with Regard to Recoverability of Deferred Tax Assets" in which entities are classified into five categories and the amounts of deferred tax assets are estimated according to such categories.

- (i) Treatment of companies that do not satisfy any of the category criteria from (Category 1) to (Category 5)
- (ii) Category criteria of (Category 2) and (Category 3).
- (iii) Treatment of unscheduled deductible temporary differences for companies in (Category 2)
- (iv) Treatment of the reasonable estimable period for taxable income before adjusting for deductible or taxable temporary differences for companies in (Category 3)
- (v) Treatment of companies satisfying the category criteria of (Category 4) and also meeting those of (Category 2) or (Category 3)

(2) Effective date

The standard will be applied from the beginning of the fiscal year ending March 31, 2017.

(3) Effects of application of the standard

The effects of the application are under evaluation at the time of preparing these consolidated financial statements.

5. Additional Information

(Trust Type Employee Stock Ownership Incentive Plan)

To enhance employee benefits and welfare, the Company delivers its own stock through a trust to the employee shareholding association.

(1) Overview

Under the resolution adopted on February 26, 2015, the Company introduced an employee shareholding incentive plan through a trust (E-Ship, "the Plan"). The purpose of the Plan is to provide an incentive for the Company's employees to help enhance the Company's enterprise value in the medium to long term, to expand employee benefits and welfare, and to encourage the continuous development of the Company by boosting employees' morale through their capital participation as shareholders.

The Plan is an incentive plan for all employees who are members of the Tsukishima Kikai Employee Shareholding Association ("the Shareholding Association"). In the Plan the Company has set up a trust exclusively for the Shareholding Association ("the E-Ship Trust") at a trust bank. The E-Ship Trust acquires shares of the Company that it anticipates the Shareholding Association will acquire in five years using borrowed money.

Subsequently, the E-Ship Trust regularly sells shares of the Company to the Shareholding Association. If the equivalent of gains on sale of shares is accumulated upon termination of the trust, it will be distributed to qualified beneficiaries as residual assets. The Company provides loan guarantees for the E-Ship's borrowings to purchase shares of the Company, and if the E-Ship has outstanding debts equivalent to losses on sale of shares upon termination of the trust, the Company will repay the outstanding debts under the guarantee agreement.

(2) The Company's shares remaining in the trust

The Company posts the book value of shares of the Company that are not sold to the Shareholding Association and, therefore, remaining in the trust (excluding incidental expenses), as treasury stock in net assets. The book value and the number of shares of treasury stock were ¥836 million (\$7,419 thousand) and 636 thousand shares, for the year ended March 31, 2016 and ¥1,109 million and 843 thousand shares, for the year ended March 31, 2015.

(3) The book value of borrowings posted using the "Gross method"

¥867 million (\$7,694 thousand) and ¥1,112 million for the years ended March 31, 2016 and 2015, respectively.

6. Other Comprehensive Income

Reclassification adjustments and tax effects of each component of other comprehensive income for the fiscal year ended March 31, 2016 and 2015 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Net unrealized gains or losses on available-for-sale securities			
Amount arising during the year	¥(3,528)	¥2,554	\$(31,309)
Reclassification adjustments.....	159	(219)	1,411
Net unrealized gains or losses on available-for-sale securities before tax effect....	(3,369)	2,335	(29,898)
Tax effect.....	1,192	(522)	10,578
Net unrealized gains or losses on available-for-sale securities.....	(2,176)	1,812	(19,311)
Deferred gains or losses on hedges			
Amount arising during the year	238	(250)	2,112
Reclassification adjustments.....	20	21	177
Deferred gains or losses on hedges before tax effect.....	258	(228)	2,289
Tax effect.....	(86)	73	(763)
Deferred gains or losses on hedges.....	172	(154)	1,526
Foreign currency translation adjustment			
Amount arising during the year	(419)	142	(3,718)
Tax effect.....	—	—	—
Foreign currency translation adjustment	(419)	142	(3,718)
Remeasurements of defined benefit plans			
Amount arising during the year	(508)	(251)	(4,508)
Reclassification adjustments.....	132	135	1,171
Remeasurements of defined benefit plans before tax effect.....	(376)	(115)	(3,336)
Tax effect.....	104	19	922
Remeasurements of defined benefit plans	(272)	(95)	(2,413)
Share of other comprehensive income of associates accounted for using equity method			
Amount arising during the year	(2)	(0)	(17)
Reclassification adjustments.....	1	1	8
Share of other comprehensive income of associates accounted for using equity method	(0)	0	(0)
Total other comprehensive income	¥(2,696)	¥1,704	\$(23,926)

7. Cash and Cash Equivalents

Cash and cash equivalents as of March 31, 2016 and 2015 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Cash and time deposits.....	¥17,698	¥15,920	\$157,064
Marketable securities.....	—	1,500	—
Less: time deposits that mature or become due over three months after the date of acquisition.....	(120)	—	(1,064)
Cash and cash equivalents.....	¥17,578	¥17,420	\$155,999

8. Financial Instruments

Amounts on the consolidated balance sheets as of March 31, 2016 and 2015, fair value and variance were as follows:

	Millions of yen		
	2016		
	Amounts on the consolidated Balance Sheets	Fair value	Variance
(1) Cash and time deposits.....	¥17,698	¥17,698	¥ —
(2) Notes and accounts receivable.....	40,871	40,813	(58)
(3) Marketable securities and Investments in securities			
Held to maturity securities.....	164	187	22
Other securities.....	16,392	16,392	—
Total.....	75,127	75,091	(35)
(4) Notes and accounts payable-trade.....	12,348	12,348	—
(5) Electronically recorded obligations.....	3,639	3,639	—
(6) Short-term loans payable.....	128	128	—
(7) Long-term loans payable (Include portion due within one year).....	3,813	3,835	21
Total.....	19,930	19,951	21
(8) Derivative transactions*.....	¥ (47)	¥ (49)	¥ (2)

	Millions of yen		
	2015		
	Amounts on the consolidated Balance Sheets	Fair value	Variance
(1) Cash and time deposits.....	¥15,920	¥15,920	¥ —
(2) Notes and accounts receivable	41,846	41,667	(179)
(3) Marketable securities and Investments in securities			
Held to maturity securities.....	—	—	—
Other securities.....	21,631	21,631	—
Total.....	79,398	79,218	(179)
(4) Notes and accounts payable-trade.....	18,021	18,021	—
(5) Electronically recorded obligations	—	—	—
(6) Short-term loans payable.....	592	592	—
(7) Long-term loans payable (Include portion due within one year).....	4,330	4,342	11
Total.....	22,945	22,957	11
(8) Derivative transactions*	¥ (306)	¥ (363)	¥ (57)

	Thousands of U.S. dollars		
	2016		
	Amounts on the consolidated Balance Sheets	Fair value	Variance
(1) Cash and time deposits.....	\$157,064	\$157,064	\$ —
(2) Notes and accounts receivable	362,717	362,202	(514)
(3) Marketable securities and Investments in securities			
Held to maturity securities.....	1,455	1,659	195
Other securities.....	145,473	145,473	—
Total.....	666,728	666,409	(310)
(4) Notes and accounts payable-trade.....	109,584	109,584	—
(5) Electronically recorded obligations	32,294	32,294	—
(6) Short-term loans payable.....	1,135	1,135	—
(7) Long-term loans payable (Include portion due within one year).....	33,839	34,034	186
Total.....	176,872	177,058	186
(8) Derivative transactions*	\$ (417)	\$ (434)	\$ (17)

*Receivables and payables arising from derivative transactions are presented on a net basis, and if the total represents a liability, it is indicated in parentheses.

Notes a. Method of measurement of fair values of financial instruments and matters concerning securities and derivative transactions

(1) Cash and time deposits

As these items are settled in a short period of time and the fair value is almost equal to the book value, their book value is presented.

(2) Notes and accounts receivable

As these items are settled in a short period of time and the fair value is almost equal to the book value, their book value is presented. However, the fair value of accounts receivable-installment is measured by taking the debtor's financial position into consideration due to the long-term repayment period, and discounted at the interest rate determined by the debtor's financial position.

(3) Marketable securities and Investments in securities

Marketable securities are negotiable certificate of deposit and settled in a short period of time and the fair value is almost equal to the book value, their book value is presented. Debt securities are valued based on the prices provided by correspondent financial institutions. Investment securities are valued at the exchange trading price.

- (4) Notes and accounts payable-trade
As these items are settled in a short period of time and the fair value is almost equal to the book value, their book value is presented.
- (5) Electronically recorded obligations
As these items are settled in a short period of time and the fair value is almost equal to the book value, their book value is presented.
- (6) Short-term loans payable
As these items are settled in a short period of time and the fair value is almost equal to the book value, their book value is presented.
- (7) Long-term loans payable(Include portion due within one year)
The fair values of long-term loans payable are determined by discounting the aggregate amount of the principal and interest at the rate assumed based on interest rates on government securities and credit risk.
For long-term loans payable bearing variable interest rates, in cases subject to the short-cut method with interest rate swaps, the fair value is estimated based on the total of principal and interest under the short-cut method discounted by the interest rate that would be applied if similar new loans payable were entered into.
For other long-term loans payable bearing variable interest rates, book value is used as fair value, as this is deemed to reflect market interest rates within a short term.
- (8) Derivative transactions
The fair values of derivative transactions qualifying for hedge accounting are the forward quotation or the price presented by correspondent financial institutions.
The fair value of interest-rate swaps accounted for by the short-cut method is included in the fair value of long-term loans payable which is designated as the hedged item.

b. The following table summarizes financial instruments whose fair value is extremely difficult to estimate.

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Non-listed stocks.....	¥686	¥ 713	\$6,088
Non-consolidated subsidiary and associated company stocks.....	¥234	¥4,446	\$2,076

c. The aggregate maturities of monetary claims and securities with maturity outstanding as of March 31, 2016 and 2015 were as follows:

	Millions of yen			
	2016			
	Within 1 year	Over 1 year Within 5 years	Over 5 years Within 10 years	Over 10 years
Cash and time deposits.....	¥17,698	¥ —	¥ —	¥ —
Notes and accounts receivable.....	37,878	1,362	1,552	77
Marketable securities and Investments in securities				
Held to maturity securities.....	—	—	—	205
Other securities.....	—	—	—	—
Total.....	¥55,577	¥1,362	¥1,552	¥282

	Millions of yen			
	2015			
	Within 1 year	Over 1 year Within 5 years	Over 5 years Within 10 years	Over 10 years
Cash and time deposits.....	¥15,920	¥ —	¥ —	¥ —
Notes and accounts receivable.....	38,505	1,370	1,584	386
Marketable securities and Investments in securities				
Held to maturity securities.....	—	—	—	—
Other securities.....	1,500	—	—	—
Total.....	¥55,925	¥1,370	¥1,584	¥386

	Thousands of U.S. dollars			
	2016			
	Within 1 year	Over 1 year Within 5 years	Over 5 years Within 10 years	Over 10 years
Cash and time deposits.....	\$157,064	\$ —	\$ —	\$ —
Notes and accounts receivable.....	336,155	12,087	13,773	683
Marketable securities and Investments in securities				
Held to maturity securities.....	—	—	—	1,819
Other securities.....	—	—	—	—
Total.....	\$493,228	\$12,087	\$13,773	\$2,502

d. The aggregate maturities of long-term loans payable outstanding as of March 31, 2016 and 2015 were as follows:

	Millions of yen					
	2016					
	Within 1 year	Over 1 year Within 2 years	Over 2 years Within 3 years	Over 3 years Within 4 years	Over 4 years Within 5 years	Over 5 years
Short-term loans payable.....	¥128	¥ —	¥ —	¥ —	¥ —	¥ —
Long-term loans payable (Include portion due within one year)...	367	315	319	1,151	278	1,381
Total.....	¥496	¥315	¥319	¥1,151	¥278	¥1,381

	Millions of yen					
	2015					
	Within 1 year	Over 1 year Within 2 years	Over 2 years Within 3 years	Over 3 years Within 4 years	Over 4 years Within 5 years	Over 5 years
Short-term loans payable.....	¥592	¥ —	¥ —	¥ —	¥ —	¥ —
Long-term loans payable (Include portion due within one year)...	390	325	273	279	1,397	1,664
Total.....	¥983	¥325	¥273	¥279	¥1,397	¥1,664

	Thousands of U.S. dollars					
	2016					
	Within 1 year	Over 1 year Within 2 years	Over 2 years Within 3 years	Over 3 years Within 4 years	Over 4 years Within 5 years	Over 5 years
Short-term loans payable.....	\$1,135	\$ —	\$ —	\$ —	\$ —	\$ —
Long-term loans payable (Include portion due within one year)...	3,257	2,795	2,831	10,214	2,467	12,255
Total.....	\$4,401	\$2,795	\$2,831	\$10,214	\$2,467	\$12,255

9. Marketable Securities and Investments in Securities

The carrying amounts and aggregate fair values of marketable and investment securities at March 31, 2016 and 2015 were as follows:

	Millions of yen			
	2016			
	Cost	Unrealized gains	Unrealized losses	Fair value
Securities classified as:				
Available-for-sale:				
Equity securities	¥10,403	¥6,606	¥(617)	¥16,392
Others.....	—	—	—	—
	¥10,403	¥6,606	¥(617)	¥16,392
Held-to-maturity securities.....	¥ 164	¥ 22	¥ —	¥ 187

	Millions of yen			
	2015			
	Cost	Unrealized gains	Unrealized losses	Fair value
Securities classified as:				
Available-for-sale:				
Equity securities	¥10,802	¥9,910	¥(582)	¥20,131
Others.....	1,500	—	—	1,500
	¥12,302	¥9,910	¥(582)	¥21,631
Held-to-maturity securities.....	¥ —	¥ —	¥ —	¥ —

	Thousands of U.S. dollars			
	2016			
	Cost	Unrealized gains	Unrealized losses	Fair value
Securities classified as:				
Available-for-sale:				
Equity securities	\$92,323	\$58,626	\$(5,475)	\$145,473
Others.....	—	—	—	—
	\$92,323	\$58,626	\$(5,475)	\$145,473
Held-to-maturity securities.....	\$ 1,455	\$ 195	\$ —	\$ 1,659

10. Derivative Transactions

Derivative financial instruments with fair value as of March 31, 2016 and 2015 were as follows:

(a) Derivative transactions not qualifying for hedge accounting

There is not the matter.

(b) Derivative transactions qualifying for hedge accounting

(1) Currency-rated

(Foreign exchange contracts and other derivative transactions qualifying for designation accounting)

		Millions of yen		
		2016		
		Contracts outstanding	Contracts outstanding (Over one year)	Fair value
Forward foreign currency exchange contracts:	Principal items hedged:			
Sell U.S. dollar, buy Japanese yen	Accounts receivable.....	¥1,908	¥—	¥ (2)
Buy U.S. dollar, sell Japanese yen	Accounts payable-trade.....	254	—	(13)
Buy Euro, sell Japanese yen	.....	91	—	(3)
Buy Singapore dollar, sell Japanese yen	.....	39	—	(1)
Buy Thai baht, sell Japanese yen	.....	31	—	(3)
Buy Chinese yuan, sell Japanese yen	.....	3	—	(0)
Total.....		¥2,329	¥—	¥(24)

		Millions of yen		
		2015		
		Contracts outstanding	Contracts outstanding (Over one year)	Fair value
Forward foreign currency exchange contracts:	Principal items hedged:			
Sell U.S. dollar, buy Japanese yen	Accounts receivable.....	¥2,405	¥—	¥(322)
Sell Euro, buy Japanese yen	.....	86	—	5
Sell Chinese yuan, buy Japanese yen	.....	43	—	(16)
Sell Singapore dollar, buy Japanese yen	.....	21	—	(0)
Sell Thai baht, buy Japanese yen	.....	11	—	(2)
Buy U.S. dollar, sell Japanese yen	Accounts payable-trade.....	363	—	3
Buy Euro, sell Japanese yen	.....	124	—	(8)
Buy Thai baht, sell Japanese yen	.....	29	—	4
Total.....		¥3,086	¥—	¥(338)

		Thousands of U.S. dollars		
		2016		
		Contracts outstanding	Contracts outstanding (Over one year)	Fair value
Forward foreign currency exchange contracts:	Principal items hedged:			
Sell U.S. dollar, buy Japanese yen	Accounts receivable.....	\$16,932	\$—	\$ (17)
Buy U.S. dollar, sell Japanese yen	Accounts payable-trade.....	2,254	—	(115)
Buy Euro, sell Japanese yen	.....	807	—	(26)
Buy Singapore dollar, sell Japanese yen	.....	346	—	(8)
Buy Thai baht, sell Japanese yen	.....	275	—	(26)
Buy Chinese yuan, sell Japanese yen	.....	26	—	(0)
Total.....		\$20,669	\$—	\$(212)

(2) Interest rate-related
(Derivative transactions qualifying for principle method or short-cut method)

		Millions of yen		
		2016		
		Contracts outstanding	Contracts outstanding (Over one year)	Fair value
Interest rate swaps:	Principal items hedged:			
(Principle method)				
Receive floating, pay fixed	Long-term loans payable	¥2,696	¥2,436	¥(25)
(Short-cut method)				
Receive floating, pay fixed	Long-term loans payable	50	—	Notes b.
Total.....		¥2,746	¥2,436	¥(25)

		Millions of yen		
		2015		
		Contracts outstanding	Contracts outstanding (Over one year)	Fair value
Interest rate swaps:	Principal items hedged:			
(Principle method)				
Receive floating, pay fixed	Long-term loans payable	¥2,969	¥2,696	¥(24)
(Short-cut method)				
Receive floating, pay fixed	Long-term loans payable	150	50	Notes b.
Total.....		¥3,119	¥2,746	¥(24)

		Thousands of U.S. dollars		
		2016		
		Contracts outstanding	Contracts outstanding (Over one year)	Fair value
Interest rate swaps:	Principal items hedged:			
(Principle method)				
Receive floating, pay fixed	Long-term loans payable	\$23,926	\$21,618	\$(221)
(Short-cut method)				
Receive floating, pay fixed	Long-term loans payable	443	—	Notes b.
Total.....		\$24,369	\$21,618	\$(221)

Notes a. The fair value is the price presented by correspondent financial institutions.

b. The fair value of interest-rate swaps accounted for by the short-cut method is included in the fair value of long-term loans payable which is designated as the hedged item.

11. Short-term Loans Payable, Long-term Loans Payable and Lease Obligations

Short-term loans payable are represented by 12-month notes, and the weighted average interest rates applicable to such loans payable as of March 31, 2016 and 2015 were approximately 4.8 percent and 5.7 percent, respectively.

Interest rates of long-term loans payable as of March 31, 2016 and 2015 were between 0.47 percent and 6.00 percent and 0.54 percent and 4.00 percent respectively.

Long-term loans payable as of March 31, 2016 and 2015 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Loans payable, due 2026.....	¥3,813	¥4,330	\$33,839
Less: portion due within one year.....	(367)	(390)	(3,257)
	¥3,445	¥3,939	\$30,573

Lease obligations as of March 31, 2016 and 2015 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Current.....	¥187	¥183	\$1,659
Non-current.....	268	350	2,378
	¥455	¥534	\$4,037

The following assets were pledged as collateral for the long-term loans payable of ¥2,815 million (\$24,982 thousand) and ¥2,969 million for the year ended March 31, 2016 and 2015, respectively.

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Deposit.....	¥604	¥639	\$5,360
Account receivable.....	194	157	1,721
Buildings.....	139	—	1,233
Land.....	44	—	390
	¥983	¥797	\$8,723

The following assets were pledged as collateral for the long-term loans payable at affiliated companies and others of ¥4,878 million (\$43,290 thousand) and ¥5,104 million for the year ended March 31, 2016 and 2015, respectively.

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Short-term loans receivable	¥ 12	¥ 9	\$ 106
Investments in securities	44	40	390
Long-term loans receivable.....	185	169	1,641
	¥242	¥219	\$2,147

*Other than the above collateral assets, investment security was deposited with Osaka city as the contract guarantee for electric power generating business, totaling ¥164 million (\$1,455 thousand) for the year ended March 31, 2016.

12. Net Defined Benefit Liability

The reconciliation of the beginning and ending balances of defined benefit obligation were as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Balance at beginning of year	¥7,476	¥7,296	\$66,347
Cumulative effects of changes in accounting policies.....	—	(106)	—
Restated balance	7,476	7,190	66,347
Service costs	473	433	4,197
Interest costs	77	94	683
Actuarial differences	478	373	4,242
Benefit paid	(477)	(460)	(4,233)
Other	—	(154)	—
Balance at end of year	¥8,029	¥7,476	\$71,254

The reconciliation of the beginning and ending balances of pension assets were as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Balance at beginning of year	¥1,131	¥918	\$10,037
Expected return on pension assets.....	16	13	141
Actuarial differences	(29)	122	(257)
Contribution by the employer.....	216	194	1,916
Benefit paid	(98)	(116)	(869)
Balance at end of year	¥1,236	¥1,131	\$10,969

The reconciliation of the beginning and ending balances of net defined benefit liability accounted for by the simplified method were as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Balance at beginning of year	¥464	¥450	\$4,117
Retirement benefit expenses.....	64	60	567
Benefit paid	(68)	(48)	(603)
Other.....	(1)	1	(8)
Change of scope of consolidation.....	32	—	283
Balance at end of year	¥491	¥464	\$4,357

The reconciliation of the defined benefit obligations and pension assets to net defined benefit liability recognized in the consolidated balance sheet as of March 31, 2016 and 2015, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Funded defined benefit obligations.....	¥ 1,616	¥ 1,526	\$ 14,341
Pension assets	(1,236)	(1,131)	(10,969)
	379	395	3,363
Unfunded defined benefit obligations.....	6,904	6,414	61,270
Net amount of liability and asset recognized in the consolidated balance sheet.....	7,284	6,809	64,643
Net defined benefit liability	7,284	6,809	64,643
Net defined benefit asset	—	—	—

Retirement benefit expenses for the year ended March 31, 2016 and 2015 consisted of the followings:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Service costs	¥473	¥433	\$4,197
Interest costs	77	94	683
Expected return on pension assets.....	(16)	(13)	(141)
Actuarial differences recognized in the year	147	137	1,304
Prior service cost recognized in the year.....	(15)	(15)	(133)
Retirement benefit expenses accounted for by the simplified method.....	64	60	567
Retirement benefit expenses for the defined retirement benefit plan	¥730	¥696	\$6,478
Gain on changing to the defined contribution pension plan.....	¥ —	¥ (25)	\$ —

The breakdown of remeasurements of defined benefit plans in other comprehensive income (before tax effects) for the year ended March 31, 2016 and 2015, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Prior service cost.....	¥ (15)	¥ (15)	\$ (133)
Actuarial differences	(360)	(100)	(3,194)
	¥(376)	¥(115)	\$(3,336)

The breakdown of remeasurements of defined benefit plans in accumulated other comprehensive income (before tax effects) as of March 31, 2016 and 2015, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Unrecognized prior service cost.....	¥ 47	¥ 31	\$ 417
Unrecognized actuarial differences	973	612	8,635
	¥1,020	¥644	\$9,052

The breakdown of pension assets by major category as of March 31, 2016 and 2015, were as follows:

	2016	2015
Bonds.....	31.8%	24.3%
Stocks.....	24.6	52.6
Insurance company general accounts.....	20.2	19.6
Alternative investments	19.8	—
Other.....	3.6	3.5
Total.....	100.0%	100.0%

*Alternative investments are mainly investments of real estate and hedge funds

Major actuarial assumptions as of March 31, 2016 and 2015, were as follows:

	2016	2015
Discount rate.....	0.5–0.6%	1.0–1.1%
Expected rate of return on pension assets.....	1.5%	1.5%

Defined contribution pension plan

The amount of contribution required for the defined contribution pension plan paid by the Company were ¥72 million (\$638 thousand) and ¥69 million for the years ended March 31, 2016 and 2015, respectively.

13. Research and Development Costs

Research and development costs charged to income for the years ended March 31, 2016 and 2015 amounted to ¥1,059 million (\$9,398 thousand) and ¥1,109 million, respectively.

14. Income Taxes

Income tax applicable to the Company and its consolidated subsidiaries consists of corporate income tax, enterprise taxes and corporate inhabitants' taxes.

The effective income tax rate of the Company and its consolidated subsidiaries differs from the statutory tax rate for the following reasons:

	2016	2015
Statutory tax rate.....	33.1%	35.6%
Expenses not deductible for tax purposes.....	2.3	2.4
Non-taxable dividend income.....	(0.4)	(0.8)
Per capita levy of inhabitant taxes.....	0.6	0.6
Valuation allowance.....	1.5	(0.3)
Effects from the income tax rate change.....	2.4	4.6
Tax credit of experiment and research expenses.....	(1.6)	(1.5)
Other—net.....	(0.3)	0.3
Effective tax rate.....	37.6%	40.9%

Deferred tax assets and liabilities at March 31, 2016 and 2015 were composed of the following:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Deferred tax assets:			
Accrued cost of sales.....	¥ 238	¥ 504	\$ 2,112
Accrued enterprise taxes.....	46	80	408
Reserve for losses on contracts.....	87	213	772
Accrued warranty.....	203	301	1,801
Net defined benefit liability.....	2,233	2,203	19,817
Unrealized profit.....	31	37	275
Accrued bonus to employees.....	583	631	5,173
Tax loss carryforward.....	10	1	88
Allowance for doubtful accounts.....	215	170	1,908
Long-term accounts payable-other.....	52	93	461
Impairment loss.....	190	307	1,686
Others.....	722	817	6,407
Less: valuation allowance.....	(665)	(629)	(5,901)
Total deferred tax assets.....	¥ 3,949	¥ 4,735	\$ 35,046
Deferred tax liabilities:			
Reserve for deferred gains on sales of fixed assets for tax purposes.....	¥(1,044)	¥(1,144)	\$ (9,265)
Net unrealized gains on available-for-sale securities.....	(1,839)	(3,031)	(16,320)
Others.....	(96)	(62)	(851)
Total deferred tax liabilities.....	(2,979)	(4,238)	(26,437)
Net deferred tax assets (liabilities).....	¥ 969	¥ 496	\$ 8,599

Revisions in the Amounts of Deferred Tax Assets and Deferred Tax Liabilities as a Result of a Change in the Corporate Tax Rate

Due to the enactment of the Act for Partial Revision of the Income Tax Act, etc. and the Act for Partial Revision of the Local Tax Act, etc. on March 29, 2016, the effective statutory tax rate used to calculate deferred tax assets and deferred tax liabilities for this consolidated fiscal year (limited to those cancelled after April 1, 2016) has been changed from 32.3% of the previous consolidated fiscal year to 30.9% for those recovered or expected to be recovered between April 1, 2016 to March 31, 2018, and to 30.6% for those recovered or expected to be recovered after April 1, 2018.

As a result, deferred tax assets (the amount after deducting deferred tax liabilities) decreased by ¥35 million (\$310 thousand), deferred gains or losses on hedges decreased by ¥0 million (\$0 thousand), remeasurements of defined benefit plans decreased by ¥17 million (\$150 thousand), income tax deferred recognized this consolidated fiscal year increased by ¥120 million (\$1,064 thousand) and net unrealized gains or losses on available-for-sale securities increased by ¥103 million (\$914 thousand).

15. Contingent Liability

The Company and its consolidated subsidiaries were contingently liable for the following items:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Guarantees for indebtedness of employees.....	¥ 2	¥ 2	\$ 17
Guarantees liability for performance guarantees insurance contracts of affiliates for PFI business.....	843	843	7,481
Notes receivable endorsed.....	16	15	141
	¥862	¥861	\$7,649

16. Other Income/ (Expenses)—Other, Net

Other income/(expenses)—other, net consisted of the following items:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Gain on insurance.....	¥ 0	¥ 36	\$ 0
Reversal of allowance for doubtful accounts.....	23	25	204
Other, net.....	(181)	199	(1,606)
	¥(157)	¥262	\$(1,393)

17. Subsequent Events

Appropriation of Retained Earnings

The following appropriation of retained earnings of the Company, which has not been reflected in the accompanying consolidated financial statements for the year ended March 31, 2016 was approved at the Board of Directors meeting held on May 26, 2016

	Millions of yen	Thousands of U.S. dollars
Year-end dividends of ¥9.00 (\$0.07) per share	¥400	\$3,549

18. Finance Leases

1. Finance leases (Lessee)

Finance leases which do not transfer ownership

(1) Leased assets

- (i) Tangible assets: Mainly system server, office equipment and communication equipment.
- (ii) Intangible assets: Software

(2) Depreciation method for lease assets

Refer to Note 2. "Summary of Significant Accounting Policies"

2. Operating lease (Lessee)

Future lease payments for the non-cancelable portion of the Company and its subsidiaries' operating leases at March 31, 2016 and 2015, were as follows

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Due within one year.....	¥11	¥ 8	\$ 97
Due after one year.....	21	14	186
Total.....	¥33	¥23	\$292

19. Segment Information

(a) Description of reportable segments

The Tsukishima Kikai Group's reportable segments are those for which separately financial information is available and regular evaluation by the Company's management is being performed in order to decide how resources are allocated among the Tsukishima Kikai Group.

The Tsukishima Kikai Group conducts Water environmental business and Industrial business mainly. Therefore, these 2 business are specified as reportable segments.

Water environmental business:

- 1) Design and construction of water purification plants and wastewater treatment plants
- 2) Design, manufacture and sales of equipment and machinery used in the above plants
- 3) PFI and DBO business of water purification plants and wastewater treatment plants
- 4) Operation and maintenance of water purification plants and wastewater treatment plants
- 5) Electric power generating business in wastewater treatment plants

Industrial business:

- 1) Design and construction of chemical plants, iron and steel plants and food plants
- 2) Design, manufacture and sales of process equipment used in the above plants
- 3) Design and construction of waste liquid plants, wastewater plants, solid waste treatment plants, etc.
- 4) Design and construction of biomass ethanol plants
- 5) Industrial general waste treatment business

(b) Methods of measurement for the amounts of sales, income, assets, liabilities and other items of reportable segments

The accounting policies of each reportable segment are consistent to those disclosed in Note 2, "Summary of Significant Accounting Policies."

Segment income is based on operating income. The same or similar general business conditions are applied to "Sales to external customers" and "Intersegment sales or transfers." Assets are not allocated in the reportable segments.

(c) Information regarding income (loss) and others of reportable segments

	Year ended March 31, 2016							Consolidated financial statements
	Reporting segments						Adjustment	
	Water environmental business	Industrial business	Subtotal	Other	Total			
Sales:								
Sales to external customers.....	¥43,105	¥32,618	¥75,724	¥ 34	¥75,758	¥ —	¥75,758	
Inter-segment sales or transfers	—	5	5	265	270	(270)	—	
Total.....	43,105	32,624	75,729	299	76,029	(270)	75,758	
Segment income (loss).....	3,130	2,313	5,443	41	5,485	—	5,485	
Depreciation and amortization.....	711	516	1,227	2	1,230	—	1,230	
Amortization of goodwill.....	¥ —	¥ 210	¥ 210	¥ —	¥ 210	¥ —	¥ 210	

	Year ended March 31, 2015							Consolidated financial statements
	Reporting segments						Adjustment	
	Water environmental business	Industrial business	Subtotal	Other	Total			
Sales:								
Sales to external customers.....	¥44,893	¥30,696	¥75,589	¥ 50	¥75,639	¥ —	¥75,639	
Inter-segment sales or transfers	4	7	11	326	337	(337)	—	
Total.....	44,897	30,703	75,600	376	75,977	(337)	75,639	
Segment income (loss).....	4,318	883	5,201	71	5,273	—	5,273	
Depreciation and amortization.....	579	458	1,037	2	1,039	—	1,039	
Amortization of goodwill.....	¥ —	¥ 46	¥ 46	¥ —	¥ 46	¥ —	¥ 46	

Year ended March 31, 2016

Thousands of U.S. dollars

	Reporting segments			Other	Total	Adjustment	Consolidated financial statements
	Water environmental business	Industrial business	Subtotal				
Sales:							
Sales to external customers.....	\$382,543	\$289,474	\$672,026	\$ 301	\$672,328	\$ —	\$672,328
Inter-segment sales or transfers.....	—	44	44	2,351	2,396	(2,396)	—
Total.....	382,543	289,527	672,071	2,653	674,733	(2,396)	672,328
Segment income (loss).....	27,777	20,527	48,304	363	48,677	—	48,677
Depreciation and amortization.....	6,309	4,579	10,889	17	10,915	—	10,915
Amortization of goodwill.....	\$ —	\$ 1,863	\$ 1,863	\$ —	\$ 1,863	\$ —	\$ 1,863

**(d) Related Information
Information by geographical segment**

(1) Net Sales

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Area:			
Japan.....	¥57,945	¥64,007	\$514,243
Asia.....	15,918	10,521	141,267
Other.....	1,894	1,110	16,808
	¥75,758	¥75,639	\$672,328

(2) Property, plant and equipment

Geographical segment information is not presented as the amount of property, plant and equipment in Japan exceeded 90% of total of property, plant and equipment at March 31, 2016 and 2015 for both years.

(e) Information about Impairment

	Millions of yen				
	2016				
	Water environmental business	Industrial business	Other	Elimination or common asset	Total
Impairment loss	¥—	¥—	¥—	¥—	¥—

	Millions of yen				
	2015				
	Water environmental business	Industrial business	Other	Elimination or common asset	Total
Impairment loss	¥—	¥—	¥—	¥274	¥274

Thousands of U.S. dollars					
2016					
	Water environmental business	Industrial business	Other	Elimination or common asset	Total
Impairment loss	\$—	\$—	\$—	\$—	\$—

(f) Information by amortization of goodwill and unamortized balance

Millions of yen					
2016					
	Water environmental business	Industrial business	Other	Elimination or common asset	Total
Amortization of goodwill	¥—	¥ 210	¥—	¥—	¥ 210
Unamortized balance	¥—	¥2,827	¥—	¥—	¥2,827

Millions of yen					
2015					
	Water environmental business	Industrial business	Other	Elimination or common asset	Total
Amortization of goodwill	¥—	¥ 46	¥—	¥—	¥ 46
Unamortized balance	¥—	¥233	¥—	¥—	¥233

Thousands of U.S. dollars					
2016					
	Water environmental business	Industrial business	Other	Elimination or common asset	Total
Amortization of goodwill	\$—	\$1,863	\$—	\$—	\$1,863
Unamortized balance	\$—	\$25,088	\$—	\$—	\$25,088

INDEPENDENT AUDITOR'S REPORT

INDEPENDENT AUDITORS' REPORT

INOUE AUDITING CO., INC.

To the Board of Directors of
Tsukishima Kikai Co., Ltd.

We have audited the accompanying consolidated balance sheets of Tsukishima Kikai Co., Ltd. and its consolidated subsidiaries as of March 31, 2016, and the related consolidated statements of income, comprehensive income, changes in net assets, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Tsukishima Kikai Co., Ltd. and its consolidated subsidiaries as of March 31, 2016, and the consolidated results of their operations and their cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

Convenience Translation

Our audit also comprehended the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made in accordance with the basis stated in Note 1 of the notes to consolidated financial statements. Such U.S. dollar amounts are presented solely for the convenience of readers outside Japan.


Inoue Auditing Co., Inc.

June 27, 2016
Tokyo, Japan

Non-Consolidated Balance Sheets

TSUKISHIMA KIKAI CO., LTD.
Years ended March 31, 2016 and 2015

	Millions of yen (Note 1)		Thousands of U.S. dollars (Note 1)
	2016	2015	2016
ASSETS			
Current assets:			
Cash and time deposits.....	¥ 12,114	¥ 11,506	\$ 107,507
Marketable securities (Notes 2, 5).....	—	1,500	—
Notes and accounts receivable.....	24,809	24,962	220,172
Less: allowance for doubtful accounts (Note 2).....	(112)	(110)	(993)
Work in process (Note 2).....	1,411	2,060	12,522
Raw materials and supplies (Note 2).....	45	46	399
Deferred income taxes (Note 8).....	894	1,299	7,933
Other current assets (Note 6).....	1,685	1,805	14,953
Total current assets.....	40,848	43,070	362,513
Property, plant and equipment (Note 2):			
Land.....	3,527	3,527	31,301
Buildings and structures.....	9,893	10,981	87,797
Machinery and equipment.....	10,361	9,749	91,950
Lease assets.....	751	697	6,664
Construction in progress.....	968	319	8,590
	25,502	25,275	226,322
Less: accumulated depreciation.....	(14,189)	(14,517)	(125,922)
Net property, plant and equipment.....	11,313	10,757	100,399
Investments and other assets:			
Software.....	516	356	4,579
Lease assets (Note 2).....	52	58	461
Investments in securities (Notes 2, 5, 6).....	17,231	20,834	152,919
Stocks of subsidiaries and affiliates, and long-term loans receivable from subsidiaries and affiliates (Note 6).....	5,040	5,245	44,728
Investments in capital of subsidiaries.....	200	200	1,774
Other assets (Note 6).....	921	665	8,173
Less: allowance for doubtful accounts (Note 2).....	(540)	(437)	(4,792)
Total investments and other assets.....	23,422	26,923	207,862
Total assets.....	¥ 75,584	¥ 80,751	\$ 670,784

See Notes to Non-Consolidated Financial Statements.

LIABILITIES AND NET ASSETS

	Millions of yen (Note 1)		Thousands of U.S. dollars (Note 1)
	2016	2015	2016
Current liabilities:			
Accounts payable.....			
Trade.....	¥ 8,049	¥11,271	\$ 71,432
Other	1,789	2,291	15,876
Electronically recorded obligations	1,675	—	14,865
Lease obligations (Note 6).....	175	171	1,553
Accrued income taxes (Note 8).....	45	537	399
Accrued expenses.....	991	1,053	8,794
Accrued warranty (Note 2).....	539	797	4,783
Reserve for losses on contracts (Note 2).....	2	36	17
Advances received	1,384	1,340	12,282
Other current liabilities	3,064	3,350	27,192
Total current liabilities	17,718	20,849	157,241
Long-term liabilities:			
Long-term loans payable (Notes 3, 6).....	867	1,112	7,694
Lease obligations (Note 6).....	245	336	2,174
Deferred tax liabilities (Note 8).....	1,882	2,958	16,702
Provision for post-employment benefits (Note 2).....	3,125	3,146	27,733
Asset retirement obligations.....	87	51	772
Other long-term liabilities.....	830	721	7,365
Total long-term liabilities.....	7,038	8,326	62,460
Contingent liability (Note 9)			
Net assets:			
Shareholders' equity:			
Common stock,			
Authorized: 180 million shares in 2016 and 2015			
Issued: 45,625,800 shares in 2016 and 2015	6,646	6,646	58,981
Additional paid-in capital.....	5,485	5,485	48,677
Retained earnings	35,943	34,808	318,982
Treasury stock (Note 3)	(1,437)	(1,710)	(12,752)
Total shareholders' equity.....	46,637	45,230	413,888
Valuation and translation adjustments			
Net unrealized gains or losses on available-for-sale securities.....	4,166	6,343	36,971
Deferred gains or losses on hedges.....	22	2	195
Total valuation and translation adjustments	4,189	6,345	37,176
Total net assets	50,827	51,576	451,073
Total liabilities and net assets	¥75,584	¥80,751	\$670,784

See Notes to Non-Consolidated Financial Statements.

Non-Consolidated Statements of Income

TSUKISHIMA KIKAI CO., LTD.
Years ended March 31, 2016 and 2015

	Millions of yen (Note 1)		Thousands of U.S. dollars (Note 1)
	2016	2015	2016
Net Sales (Note 2)	¥40,729	¥42,901	\$361,457
Cost of sales (Note 7)	32,312	34,449	286,758
Gross profit	8,416	8,452	74,689
Selling, general and administrative expenses (Note 7)	6,772	6,656	60,099
Operating income.....	1,644	1,796	14,589
Other income (expenses):			
Interest and dividend income.....	1,608	958	14,270
Gain on sales of investments in securities.....	183	404	1,624
Loss on sales of investments in securities.....	—	(184)	—
Gain on sales of property, plant and equipment	0	181	0
Loss on sales and disposal of property, plant and equipment.....	(164)	(29)	(1,455)
Impairment loss.....	—	(274)	—
Loss on valuation of investments in securities	(343)	—	(3,044)
Provision of allowance for doubtful accounts (Note 2).....	(128)	—	(1,135)
Other, net (Note 10).....	(142)	141	(1,260)
Other income (expenses), net	1,012	1,196	8,981
Profit before income taxes	2,657	2,993	23,580
Income taxes (Notes 2, 8):			
Current.....	30	698	266
Deferred.....	513	228	4,552
Total income taxes.....	543	926	4,818
Profit	¥ 2,113	¥ 2,066	\$ 18,752

	Yen	U.S. dollars (Note 1)
Per share		
Basic earnings.....	¥ 48.30	¥ 46.51
Dividends.....	¥ 22.00	¥ 17.00

See Notes to Non-Consolidated Financial Statements.

Non-Consolidated Statements of Changes in Net Assets

TSUKISHIMA KIKAI CO., LTD.
Years ended March 31, 2016 and 2015

	Millions of yen (Note 1)									
	Thousands	Shareholders' equity					Valuation and translation adjustments			Total net assets
	Number of shares of common stock issued	Common stock	Additional paid-in capital	Retained earnings	Treasury stock	Total shareholders' equity	Net unrealized gains or losses on available-for-sale securities	Deferred gains or losses on hedges	Total valuation and translation adjustments	
Balance as of April 1, 2014	45,625	¥6,646	¥5,485	¥33,512	¥ (599)	¥45,045	¥4,530	¥(6)	¥4,523	¥49,569
Cumulative effects of changes in accounting policies.....	—	—	—	30	—	30	—	—	—	30
Restated balance.....	45,625	6,646	5,485	33,542	(599)	45,076	4,530	(6)	4,523	49,600
Dividends.....	—	—	—	(801)	—	(801)	—	—	—	(801)
Profit for the year ended March 31, 2015.....	—	—	—	2,066	—	2,066	—	—	—	2,066
Purchase of treasury stock.....	—	—	—	—	(1,123)	(1,123)	—	—	—	(1,123)
Disposal of treasury stock.....	—	—	—	—	12	12	—	—	—	12
Net changes of items other than those in shareholders' equity.....	—	—	—	—	—	—	1,812	8	1,821	1,821
Balance as of March 31, 2015	45,625	¥6,646	¥5,485	¥34,808	¥(1,710)	¥45,230	¥6,343	¥ 2	¥6,345	¥51,576

	Millions of yen (Note 1)									
	Thousands	Shareholders' equity					Valuation and translation adjustments			Total net assets
	Number of shares of common stock issued	Common stock	Additional paid-in capital	Retained earnings	Treasury stock	Total shareholders' equity	Net unrealized gains or losses on available-for-sale securities	Deferred gains or losses on hedges	Total valuation and translation adjustments	
Balance as of April 1, 2015	45,625	¥6,646	¥5,485	¥34,808	¥(1,710)	¥45,230	¥ 6,343	¥ 2	¥ 6,345	¥51,576
Cumulative effects of changes in accounting policies.....	—	—	—	—	—	—	—	—	—	—
Restated balance.....	45,625	6,646	5,485	34,808	(1,710)	45,230	6,343	2	6,345	51,576
Dividends.....	—	—	—	(979)	—	(979)	—	—	—	(979)
Profit for the year ended March 31, 2016.....	—	—	—	2,113	—	2,113	—	—	—	2,113
Purchase of treasury stock.....	—	—	—	—	(0)	(0)	—	—	—	(0)
Disposal of treasury stock.....	—	—	0	—	272	272	—	—	—	272
Net changes of items other than those in shareholders' equity.....	—	—	—	—	—	—	(2,176)	20	(2,156)	(2,156)
Balance as of March 31, 2016	45,625	¥6,646	¥5,485	¥35,943	¥(1,437)	¥46,637	¥ 4,166	¥22	¥ 4,189	¥50,827

	Thousands of U.S. dollars (Note 1)									
	Thousands	Shareholders' equity					Valuation and translation adjustments			Total net assets
	Number of shares of common stock issued	Common stock	Additional paid-in capital	Retained earnings	Treasury stock	Total shareholders' equity	Net unrealized gains or losses on available-for-sale securities	Deferred gains or losses on hedges	Total valuation and translation adjustments	
Balance as of April 1, 2015	45,625	\$58,981	\$48,677	\$308,910	\$(15,175)	\$401,402	\$ 56,292	\$ 17	\$ 56,309	\$457,720
Cumulative effects of changes in accounting policies.....	—	—	—	—	—	—	—	—	—	—
Restated balance.....	45,625	58,981	48,677	308,910	(15,175)	401,402	56,292	17	56,309	457,720
Dividends.....	—	—	—	(8,688)	—	(8,688)	—	—	—	(8,688)
Profit for the year ended March 31, 2016.....	—	—	—	18,752	—	18,752	—	—	—	18,752
Purchase of treasury stock.....	—	—	—	—	(0)	(0)	—	—	—	(0)
Disposal of treasury stock.....	—	—	0	—	2,413	2,413	—	—	—	2,413
Net changes of items other than those in shareholders' equity.....	—	—	—	—	—	—	(19,311)	177	(19,133)	(19,133)
Balance as of March 31, 2016	45,625	\$58,981	\$48,677	\$318,982	\$(12,752)	\$413,888	\$ 36,971	\$195	\$ 37,176	\$451,073

See Notes to Non-Consolidated Financial Statements.

Non-Consolidated Statements of Cash Flows

TSUKISHIMA KIKAI CO., LTD.
Years ended March 31, 2016 and 2015

	Millions of yen (Note 1)		Thousands of U.S. dollars (Note 1)
	2016	2015	2016
Cash flows from operating activities:			
Profit before income taxes	¥ 2,657	¥ 2,993	\$ 23,580
Adjustments for:			
Depreciation and amortization	1,020	882	9,052
Impairment loss	—	274	—
Increase (decrease) in provision for post-employment benefits	(21)	(210)	(186)
Increase (decrease) in accrued bonus to employees	(53)	(48)	(470)
Increase (decrease) in allowance for doubtful accounts	105	89	931
Increase (decrease) in accrued warranty	(257)	(175)	(2,280)
Increase (decrease) in reserve for losses on contracts	(33)	15	(292)
Interest and dividend income	(1,608)	(958)	(14,270)
Loss (gain) on sales and disposal of property, plant and equipment	164	(152)	1,455
Loss (gain) on sales of investments in securities	(183)	(219)	(1,624)
Loss (gain) on valuation of investments in securities	343	—	3,044
(Increase) decrease in notes and accounts receivable	153	(4,189)	1,357
Increase (decrease) in advances received	44	(1,834)	390
(Increase) decrease in inventories	649	384	5,759
Increase (decrease) in accounts payable, trade	(1,546)	1,156	(13,720)
Other	(970)	2,017	(8,608)
Subtotal	465	26	4,126
Interest and dividend income received	1,607	959	14,261
Income taxes (paid) refund	(449)	(1,967)	(3,984)
Net cash provided by (used in) operating activities	1,622	(982)	14,394
Cash flows from investing activities:			
Purchase of property, plant and equipment	(1,327)	(976)	(11,776)
Proceeds from sales of property, plant and equipment	0	616	0
Payments for retirement of property, plant and equipment	(162)	—	(1,437)
Purchase of intangible fixed assets	(250)	(87)	(2,218)
Purchase of investments in securities	(228)	(859)	(2,023)
Purchase of shares of subsidiaries and associates	—	(4,341)	—
Proceeds from sales of investments in securities	304	1,132	2,697
Payments for loans receivable	(1,664)	(435)	(14,767)
Collection of loans receivable	1,972	563	17,500
Other	51	(11)	452
Net cash provided by (used in) investing activities	(1,305)	(4,398)	(11,581)
Cash flows from financing activities			
Proceeds from long-term loans payable	—	1,125	—
Repayments of long-term loans payable	(244)	(12)	(2,165)
Repayments of lease obligations	(189)	(173)	(1,677)
Additions of treasury stock	(0)	(1,123)	(0)
Proceeds from sales of treasury stock	237	12	2,103
Dividends paid	(979)	(801)	(8,688)
Net cash provided by (used in) financing activities	(1,176)	(973)	(10,436)
Effect of exchange rate change on cash and cash equivalents	(32)	47	(283)
Net increase (decrease) in cash and cash equivalents	(891)	(6,306)	(7,907)
Cash and cash equivalents at beginning of period (Notes 2, 4)	13,006	19,312	115,424
Cash and cash equivalents at end of period (Notes 2, 4)	¥12,114	¥13,006	\$107,507

See Notes to Non-Consolidated Financial Statements.

Notes to Non-Consolidated Financial Statements

1. Basis of Presenting Non-Consolidated Financial Statements

The accompanying non-consolidated financial statements have been prepared from the financial statements filed with the Financial Services Agency as required by the Japanese Financial Instruments and Exchange Law in accordance with accounting principles and practices generally accepted in Japan, which are different from the accounting and disclosure requirements of International Accounting Standards.

Certain reclassifications have been made to present the accompanying non-consolidated financial statements in a format that is familiar to readers outside Japan.

For the convenience of the reader, the accompanying non-consolidated financial statements have been presented in U.S. dollars by translating all Japanese yen amounts at the exchange rate of ¥112.68 to \$1, the approximate rate of exchange at March 31, 2016.

Amounts less than ¥1 million have been rounded down. U.S. dollars are translated from these amounts and have been rounded down.

The total amounts in Japanese yen and translated U.S. dollars shown in the non-consolidated financial statements and notes do not necessarily agree with the sum of the individual amounts.

2. Summary of Significant Accounting Policies

(a) Marketable Securities and Investments in Securities

The Company's securities are classified as follows: i) Held-to-maturity securities, which management has the positive intent and ability to hold to maturity, are reported at amortized cost. ii) Equity securities, which were issued by subsidiaries and affiliates, are stated at moving-average cost. iii) Available-for-sale securities are reported at fair value, with unrealized gains and losses, net of applicable taxes, reported in a separate component of net assets. The cost of securities sold is determined based on the moving-average method.

Non-marketable available-for-sale securities are stated at cost, determined by the moving-average method.

(b) Inventories

The Company applies the cost method based on the methods mentioned below, which determines the amount of inventories shown in the balance sheet by writing them down based on the decrease in their profitability.

(1) Work in process is stated at cost, which is determined by the specific cost method.

(2) Raw materials are stated at cost, which is determined by the periodic average method.

(3) Supplies are stated at cost, which is determined by the moving-average method.

(c) Property, Plant and Equipment Excluding Lease Assets

Property, plant and equipment are carried at cost. Depreciation of property, plant and equipment is principally computed by the declining balance method over the estimated useful lives of the assets, while the straight-line method is applied to buildings placed in service after April 1, 1998 (excluding facilities incidental to buildings) and power generating equipment. The range of useful lives is from 3 to 60 years for buildings and structures and from 2 to 20 years for machinery and equipment.

(d) Lease Assets

Depreciation of assets on finance leases that do not transfer ownership of the leased assets to the lessee are calculated by the straight-line method over the lease period with their residual value zero.

(e) Allowance for Doubtful Accounts

The allowance for doubtful accounts is provided for in an amount sufficient to cover possible losses on collection. It consists of the estimated uncollectible amount with respect to identified doubtful receivables and an amount calculated on the historical loss experience with respect to remaining receivables.

(f) Accrued Warranty

The accrued warranty is provided for based on amounts determined as a certain percentage (which is distinguished between domestic and overseas construction) of the amount of completed construction contracts for the year, which is computed as a ratio of the actual repair costs incurred under the warranty against the amounts of completed construction contracts during the past years.

In addition, the estimated repair costs for identified individual construction contracts are provided.

(g) Reserve for Losses on Contracts

A reserve for losses on contracts is provided for an estimated amount of probable losses to be incurred in future years in respect of construction projects in progress.

(h) Provision for Post-employment Benefits

Accrued employees' retirement benefits are provided based on the projected retirement benefit obligation and the fair value of the plan assets at the end of the fiscal year.

The benefit formula basis is applied as the method for attributing the expected retirement benefit to periods of service for the calculation of the retirement benefit obligation.

Actuarial differences are amortized over a seven-year period, which is within the average remaining service period of employees, using the straight-line method from the fiscal year following the respective fiscal year of recognition.

Prior service cost is amortized as incurred over a fourteen-year period, which is within the average remaining service period of employees, using the straight-line method from the time when the prior service cost was generated.

Accounting treatments for unrecognized actuarial differences and unrecognized prior service cost, in the non-consolidated financial statements are different from those in the consolidated financial statements.

(i) Income Taxes

The Company has adopted the asset-liability method of tax effect accounting to recognize the effect of all temporary differences in the recognition of the tax basis assets and liabilities and their financial reporting amounts.

(j) Translation of Foreign Currencies

Foreign currency receivables and payables are translated at appropriate year-end current rate.

Revenue and expense accounts are translated at the rates closely approximate to those prevailing on the transaction dates.

Exchange gains and losses arising from above foreign currency translations and transactions are included in other income or expenses.

(k) Research and Development Costs

Research and development costs are charged to income as incurred.

(l) Recognition of Contract Revenue

The Company applies the percentage-of-completion method for the construction contracts that fulfill the conditions that the outcome of the construction activity is deemed certain during the course of the activity. Otherwise, the Company applies the completed-contract method.

(m) Cash Equivalents

For the purpose of the non-consolidated statements of cash flows, cash and cash equivalents include highly liquid investments that can be withdrawn without any restriction and with minimum market risk.

(n) Derivative Financial Instruments

The Company uses derivative financial instruments to manage their exposures to fluctuations in foreign exchange rates. Foreign exchange forward contracts are utilized by the Company to reduce foreign currency exchange risks. The Company does not enter into derivatives for trading or speculative purposes.

3. Additional Information

(Trust Type Employee Stock Ownership Incentive Plan)

The notes concerning Trust Type Employee Stock ownership Incentive Plan are the same as the ones presented under "Note 5. Additional Information" in the consolidated financial statements and are therefore omitted here.

4. Cash and Cash Equivalents

Cash and cash equivalents as of March 31, 2016 and 2015 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Cash and time deposits.....	¥12,114	¥11,506	\$107,507
Marketable securities.....	—	1,500	—
Cash and cash equivalents.....	¥12,114	¥13,006	\$107,507

5. Marketable Securities and Investments in Securities

The carrying amounts and aggregate fair values of marketable and investment securities at March 31, 2016 and 2015 were as follows:

	Millions of yen			
	2016			
	Cost	Unrealized gains	Unrealized losses	Fair value
Securities classified as:				
Available-for-sale:				
Equity securities.....	¥10,403	¥6,606	¥(617)	¥16,392
Others.....	—	—	—	—
	¥10,403	¥6,606	¥(617)	¥16,392
Held-to-maturity securities.....	¥ 164	¥ 22	¥ —	¥ 187

	Millions of yen			
	2015			
	Cost	Unrealized gains	Unrealized losses	Fair value
Securities classified as:				
Available-for-sale:				
Equity securities.....	¥10,802	¥9,910	¥(582)	¥20,130
Others.....	1,500	—	—	1,500
	¥12,302	¥9,910	¥(582)	¥21,630
Held-to-maturity securities.....	¥ —	¥ —	¥ —	¥ —

	Thousands of U.S. dollars			
	2016			
	Cost	Unrealized gains	Unrealized losses	Fair value
Securities classified as:				
Available-for-sale:				
Equity securities	\$92,323	\$58,626	\$(5,475)	\$145,473
Others.....	—	—	—	—
	\$92,323	\$58,626	\$(5,475)	\$145,473
Held-to-maturity securities.....	\$ 1,455	\$ 195	\$ —	\$ 1,659

6. Short-term Loans Payable, Long-term Loans Payable and Lease Obligations

Interest rates of long-term loans payable as of March 31, 2016 and 2015 were approximately 0.47 percent and 0.54 percent, respectively.

Long-term loans payable as of March 31, 2016 and 2015 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Loans payable, due 2020.....	¥867	¥1,112	\$7,694
Less: portion due within one year.....	—	—	—
	¥867	¥1,112	\$7,694

Lease obligations as of March 31, 2016 and 2015 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Current.....	¥175	¥171	\$1,553
Non-current.....	245	336	2,174
	¥420	¥507	\$3,727

The following assets were pledged as collateral for the long-term loans payable at affiliated companies and others of ¥5,885 million (\$52,227 thousand) and ¥6,232 million for the years ended March 31, 2016 and 2015, respectively.

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Short-term loans receivable	¥ 26	¥ 24	\$ 230
Investments in securities	7	7	62
Stock of subsidiaries and affiliates and long-term loans receivable from subsidiaries and affiliates.....	267	275	2,369
Long-term loans receivable.....	22	23	195
	¥323	¥331	\$2,866

*Other than the above collateral assets, investment security was deposited with Osaka city as the contract guarantee for electric power generating business, totaling ¥164 million (\$1,455 thousand) for the year ended March 31, 2016.

7. Research and Development Costs

Research and development costs charged to income for the years ended March 31, 2016 and 2015 amounted to ¥1,017 million (\$9,025 thousand) and ¥1,053 million, respectively.

8. Income Taxes

Income tax applicable to the Company consists of corporate income tax, enterprise taxes and corporate inhabitants' taxes.

The effective income tax rate of the Company differs from the statutory tax rate for the following reasons:

	2016	2015
Statutory tax rate.....	33.1%	35.6%
Expenses not deductible for tax purposes.....	3.7	4.1
Non-taxable dividend income.....	(16.7)	(9.3)
Per capita levy of inhabitant taxes.....	0.9	0.8
Valuation allowance.....	1.2	(0.5)
Effects from the income tax rate change.....	1.5	3.4
Tax credit of experiment and research expenses.....	(3.0)	(2.9)
Other—net.....	(0.2)	(0.2)
Effective tax rate.....	20.5%	31.0%

Deferred tax assets and liabilities at March 31, 2016 and 2015 were composed of the following:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Deferred tax assets:			
Accrued cost of sales.....	¥ 202	¥ 468	\$ 1,792
Reserve for losses on contracts.....	0	11	0
Accrued warranty.....	166	264	1,473
Provision for post-employment benefits.....	958	1,019	8,501
Accrued bonus to employees.....	242	278	2,147
Allowance for doubtful accounts.....	200	153	1,774
Long-term accounts payable-other.....	52	93	461
Impairment loss.....	190	307	1,686
Others.....	455	468	4,037
Less: valuation allowance.....	(540)	(540)	(4,792)
Total deferred tax assets.....	¥ 1,930	¥ 2,525	\$ 17,128
Deferred tax liabilities:			
Reserve for deferred gains on sales of fixed assets for tax purposes.....	¥(1,044)	¥(1,144)	\$ (9,265)
Net unrealized gains on available-for-sale securities.....	(1,839)	(3,031)	(16,320)
Others.....	(35)	(8)	(310)
Total deferred tax liabilities.....	(2,919)	(4,184)	(25,905)
Net deferred tax assets (liabilities).....	¥ (988)	¥(1,659)	\$ (8,768)

Revisions in the Amounts of Deferred Tax Assets and Deferred Tax Liabilities as a Result of a Change in the Corporate Tax Rate

Due to the enactment of the Act for Partial Revision of the Income Tax Act, etc. and the Act for Partial Revision of the Local Tax Act, etc. on March 29, 2016, the effective statutory tax rate used to calculate deferred tax assets and deferred tax liabilities for this fiscal year (limited to those cancelled after April 1, 2016) has been changed from 32.3% of the previous fiscal year to 30.9% for those recovered or expected to be recovered between April 1, 2016 to March 31, 2018, and to 30.6% for those recovered or expected to be recovered after April 1, 2018.

As a result, deferred tax liabilities (the amount after deducting deferred tax assets) decreased by ¥64 million (\$567 thousand), income tax deferred recognized this fiscal year increased by ¥39 million (\$346 thousand), deferred gains or losses on hedges increased by ¥0 million (\$0 thousand), and net unrealized gains or losses on available-for-sale securities increased by ¥103 million (\$914 thousand).

9. Contingent Liability

The Company was contingently liable for the following items:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Guarantees for indebtedness of subsidiaries and employees	¥ 52	¥ 769	\$ 461
Guarantees liability for performance guarantees insurance contracts of affiliates for PFI business.....	843	843	7,481
	¥895	¥1,612	\$7,942

10. Other Income/ (Expenses)—Other, Net

Other income/(expenses) - other, net consisted of the following items:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Exchange gain (loss)	¥ (75)	¥129	\$ (665)
Guarantee commission	(17)	(12)	(150)
Other, net.....	(49)	24	(434)
	¥(142)	¥141	\$ (1,260)

11. Subsequent Events

Appropriation of Retained Earnings

The following appropriation of retained earnings of the Company, which has not been reflected in the accompanying non-consolidated financial statements for the year ended March 31, 2016 was approved at the Board of Directors meeting held on May 26, 2016.

	Millions of yen	Thousands of U.S. dollars
Year-end dividends of ¥9.00 (\$0.07) per share	¥400	\$3,549

INDEPENDENT AUDITOR'S REPORT

INDEPENDENT AUDITORS' REPORT

INOUE AUDITING CO., INC.

To the Board of Directors of
Tsukishima Kikai Co., Ltd.

We have audited the accompanying non-consolidated balance sheets of Tsukishima Kikai Co., Ltd. as of March 31, 2016, and the related non-consolidated statements of income, changes in net assets, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

Management's Responsibility for Non-consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these non-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 non-consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the non-consolidated financial statements referred to above present fairly, in all material respects, the non-consolidated financial position of Tsukishima Kikai Co., Ltd. as of March 31, 2016, and the non-consolidated results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

Convenience Translation

Our audit also comprehended the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made in accordance with the basis stated in Note 1 of the notes to non-consolidated financial statements. Such U.S. dollar amounts are presented solely for the convenience of readers outside Japan.


Inoue Auditing Co., Inc.

June 27, 2016
Tokyo, Japan

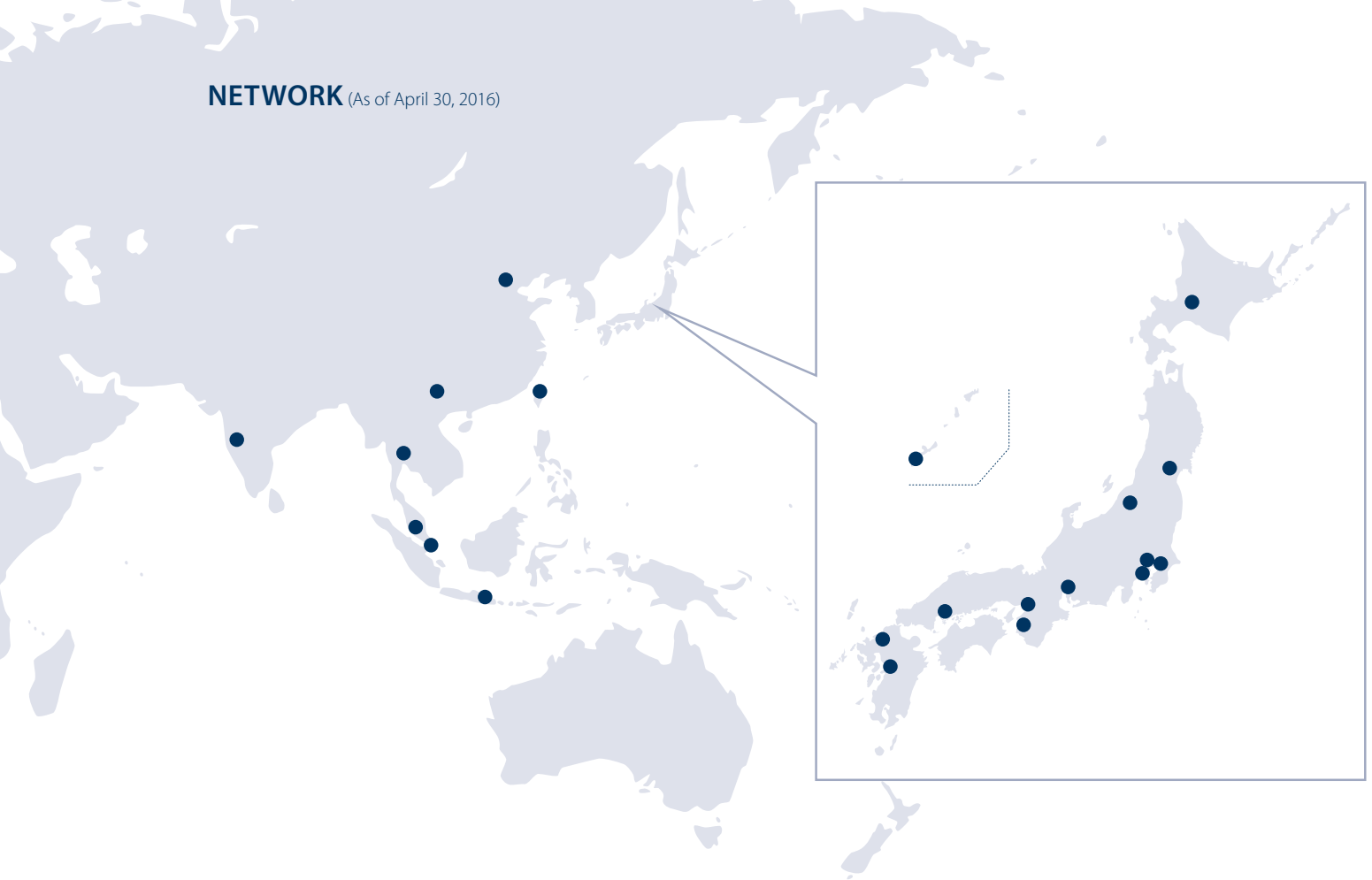
CORPORATE DATA (As of March 31, 2016)

Company name	TSUKISHIMA KIKAI CO., LTD.
Established	August 1905
Fiscal year	From April 1 to March 31
Capital stock	¥6,646,801,824
Number of employees	683
Stock listing	Tokyo Stock Exchange
Common stock	Authorized: 180,000,000 shares Issued: 45,625,800 shares
Number of shareholders	5,135
Transfer agent	Mitsubishi UFJ Trust and Banking Corporation 4-5 Marunouchi 1-chome, Chiyoda-ku, Tokyo 100-8212, Japan

CORPORATE HISTORY

1905 August	Densaku Kuroita founded Tokyo Tsukishima Kikai Seisakusho.
1917 May	Tsukishima Kikai Co., Ltd. incorporated.
1937 December	Daini Tsukishima Kikai, Co., Ltd. in Tsurumi-ku, Yokohama City, merged.
1944 March	The company merged with Tsukishima Kikai Chuko Co., Ltd.
1949 May	Stock listed on the Tokyo Stock Exchange.
1961 September	Stock listed on the Second Section of the Osaka Securities Exchange.
October	A laboratory built within the Tsukudajima Factory to strengthen research and development.
1962 April	Tsukishima Kikai Engineer Training Center created.
1976 January	The Ichikawa Factory began its operations.
1977 July	The Ichikawa Factory acquired the ASME (American Society of Mechanical Engineers) certificate.
1991 February	TSK Engineering Malaysia Sdn. Bhd. was founded.
1993 April	TSK Engineering (Thailand) Co., Ltd. was founded.
1994 November	TSK Engineering Taiwan Co., Ltd. was founded.
1996 October	The company acquired ISO 9001.
2000 June	The company acquired ISO 14001.
November	Tsukishima Technology Maintenance Service Co., Ltd. was formed as the result of the merger of Tsukishima Maintenance Co., Ltd. and Tsukishima Plant Koji Co., Ltd.
2001 December	Tsukishima Techno Machinery Co., Ltd. was founded.
2003 December	Tsukishima Techno Solution Co., Ltd. was founded.
2004 January	Kanuma Kankyo Bika Center changed its name to SUN ECO THERMAL Co., Ltd.
2005 March	The company acquired the management rights of Nittetsu Chemical Engineering Ltd.
2006 April	Nittetsu Chemical Engineering Ltd. changed its name to Tsukishima Kankyo Engineering Ltd.
2008 December	The Company absorbed Tsukishima Real Estate Co., Ltd., formerly a non-consolidated subsidiary.
2011 March	TSK Engineering China Co., Ltd. was founded as a business base in China.
2012 July	Tsukishima Techno Solution Co., Ltd. acquired the Industrial Machinery Business from Tsukishima Techno Machinery Co., Ltd. and changed its name to Tsukishima Machine Sales Co., Ltd. Tsukishima Kikai Co., Ltd. merged with Tsukishima Techno Machinery Co., Ltd. in an absorption type merger.
2013 December	Head Office was relocated to the current location. The Environment Process Development Center was closed and that function was integrated with Ichikawa R&D Center.
2014 October	The company acquired the management authority of Daido Chemical Engineering Corp.
December	The company acquired the management authority of BOKELA GmbH.

NETWORK (As of April 30, 2016)



JAPAN

Offices

Head Office
Tokyo Branch
Osaka Branch
Sapporo Sales Branch
Sendai Sales Branch
Yokohama Sales Branch
Nagoya Sales Branch
Hiroshima Sales Branch
Fukuoka Sales Branch
Okinawa Sales Office
Wakayama Sales Office, Niigata Sales Office
Kumamoto Sales Office, Chiba Sales Office
Maishima Office

Factory and Laboratory

Ichikawa Factory, Ichikawa R&D Center

Group Companies

Tsukishima Technology Maintenance Service Co., Ltd.*
SUN ECO THERMAL Co., Ltd.*
Tsukishima Kankyo Engineering Ltd.*
Samukawa Water Service Co., Ltd.*
Tsukishima Machine Sales Co., Ltd.*
Tsukishima Business Support Co., Ltd.*
Daido Chemical Engineering Corp.*
Owari Water & Energy Co., Ltd.

OVERSEAS

Offices

Mumbai Representative Office
Hanoi Representative Office
Jakarta Representative Office
Europe Representative Office

Group Companies

TSK Engineering (Thailand) Co., Ltd.*
Tsukishima Engineering China Co., Ltd.*
BOKELA GmbH*
Tsukishima Engineering Malaysia Sdn. Bhd.
Tsukishima Engineering Singapore Pte. Ltd.
TSK Engineering Taiwan Co., Ltd.

*Consolidated subsidiary

TSUKISHIMA KIKAI CO., LTD.

3-5-1, Harumi, Chuo-ku, Tokyo 104-0053, Japan

TEL. +81-(0)3-5560-6535-7

FAX. +81-(0)3-3536-0575

<http://www.tsk-g.co.jp/en/index.html>

