



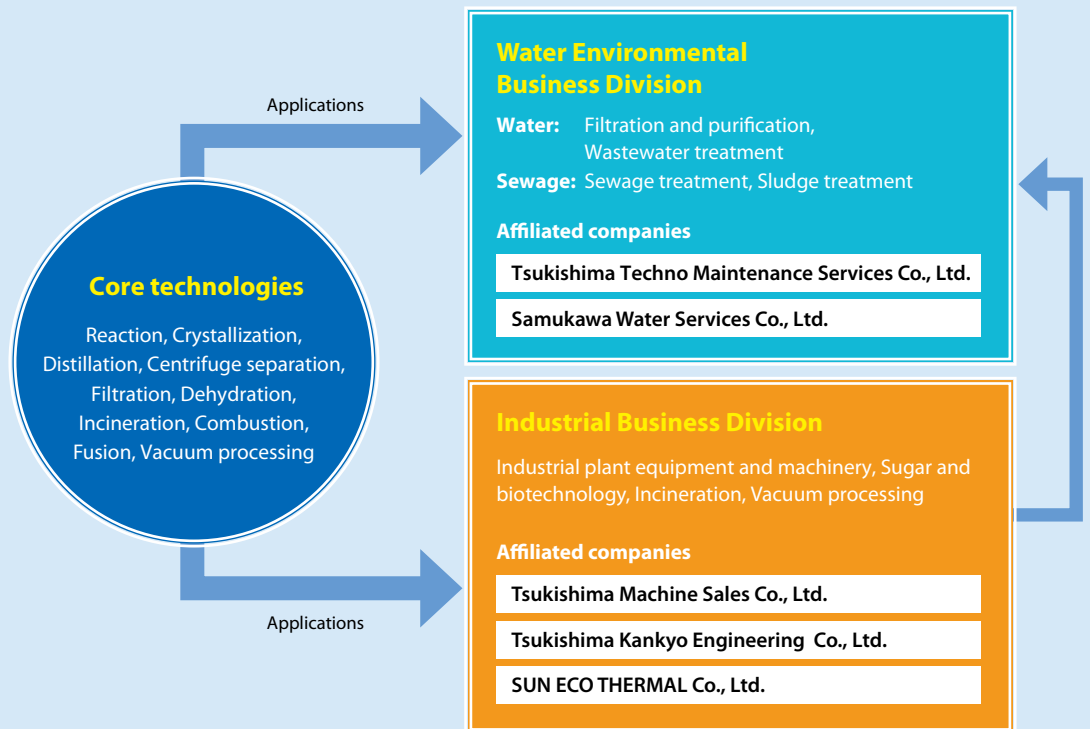
TECHNOLOGY THE WORLD NEEDS

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 waterworks, sewage treatment facilities and incinerators to industrial waste treatment, filtration, separation and other technologies.

TSK
TSUKISHIMA
KIKAI

Basic technologies and applications associated with sugar refining



BUSINESS SEGMENTS



Water Environmental Business

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

Industrial Business

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



A MESSAGE FROM THE MANAGEMENT

Kazuhiko Yamada
President and Chief Executive Officer,
Representative Director



These results are not unexpected: our strategy works

I am pleased to present this report concerning our activities in fiscal 2012 (April 1, 2011 to March 31, 2012).

In the Japanese economy in fiscal 2012, business conditions began to show a gradual recovery despite lingering effects from the impact of the Great East Japan Earthquake. Nevertheless, there was concern about the risk of a business downturn from factors including the impact on the financial markets of entrenchment of the strong yen and the sovereign debt crisis in Europe.

In this economic environment, the machinery sector saw continuation of steady public investment in Japan largely fueled by restoration and reconstruction demand in disaster-stricken areas. Demand in the industrial machinery sector overseas was soft due to the impact of the sovereign debt crisis in Europe, despite signs of a recovery trend in domestic investment demand in Japan. On the other hand, the pace of capital investment demand slowed in emerging countries and resource-producing countries, despite the demand still continued to some extent.

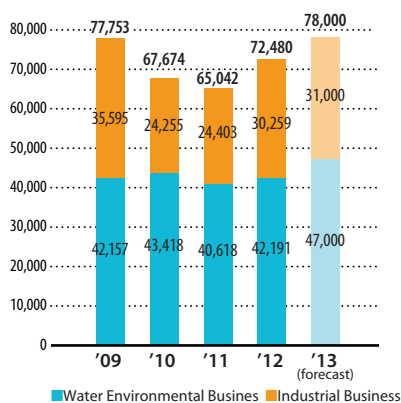
In these circumstances, in the second year of the three-year medium-term management plan, the Tsukishima Kikai Group (the Group) engaged in business activities that centered on the environment and energy, fields of deep interest and concern worldwide. As a result, we achieved increases in sales and income and secured a record-high order backlog, so we are particularly proud of our business results and the activities featured in this year's report.

Orders, Net Sales and Income

Please refer to the information on the business results for fiscal 2012 in the graphs below.

Sales*

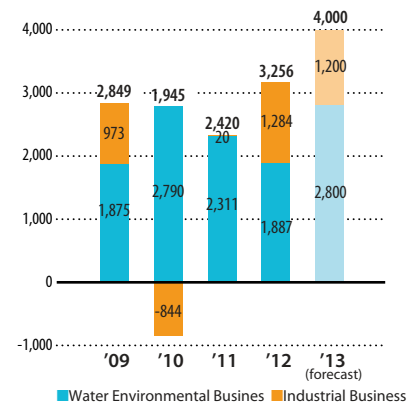
(Millions of yen)



* The above figures also include the other business segment

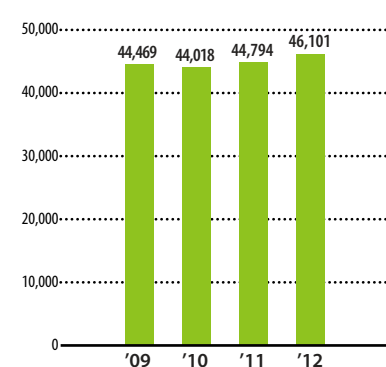
Operating income*

(Millions of yen)



Total shareholders' equity

(Millions of yen)



SEGMENT RESULTS

Water Environmental Business

Public investment in Japan was steady, thanks to supplementary budgets and other factors. There was firm demand for facilities renewal at water purification and sewage treatment plants as well as for facility maintenance, management and repair work. There were also increased orders for PFI*1 and DBO*2 projects combining facility construction with long-term maintenance and management contracts and comprehensive multi-year O&M*3 service contracts.

In this business environment, the Group engaged in sales activities to win contracts in Japan for renewal of sludge treatment facilities and contracts for PFI and DBO projects and comprehensive O&M services leveraging new products such as sludge-to-fuel systems. Overseas, the Group engaged in sales activities to win contracts for sludge treatment facilities for emerging markets, particularly China.

The following graphs show the results for the Water Environmental Business.

*1 PFI: Private finance initiative

*2 DBO: Design, build, operate

*3 Comprehensive operation and maintenance (O&M) services: In addition to the operation and management of facilities, contracts for comprehensive O&M services also include repair services and the supply of chemicals and other requirements.

Industrial Business

In Japan, concerns about excess capacity receded and signs of recovery in capital investment appeared. Overseas, although a certain level of capital investment demand continued in emerging countries and resource-producing countries, the pace of demand slowed slightly.

In this business environment, the group won contracts for multiple plant projects in Japan and overseas and engaged in sales activities to obtain orders for stand-alone equipment such as crystallizers, separators, and gas holders. In environment-related projects, we engaged in sales activities for waste liquid combustion systems and solid waste incineration facilities for Japan as well as for the Middle East and Southeast Asia.

The preceding graphs show the results for the Industrial Business.

Capital Investment

Capital investment in the year ended March 31, 2012 amounted to ¥1,135 million. Investment centered mainly the cost related to a new head office building.

Research and Development

Research and development are essential to the continuing technology-driven growth of the Group. In particular, we are committed to increased efforts to develop differentiating technologies and expand our offering of new products in the environment and energy fields.

In the Water Environmental Business segment, we will continue to enhance the line of stand-alone equipment in the sludge treatment sector, our main market, and pursue further technological differentiation in the area of sludge-to-fuel systems and fluidized bed incineration systems, for which we have already won a sizable amount of orders.

In the Industrial Business segment, we will strengthen our market competitiveness by differentiating our core technologies in the environmental and energy fields, focusing in particular on technology development for drying systems for low-grade coal and secondary battery manufacturing, for which future market growth is forecast.

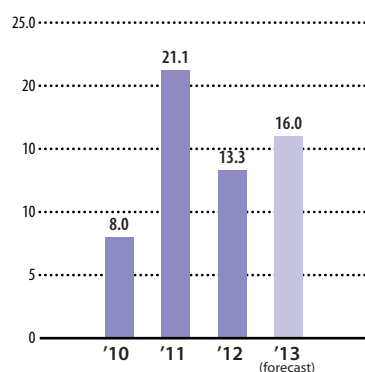
Basic Policies in the Medium-Term Management Plan

In May 2010, the Group adopted a medium-term management plan covering the three-year period from fiscal 2011 to fiscal 2013 (April 1, 2010 to March 31, 2013). Specific policies under the medium-term plan are as follows:

Policy	Water Environmental Business	Industrial Business
Focus on the environment and energy sectors	<ul style="list-style-type: none"> • Sludge-to-fuel system • Next-generation sludge combustion system 	<ul style="list-style-type: none"> • Drying facilities for low-grade coal • Seawater flue gas desulfurization facilities • Waste liquid combustion system • Solid waste incineration facilities
Expansion of overseas business	<ul style="list-style-type: none"> • Participation in sludge treatment projects in Asia (drying / incineration facilities) 	<ul style="list-style-type: none"> • Winning of contracts for plant relocation and overseas capacity expansion projects for Japanese companies
Redesign of business models	<ul style="list-style-type: none"> • Promotion of long-term, stable projects such as PFI and DBO projects • Cost reductions from overseas design, procurement, and manufacturing 	<ul style="list-style-type: none"> • Promotion of O&M services
Research and development	<ul style="list-style-type: none"> • Acquisition of differentiating technologies through R&D 	

Trends in orders from overseas

(Billions of yen)



Progress under the Medium-Term Management Plan

The Group has wholeheartedly implemented the measures set forth in the medium-term management plan in two key areas, "Focusing on environmental and energy business fields" and "Expanding overseas business," and achieved the targets for consolidated operating income for two consecutive years. Furthermore, reflecting the favorable business performance, we have revised upward the target for 2013 from ¥3,800 million to ¥4,000 million.

To achieve the revised target, we will ensure the competitiveness of our products and businesses by means of technological differentiation attained through R&D. In addition, we will pursue cost reductions by means including overseas design, procurement, and manufacturing in order to prevail in a globally competitive environment. We will also expand our overseas business in emerging countries and resource-producing countries, where demand for capital investment is robust.

We look forward to the continuing support and cooperation of our shareholders, investors and customers.

TOPICS FOR 2012



TOPIC 1

Expanding Sales of Sewage Sludge Drying and Incineration Facilities in China

Demand of reduction, detoxification and resource utilization of sewage sludge in China is constantly increasing, and China has positioned sludge treatment as a strategic policy in its Twelfth Five-Year Plan. The Company has already received orders for three drying and incineration facility projects in Wenzhou, Shanghai, and Foshan, and has been commissioned by Japan's New Energy and Industrial Development Organization (NEDO) to conduct a sludge recycling demonstration project in Guangdong Province.

Construction of the first facility for the Wenzhou project has been completed, and the facility will soon go into operation (see photograph). The other facilities are scheduled to start operation sequentially in 2013. The Company believes that the project sites will serve as showcases to customers in China that will further increase confidence in the technologies and accelerate the spread of orders from new customers.



TOPIC 2

Strong Orders for Steam Tube Dryers

Orders for Tsukishima steam tube dryers (STDs) from a variety of market sectors are robust. Tsukishima STDs are highly regarded by customers in numerous industries for their stable, high-volume processing capacity and a proven track record of more than 500 units delivered worldwide to date.

- 1) The Company has received an order from Reliance Industries Limited, a chemicals company in India, for STDs for use as dryer systems for purified terephthalic acid (PTA) production.
- 2) The Company has received an order from South Korean steelmaker POSCO for STDs for use as dryer systems in the FINEX process.
- 3) A proposal for the use of STDs for drying low-rank coal* in a New Energy and Industrial Technology Development Organization (NEDO) project to raise the efficiency of low-grade coal-fired electric power plants using steam tube dryer systems in the Republic of Indonesia (a research and demonstration project) was selected this year, Application of STD for coal-fired Power Station is underway.

*Low-rank coal is coal with high moisture content and low calorific value. Although at present low-grade coal is in limited use, there are ample reserves, and consumption is expected to increase substantially accompanying a future increase in construction of coal-fired electric power plants.



TOPIC 3

Progress of the ICA Chemical Grade Alumina Plant Project in Indonesia



The ICA project is a project to construct a chemical alumina manufacturing plant with annual production capacity of 300,000 tons and ancillary facilities for Indonesia Chemical Alumina (ICA), a joint venture between ANTAM, an Indonesian state-owned metals and mining company, and Showa Denko K.K.

Design and procurement for the ICA project, for which an international consortium led by Tsukishima Kikai won the order in August 2010, are nearly complete, and full-scale construction work is underway at the project site. Each day 1,500 workers are engaged in construction in scorching heat at the site, located on the equator in West Kalimantan Province, Indonesia.

An office building, control room, and other buildings have already been completed, and installation of large equipment and assembly of tanks and steel structures are underway. Project progress reached 77% as of Aug. 31, 2012, and the project is steadily progressing toward completion in October 2013.

BOARD OF DIRECTORS



Akihiko Watanabe

Board Member,
Executive Officer

Takashi Kikkawa

Board Member,
Executive Officer

Kazuo Nakajima

Board Member,
Executive Officer

Toshio Yonezawa

Board Member

Katushi Nakayama

Board Member

Masashi Teranishi

Board Member

Hiroshi Sano

Board Member,
Executive Officer

Kazuhiko Yamada

President and Chief Executive Officer,
Representative Director

Naoyuki Oishi

Senior Managing Executive Officer,
Representative Director

Torahiko Maki

Board Member,
Executive Officer



FINANCIAL SECTION

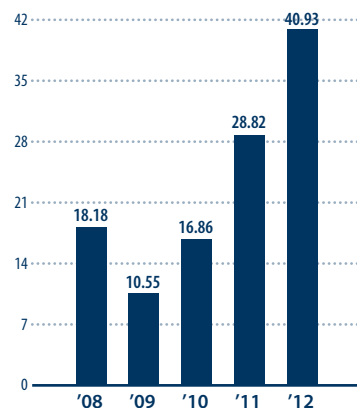
Five-Year Summary (Consolidated)

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

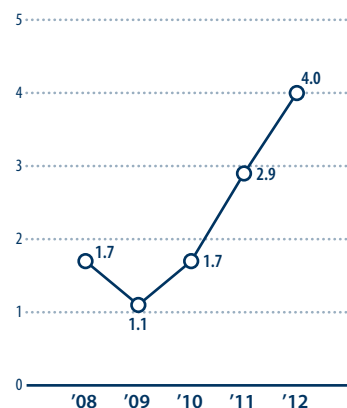
	Millions of yen (Note 1)					Thousands of U.S. dollars (Note 1)
	2012	2011	2010	2009	2008	2012
For the year:						
Net sales.....	¥72,480	¥65,042	¥67,674	¥77,753	¥77,704	\$ 881,859
Operating income.....	3,256	2,420	1,945	2,850	3,254	39,615
Income before income taxes.....	3,630	2,167	2,007	1,182	2,057	44,165
Net income.....	1,822	1,282	753	480	827	22,168
At year-end:						
Total assets.....	89,261	84,315	89,809	92,916	102,925	1,086,032
Total shareholders' equity.....	¥46,101	¥44,794	¥44,018	¥44,469	¥44,692	\$ 560,907
Per share:						
Net income.....	¥40.93	¥28.82	¥16.86	¥10.55	¥18.18	\$0.49
Cash dividends.....	¥15.00	¥15.00	¥15.00	¥15.00	¥15.00	\$0.18
Number of shares outstanding (in thousands).....						
	45,625	45,625	45,625	45,626	45,626	

Note: U.S. dollar amounts are translated from yen at the rate of ¥82.19 to US\$1, solely for the convenience of the reader.
Amounts less than ¥1 million, \$1 thousand and Number of shares outstanding in thousands had been rounded off until FY2009.
These amounts have been rounded down from FY2010.

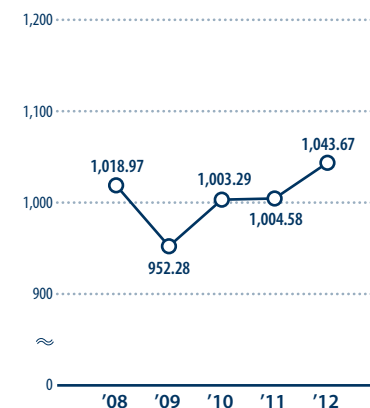
Net Income per Share
(Yen)



Return on Equity
(%)



Equity per Share
(Yen)



Consolidated Balance Sheets

TSUKISHIMA KIKAI CO., LTD. and its consolidated subsidiaries
Years ended March 31, 2012 and 2011

	Millions of yen (Note 1)		Thousands of U.S. dollars (Note 1)
	2012	2011	2012
ASSETS			
Current assets:			
Cash and time deposits (Notes 6, 9)	¥13,444	¥12,148	\$ 163,572
Marketable securities (Notes 2, 6, 7)	3,000	4,000	36,500
Notes and accounts receivable (Notes 6, 8, 9)	35,729	30,849	434,712
Less: allowance for doubtful accounts (Note 2)	(72)	(71)	(876)
Work in process (Note 2)	3,045	2,245	37,048
Raw materials and supplies (Note 2)	149	130	1,812
Deferred income taxes (Note 12)	2,480	2,895	30,173
Other current assets (Note 9)	695	1,135	8,456
Total current assets	58,474	53,333	711,449
Property, plant and equipment (Note 2):			
Land	7,020	7,020	85,411
Buildings and structures	9,272	9,242	112,811
Machinery and equipment	15,052	15,103	183,136
Lease assets	450	259	5,475
Construction in progress	438	9	5,329
	32,235	31,637	392,200
Less: accumulated depreciation	(19,144)	(18,711)	(232,923)
Net property, plant and equipment	13,090	12,926	159,265
Investments and other assets:			
Goodwill (Note 2)	372	419	4,526
Software	395	711	4,805
Lease assets (Note 2)	58	39	705
Investments in securities (Notes 2, 6, 7, 9)	15,024	14,047	182,795
Long-term loans receivable (Note 9)	83	58	1,009
Deferred income taxes (Note 12)	1,351	2,373	16,437
Other assets	602	636	7,324
Less: allowance for doubtful accounts (Note 2)	(193)	(229)	(2,348)
Total investments and other assets	17,696	18,055	215,305
Total assets	¥89,261	¥84,315	\$1,086,032

See Notes to Consolidated Financial Statements.

LIABILITIES AND NET ASSETS

	Millions of yen (Note 1)		Thousands of U.S. dollars (Note 1)
	2012	2011	2012
Current liabilities:			
Notes and accounts payable			
Trade (Notes 6, 8).....	¥17,298	¥15,156	\$ 210,463
Other	1,503	1,652	18,286
Short-term loans payable (Note 9)	50	50	608
Current portion of long-term loans payable (Notes 6, 9)	440	1,142	5,353
Lease obligations (Note 9)	115	69	1,399
Accrued income taxes (Note 12)	242	177	2,944
Accrued expenses	2,251	2,066	27,387
Accrued warranty (Note 2)	1,180	1,550	14,356
Reserve for losses on contracts (Note 2)	542	360	6,594
Provision for loss on disaster	—	162	—
Advances received	5,662	3,380	68,889
Other current liabilities	2,444	3,057	29,735
Total current liabilities	31,731	28,825	386,068
Long-term liabilities:			
Long-term loans payable (Notes 6, 8, 9)	3,999	3,989	48,655
Lease obligations (Note 9)	320	217	3,893
Long-term accounts payable-other	631	833	7,677
Provision for post-employment benefits (Notes 2, 10)	5,590	5,412	68,013
Reserve for retirement payments to officers (Note 2)	103	103	1,253
Asset retirement obligations	173	170	2,104
Other long-term liabilities	55	43	669
Total long-term liabilities	10,873	10,770	132,291
Contingent liability (Note 13)			
Net assets:			
Shareholders' equity:			
Common stock,			
Authorized: 180 million shares in 2012 and 2011			
Issued: 45,625,800 shares in 2012 and 2011	6,646	6,646	80,861
Additional paid-in capital	5,485	5,485	66,735
Retained earnings	34,562	33,254	420,513
Treasury stock	(593)	(592)	(7,214)
Total shareholders' equity	46,101	44,794	560,907
Accumulated Other Comprehensive Income			
Net unrealized gains or losses on available-for-sale securities	412	(18)	5,012
Deferred gains or losses on hedges	(30)	(58)	(365)
Foreign currency translation adjustment	(27)	—	(328)
Total accumulated other comprehensive income	354	(76)	4,307
Minority interest	198	—	2,409
Total net assets	46,655	44,718	567,648
Total liabilities and net assets	¥89,261	¥84,315	\$1,086,032

See Notes to Consolidated Financial Statements.

Consolidated Statements of Income

TSUKISHIMA KIKAI CO., LTD. and its consolidated subsidiaries
Years ended March 31, 2012 and 2011

	Millions of yen (Note 1)		Thousands of U.S. dollars (Note 1)
	2012	2011	2012
Net sales (Notes 2, 17)	¥72,480	¥65,042	\$881,859
Cost of sales (Note 11)	60,136	53,556	731,670
Gross profit	12,343	11,486	150,176
Selling, general and administrative expenses (Note 11)	9,087	9,066	110,560
Operating income.....	3,256	2,420	39,615
Other income (expenses):			
Interest and dividend income.....	325	280	3,954
Interest expenses.....	(108)	(154)	(1,314)
Gain on sales of investments in securities	96	11	1,168
Gain on sales of property, plant and equipment	—	0	—
Loss on sales and disposal of property, plant and equipment.....	(21)	(18)	(255)
Loss on sales of investments in securities.....	—	(0)	—
Loss on adjustment for changes of accounting standard for asset retirement obligations.....	—	(146)	—
Loss on disaster.....	—	(184)	—
Compensation loss for construction.....	—	(249)	—
Equity in earnings of affiliates (Note 2)	9	10	109
Other, net (Note 14).....	72	197	876
Other income (expenses), net	374	(252)	4,550
Income before income taxes.....	3,630	2,167	44,165
Income taxes (Notes 2, 12):			
Current.....	531	303	6,460
Deferred	1,215	581	14,782
Total income taxes.....	1,747	884	21,255
Income before minority interests.....	1,883	1,282	22,910
Minority interests	(61)	—	(742)
Net income	¥ 1,822	¥ 1,282	\$ 22,168

	Yen	U.S. dollars (Note 1)
Per share		
Net income.....	¥40.93	¥28.82
Cash dividends.....	¥15.00	¥15.00

See Notes to Consolidated Financial Statements.

Consolidated Statement of Comprehensive Income

TSUKISHIMA KIKAI CO., LTD. and its consolidated subsidiaries
Years ended March 31, 2012 and 2011

	Millions of yen (Note 1)		Thousands of U.S. dollars (Note 1)
	2012	2011	2012
Income before minority interests	¥1,883	¥1,282	\$22,910
Other comprehensive income (Note 4)			
Net unrealized gains or losses on available-for-sale securities	430	(692)	5,231
Deferred gains or losses on hedges.....	7	15	85
Foreign currency translation adjustment.....	(37)	—	(450)
Share of other comprehensive income of associates accounted for using equity method.....	4	16	48
Total other comprehensive income.....	405	(661)	4,927
Comprehensive income	¥2,289	¥ 621	\$27,850
(Breakdown)			
Comprehensive income attributable to owners of the parent	¥2,261	¥ 621	\$27,509
Comprehensive income attributable to minority interests	¥ 28	¥ —	\$ 340

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, 2012 and 2011

	Thousands	Millions of yen (Note 1)											
	Number of shares of common stock issued	Shareholders' equity					Accumulated other comprehensive income					Minority 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	Total accumulated other comprehensive income			
Balance as of April 1, 2010	45,625	¥6,646	¥5,485	¥32,533	¥(646)	¥44,018	¥ 674	¥(89)	¥—	¥ 584	¥—	¥44,603	
Cash dividends.....	—	—	—	(667)	—	(667)	—	—	—	—	—	(667)	
Net income for the year ended March 31, 2011.....	—	—	—	1,282	—	1,282	—	—	—	—	—	1,282	
Change of scope of consolidation....	—	—	—	123	—	123	—	—	—	—	—	123	
Purchase of treasury stock.....	—	—	—	—	(11)	(11)	—	—	—	—	—	(11)	
Disposal of treasury stock.....	—	—	—	(17)	66	49	—	—	—	—	—	49	
Net changes of items other than those in shareholders' equity.....	—	—	—	—	—	—	(692)	31	—	(661)	—	(661)	
Balance as of March 31, 2011	45,625	¥6,646	¥5,485	¥33,254	¥(592)	¥44,794	¥ (18)	¥(58)	¥—	¥ (76)	¥—	¥44,718	

	Thousands	Millions of yen (Note 1)											
	Number of shares of common stock issued	Shareholders' equity					Accumulated other comprehensive income					Minority 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	Total accumulated other comprehensive income			
Balance as of April 1, 2011	45,625	¥6,646	¥5,485	¥33,254	¥(592)	¥44,794	¥ (18)	¥(58)	¥ —	¥ (76)	¥ —	¥44,718	
Cash dividends.....	—	—	—	(667)	—	(667)	—	—	—	—	—	(667)	
Net income for the year ended March 31, 2012.....	—	—	—	1,822	—	1,822	—	—	—	—	—	1,822	
Change of scope of consolidation....	—	—	—	153	—	153	—	—	—	—	—	153	
Purchase of treasury stock.....	—	—	—	—	(1)	(1)	—	—	—	—	—	(1)	
Disposal of treasury stock.....	—	—	—	—	—	—	—	—	—	—	—	—	
Net changes of items other than those in shareholders' equity.....	—	—	—	—	—	—	430	27	(27)	431	198	629	
Balance as of March 31, 2012	45,625	¥6,646	¥5,485	¥34,562	¥(593)	¥46,101	¥412	¥(30)	¥(27)	¥ 354	¥198	¥46,655	

	Thousands	Thousands of U.S. dollars (Note 1)											
	Number of shares of common stock issued	Shareholders' equity					Accumulated other comprehensive income					Minority 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	Total accumulated other comprehensive income			
Balance as of April 1, 2011	45,625	\$80,861	\$66,735	\$404,599	\$(7,202)	\$545,005	\$ (219)	\$(705)	\$ —	\$ (924)	\$ —	\$544,080	
Cash dividends.....	—	—	—	(8,115)	—	(8,115)	—	—	—	—	—	(8,115)	
Net income for the year ended March 31, 2012.....	—	—	—	22,168	—	22,168	—	—	—	—	—	22,168	
Change of scope of consolidation....	—	—	—	1,861	—	1,861	—	—	—	—	—	1,861	
Purchase of treasury stock.....	—	—	—	—	(12)	(12)	—	—	—	—	—	(12)	
Disposal of treasury stock.....	—	—	—	—	—	—	—	—	—	—	—	—	
Net changes of items other than those in shareholders' equity.....	—	—	—	—	—	—	5,231	328	(328)	5,243	2,409	7,652	
Balance as of March 31, 2012	45,625	\$80,861	\$66,735	\$420,513	\$(7,214)	\$560,907	\$5,012	\$(365)	\$(328)	\$4,307	\$2,409	\$567,648	

See Notes to Consolidated Financial Statements.

Consolidated Statements of Cash Flows

TSUKISHIMA KIKAI CO., LTD. and its consolidated subsidiaries
Years ended March 31, 2012 and 2011

	Millions of yen (Note 1)		Thousands of U.S. dollars (Note 1)
	2012	2011	2012
Cash flows from operating activities:			
Income before income taxes and minority interests.....	¥ 3,630	¥ 2,167	\$ 44,165
Adjustments for:			
Depreciation and amortization	1,277	1,421	15,537
Amortization of goodwill	46	46	559
Increase (decrease) in provision for post-employment benefits.....	178	118	2,165
Increase (decrease) in accrued bonus to employees	39	19	474
Increase (decrease) in reserve for retirement payments to officers.....	(0)	(20)	(0)
Increase (decrease) in allowance for doubtful accounts.....	(36)	(254)	(438)
Increase (decrease) in accrued warranty	(369)	407	(4,489)
Increase (decrease) in reserve for losses on contracts	181	96	2,202
Interest and dividend income	(325)	(280)	(3,954)
Interest expenses.....	108	154	1,314
Equity in (earnings) losses of affiliates	(9)	(10)	(109)
Loss (gain) on sales and disposal of property, plant and equipment.....	21	18	255
Loss on adjustment for changes of accounting standard for asset retirement obligations.....	—	146	—
Loss (gain) on sales of investments in securities	(96)	(11)	(1,168)
(Increase) decrease in notes and accounts receivable	(4,749)	4,373	(57,780)
Increase (decrease) in advances received.....	2,250	(781)	27,375
(Increase) decrease in inventories.....	(818)	1,818	(9,952)
Increase (decrease) in notes and accounts payable, trade	2,067	(4,652)	25,149
Other	(848)	(309)	(10,317)
Subtotal	2,547	4,466	30,989
Interest and dividend income received	332	288	4,039
Interest expenses paid	(111)	(149)	(1,350)
Income taxes paid.....	(145)	(1,107)	(1,764)
Net cash provided by (used in) operating activities.....	2,623	3,497	31,913
Cash flows from investing activities:			
Purchase of property, plant and equipment.....	(831)	(296)	(10,110)
Proceeds from sales of property, plant and equipment.....	0	0	0
Purchase of intangible fixed assets	(82)	(111)	(997)
Purchase of investments in securities	(600)	(167)	(7,300)
Proceeds from sales of investments in securities.....	392	126	4,769
Payments for loans receivable	(27)	—	(328)
Collection of loans receivable	5	4	60
Other	(36)	(27)	(438)
Net cash provided by (used in) investing activities.....	(1,178)	(470)	(14,332)
Cash flows from financing activities:			
Increase (decrease) in short-term loans payable.....	—	(150)	—
Proceeds from long-term loans payable.....	500	200	6,083
Repayments of long-term loans payable.....	(1,192)	(690)	(14,502)
Repayments of lease obligations.....	(89)	(22)	(1,082)
Proceeds from sales of treasury stock.....	—	49	—
Additions of treasury stock.....	(1)	(11)	(12)
Cash dividends paid	(667)	(667)	(8,115)
Net cash provided by (used in) financing activities.....	(1,450)	(1,293)	(17,642)
Effect of exchange rate change on cash and cash equivalents.....	4	—	48
Net increase (decrease) in cash and cash equivalents.....	(0)	1,733	(0)
Cash and cash equivalents at beginning of period (Notes 2, 5).....	16,108	14,241	195,984
Increase in cash and cash equivalents from newly consolidated subsidiaries	186	132	2,263
Cash and cash equivalents at end of period (Notes 2, 5).....	¥16,294	¥16,108	\$198,247

See Notes to Consolidated Financial Statements.

Notes to Consolidated Financial Statements

1. Basis of Presenting Consolidated Financial Statements

The accompanying 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 consolidated financial statements in a format which 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 ¥82.19 to \$1, the approximate rate of exchange at March 30, 2012.

Amounts less than ¥1 million have been rounded down. And 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 9 major subsidiaries that have been consolidated with the Company are listed below:

- Tsukishima Technology Maintenance Service Co., Ltd.
- Tsukishima Techno Machinery Co., Ltd.
- Sun Eco Thermal Co., Ltd.
- Tsukishima Kankyo Engineering Ltd.
- Samukawa Water Service, Co., Ltd.
- Tsukishima Techno Solution Co., Ltd.
- Tsukishima Business Support Co., Ltd.
- TSK Engineering Thailand Co., Ltd.
- TSK Engineering China Co., Ltd.

TSK Engineering China Co., Ltd. and TSK Engineering Thailand Co., Ltd. have become consolidated subsidiaries from this financial year because of a new establishment and its increased materiality, respectively.

(b) Accounting for Investments in Unconsolidated Subsidiaries and Affiliates

The equity method is applied to the investments in 1 affiliate.

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 affiliate accounted for by the equity method is listed below:

- Edogawa Water Service, Co., Ltd.

(c) Marketable Securities and Investments in Securities

All of the Group's securities are classified as follows: i) Held-to-maturity debt 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 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.

(e) Property, Plant and Equipment excluding Lease Assets

Property, plant and equipment are carried at cost. Depreciation is computed by the declining balance method over the estimated useful lives of the assets, except for buildings placed in service after April 1, 1998, for which depreciation is computed by the straight-line method. The range of useful lives is from 3 to 60 years for buildings and structures and from 2 to 17 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.

Finance lease transactions starting before the fiscal year ended March 31, 2008 that do not transfer ownership of the leased property to the lessee are accounted for as operating leases.

(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 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) 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.

(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 Currencies

Foreign currency receivables and payables are translated at the 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 the above foreign currency translations and transactions are included in other income or expenses.

(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 which 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 years using the straight-line method.

(q) Cash Equivalents

For the purpose of the consolidated statements of cash flows, cash and cash equivalents include highly liquid investments which 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. Additional Information

Application of the "Accounting Standard for Accounting Changes and Error Corrections"

Effective from April 1, 2011, the "Accounting Standard for Accounting Changes and Error Corrections" (ASBJ Statement No. 24, issued on December 4, 2009) and the "Guidance on Accounting Standard for Accounting Changes and Error Corrections" (ASBJ Guidance No. 24, issued on December 4, 2009) have been applied for accounting changes and corrections of prior period errors.

4. Other Comprehensive Income

Reclassification adjustments and tax effects of each component of other comprehensive income for the fiscal year ended March 31, 2012 are as follows:

	Millions of yen	Thousands of U.S. dollars
	2012	2012
Net unrealized gains or losses on available-for-sale securities		
Amount arising during the year	¥767	\$9,332
Reclassification adjustment for gains and losses included in net income	(96)	(1,168)
Net unrealized gains or losses on available-for-sale securities before tax effect	671	8,164
Tax effect	(240)	(2,920)
Net unrealized gains or losses on available-for-sale securities	430	5,231
Deferred gains or losses on hedges		
Amount arising during the year	(40)	(486)
Reclassification adjustment for gains and losses included in net income	28	340
Deferred gains or losses on hedges before tax effect	(12)	(146)
Tax effect	19	231
Deferred gains or losses on hedges	7	85
Foreign currency translation adjustment		
Amount arising during the year	(37)	(450)
Tax effect	—	—
Foreign currency translation adjustment	(37)	(450)
Share of other comprehensive income of associates accounted for using equity method		
Amount arising during the year	(2)	(24)
Reclassification adjustment for gains and losses included in net income	6	73
Share of other comprehensive income of associates accounted for using equity method	4	48
Total other comprehensive income	¥405	\$4,927

The corresponding information for the year ended March 31, 2011 was not required under the accounting standard for presentation of comprehensive income as an exemption for the first year of adopting that standard and not disclosed herein.

5. Cash and Cash Equivalents

Cash and cash equivalents as of March 31, 2012 and 2011 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Cash and time deposits.....	¥13,444	¥12,148	\$163,572
Marketable securities.....	3,000	4,000	36,500
Less: time deposits that mature or become due over three months after the date of acquisition.....	(150)	(40)	(1,825)
Cash and cash equivalents.....	¥16,294	¥16,108	\$198,247

6. Financial Instruments

Amounts on the consolidated balance sheets as of March 31, 2012 and 2011, fair value and variance were as follows:

	Millions of yen		
	2012		
	Amounts on the consolidated Balance Sheets	Fair value	Variance
(1) Cash and time deposits.....	¥13,444	¥13,444	¥ —
(2) Notes and accounts receivable.....	35,729	35,106	(622)
(3) Marketable securities and Investments in securities Securities classified as available-for-sale.....	17,540	17,540	—
Total.....	66,714	66,091	(622)
(4) Notes and accounts payable-trade.....	17,298	17,298	—
(5) Long-term loans payable (Include portion due within one year).....	4,439	4,461	21
Total.....	21,738	21,759	21
(6) Derivative transactions*.....	¥ (57)	¥ (56)	¥ 0

	Millions of yen		
	2011		
	Amounts on the consolidated Balance Sheets	Fair value	Variance
(1) Cash and time deposits.....	¥12,148	¥12,148	¥ —
(2) Notes and accounts receivable.....	30,849	29,931	(917)
(3) Marketable securities and Investments in securities Securities classified as available-for-sale.....	17,564	17,564	—
Total.....	60,562	59,645	(917)
(4) Notes and accounts payable-trade.....	15,156	15,156	—
(5) Long-term loans payable (Include portion due within one year).....	5,131	5,150	18
Total.....	20,288	20,307	18
(6) Derivative transactions*.....	¥ (45)	¥ (45)	¥ (0)

Thousands of U.S. dollars			
2012			
	Amounts on the consolidated Balance Sheets	Fair value	Variance
(1) Cash and time deposits.....	\$163,572	\$163,572	\$ —
(2) Notes and accounts receivable	434,712	427,132	(7,567)
(3) Marketable securities and Investments in securities			
Securities classified as available-for-sale	213,407	213,407	—
Total.....	811,704	804,124	(7,567)
(4) Notes and accounts payable-trade.....	210,463	210,463	—
(5) Long-term loans payable			
(Include portion due within one year).....	54,009	54,276	255
Total.....	264,484	264,740	255
(6) Derivative transactions*	\$ (693)	\$ (681)	\$ 0

* 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. 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) 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 principle and interest at the rate assumed based on interest rates on government securities and credit risk.

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.

(6) 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
	2012	2011	2012
Non-listed stocks.....	¥412	¥412	\$5,012
Non-consolidated subsidiary and associated company stocks	¥ 71	¥ 69	\$ 863

These stocks were not included in "(3) Marketable securities and Investments in securities", since the identification of the current values thereof was deemed extremely difficult, due to the absence of market values.

c. The aggregate maturities of monetary claims and available-for-sale securities with maturity outstanding as of March 31, 2012 and 2011 were as follows:

	Millions of yen			
	2012			
	Within 1 year	Over 1 year Within 5 years	Over 5 years Within 10 years	Over 10 years
Cash and time deposits.....	¥13,444	¥ —	¥ —	¥ —
Notes and accounts receivable.....	31,271	1,465	1,679	1,312
Marketable securities and Investments in securities Securities classified as available-for-sale.....	3,000	—	—	—
Total.....	¥47,715	¥1,465	¥1,679	¥1,312

	Millions of yen			
	2011			
	Within 1 year	Over 1 year Within 5 years	Over 5 years Within 10 years	Over 10 years
Cash and time deposits.....	¥12,148	¥ —	¥ —	¥ —
Notes and accounts receivable.....	25,743	1,621	1,814	1,670
Marketable securities and Investments in securities Securities classified as available-for-sale.....	4,000	—	—	—
Total.....	¥41,891	¥1,621	¥1,814	¥1,670

	Thousands of U.S. dollars			
	2012			
	Within 1 year	Over 1 year Within 5 years	Over 5 years Within 10 years	Over 10 years
Cash and time deposits.....	\$163,572	\$ —	\$ —	\$ —
Notes and accounts receivable.....	380,472	17,824	20,428	15,963
Marketable securities and Investments in securities Securities classified as available-for-sale.....	36,500	—	—	—
Total.....	\$580,545	\$17,824	\$20,428	\$15,963

d. The aggregate maturities of long-term loans payable outstanding as of March 31, 2012 and 2011 were as follows:

	Millions of yen					
	2012					
	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
Long-term loans payable (Include portion due within one year)...	¥440	¥396	¥384	¥390	¥325	¥2,502
Total.....	¥440	¥396	¥384	¥390	¥325	¥2,502

	Millions of yen					
	2011					
	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
Long-term loans payable (Include portion due within one year)...	¥1,142	¥340	¥296	¥284	¥290	¥2,777
Total.....	¥1,142	¥340	¥296	¥284	¥290	¥2,777

	Thousands of U.S. dollars					
	2012					
	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
Long-term loans payable (Include portion due within one year)...	\$5,353	\$4,818	\$4,672	\$4,745	\$3,954	\$30,441
Total.....	\$5,353	\$4,818	\$4,672	\$4,745	\$3,954	\$30,441

7. Marketable Securities and Investments in Securities

The carrying amounts and aggregate fair values of marketable and investment securities at March 31, 2012 and 2011 were as follows:

	Millions of yen			
	2012			
	Cost	Unrealized gains	Unrealized losses	Fair value
Securities classified as:				
Available-for-sale:				
Equity securities	¥13,894	¥2,386	¥(1,746)	¥14,534
Others.....	3,004	1	—	3,006
	¥16,899	¥2,387	¥(1,746)	¥17,540
Held-to-maturity securities.....	¥ —	¥ —	¥ —	¥ —

	Millions of yen			
	2011			
	Cost	Unrealized gains	Unrealized losses	Fair value
Securities classified as:				
Available-for-sale:				
Equity securities	¥13,590	¥1,774	¥(1,805)	¥13,558
Others.....	4,004	1	—	4,005
	¥17,595	¥1,775	¥(1,805)	¥17,564
Held-to-maturity securities.....	¥ —	¥ —	¥ —	¥ —

	Thousands of U.S. dollars			
	2012			
	Cost	Unrealized gains	Unrealized losses	Fair value
Securities classified as:				
Available-for-sale:				
Equity securities	\$169,047	\$29,030	\$(21,243)	\$176,834
Others.....	36,549	12	—	36,573
	\$205,608	\$29,042	\$(21,243)	\$213,407
Held-to-maturity securities.....	\$ —	\$ —	\$ —	\$ —

8. Derivative transactions

Derivative financial instruments with fair value as of March 31, 2012 and 2011 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-related

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

		Millions of yen		
		2012		
		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.....	¥ 980	¥—	¥(16)
Sell Euro, buy Japanese yen	.....	388	—	14
Sell Singapore dollar, buy Japanese yen	.....	—	—	—
Buy U.S. dollar, sell Japanese yen	Accounts payable-trade.....	442	—	5
Buy Euro, sell Japanese yen	.....	209	—	(3)
Buy Thai baht, sell Japanese yen	.....	19	—	0
Total.....		¥2,039	¥—	¥ (1)

		Millions of yen		
		2011		
		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.....	¥1,356	¥—	¥(8)
Sell Euro, buy Japanese yen	.....	238	—	(6)
Sell Singapore dollar, buy Japanese yen	.....	5	—	(0)
Buy U.S. dollar, sell Japanese yen	Accounts payable-trade.....	119	—	1
Buy Euro, sell Japanese yen	.....	271	—	11
Buy Thai baht, sell Japanese yen	.....	111	—	(0)
Total.....		¥2,102	¥—	¥(2)

		Thousands of U.S. dollars		
		2012		
		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.....	\$11,923	\$—	\$(194)
Sell Euro, buy Japanese yen	.....	4,720	—	170
Sell Singapore dollar, buy Japanese yen	.....	—	—	—
Buy U.S. dollar, sell Japanese yen	Accounts payable-trade.....	5,377	—	60
Buy Euro, sell Japanese yen	.....	2,542	—	(36)
Buy Thai baht, sell Japanese yen	.....	231	—	0
Total.....		\$24,808	\$—	\$ (12)

Note The fair value is the forward quotation.

(2) Interest rate-related
(Derivative transactions qualifying for general accounting policies, deferral hedge accounting)

		Millions of yen		
		2012		
		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	¥3,752	¥3,497	¥(55)
(Short-cut method)				
Receive floating, pay fixed	Long-term loans payable	450	350	Notes b.
Total.....		¥4,202	¥3,847	¥(55)

		Millions of yen		
		2011		
		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	¥4,011	¥3,752	¥(43)
Total.....		¥4,011	¥3,752	¥(43)

		Thousands of U.S. dollars		
		2012		
		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	\$45,650	\$42,547	\$(669)
(Short-cut method)				
Receive floating, pay fixed	Long-term loans payable	5,475	4,258	Notes b.
Total		\$51,125	\$46,806	\$(669)

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.

9. 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, 2012 and 2011 were approximately 0.6 percent and 0.8 percent, respectively.

Long-term loans payable as of March 31, 2012 and 2011 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Loans payable, due 2026	¥4,439	¥ 5,131	\$54,009
Less: portion due within one year	(440)	(1,142)	(5,353)
	¥3,999	¥ 3,989	\$48,655

Lease obligations as of March 31, 2012 and 2011 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Current	¥115	¥ 69	\$1,399
Non-current	320	217	3,893
	¥435	¥287	\$5,292

The following assets were pledged as collateral for the above long-term loans payable:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Deposit	¥ 744	¥707	\$ 9,052
Account receivable	170	190	2,068
Short-term loans receivable	5	—	60
Investments in securities	36	5	438
Long-term loans receivable	83	58	1,009
	¥1,040	¥962	\$12,653

Interest rates of long-term loans payable as of March 31, 2012 and 2011 were between 0.75 percent and 4.00 percent for both years.

10. Provision for Post-employment Benefits

Provision for post-employment benefit obligations as of March 31, 2012 and 2011 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
a. Post-employment benefit obligations.....	¥(6,785)	¥(6,704)	\$(82,552)
b. Pension assets.....	817	904	9,940
c. Net-total (a+b).....	(5,967)	(5,799)	(72,600)
d. Unrecognized actuarial differences.....	391	417	4,757
e. Unrecognized prior service cost.....	(14)	(30)	(170)
f. Provisions for post-employment benefits (c+d+e).....	¥(5,590)	¥(5,412)	\$(68,013)

Post-employment benefit expenses for the years ended March 31, 2012 and 2011 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
a. Service costs	¥500	¥505	\$6,083
b. Interest costs	121	119	1,472
c. Expected return	(13)	(15)	(158)
d. Amortization of unrecognized actuarial differences	90	81	1,095
e. Amortization of prior service cost	(15)	(15)	(182)
f. Post-employment benefit expenses total.....	683	675	8,310
g. Others.....	65	64	790
Total (f+g).....	¥748	¥740	\$9,100

Basic measurement of post-employment benefit obligations and other items

	2012	2011
a. Allocation method for projected post-employment benefits	Straight-line method	Straight-line method
b. Discount rate.....	2.0%	2.0%
c. Expected rate of return	1.5%	1.5%
d. Amortization period of prior service cost	11-14 years	11-14 years
e. Amortization period of actuarial differences	7 years	7 years

11. Research and Development Costs

Research and development costs charged to income for the years ended March 31, 2012 and 2011 amounted to ¥953 million (\$11,595 thousand) and ¥945 million, respectively.

12. 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:

	2012
Statutory tax rate.....	40.7%
Expenses not deductible for tax purposes.....	3.4
Non-taxable dividend income.....	(1.7)
Per capita levy of inhabitant taxes.....	0.8
Valuation allowance.....	(3.1)
Effects from the income tax rate change.....	7.3
Other—net.....	0.7
Effective tax rate.....	<u>48.1%</u>

Note of the reasons for the year ended March 31, 2011 is omitted because the difference between the statutory tax rate and effective tax rate is less than 5% of the statutory tax rate.

Deferred tax assets and liabilities at March 31, 2012 and 2011 were composed of the following:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Deferred tax assets:			
Accrued cost of sales.....	¥ 274	¥ 310	\$ 3,333
Accrued enterprise taxes.....	50	43	608
Reserve for losses on contracts.....	206	232	2,506
Accrued warranty.....	448	630	5,450
Provision for post-employment benefits.....	2,024	2,202	24,625
Unrealized profit.....	47	56	571
Accrued bonus to employees.....	616	644	7,494
Tax loss carryforward.....	761	1,745	9,259
Allowance for doubtful accounts.....	96	107	1,168
Long-term accounts payable-other.....	233	338	2,834
Others.....	993	952	12,081
Less: valuation allowance.....	(523)	(653)	(6,363)
Total deferred tax assets.....	<u>¥ 5,228</u>	<u>¥ 6,610</u>	<u>\$ 63,608</u>
Deferred tax liabilities:			
Reserve for deferred gains on sales of fixed assets for tax purposes.....	¥(1,164)	¥(1,341)	\$(14,162)
Net unrealized gains on available-for-sale securities.....	(228)	—	(2,774)
Others.....	(3)	—	(36)
Total deferred tax liabilities.....	<u>(1,396)</u>	<u>(1,341)</u>	<u>(16,985)</u>
Net deferred tax assets (liabilities).....	<u>¥3,832</u>	<u>¥5,269</u>	<u>\$46,623</u>

Change in statutory effective tax rate

The statutory effective tax rate used for the calculation of deferred tax assets and liabilities has changed to 38.0% for tax differences expected to be realized during April 1, 2012 to March 31, 2015 and to 35.6% for tax differences expected to be realized after April 1, 2015 from the 40.7% used in previous fiscal year. This is due to revisions of tax laws in Japan promulgated on December 2, 2011, which reduce the corporate tax rate while, at the same time, implementing a temporary tax increase to fund the rebuilding of areas devastated by the Great East Japan Earthquake.

Due to the change in the tax rate, amounts of deferred tax assets (net of deferred tax liabilities) decreased by ¥236 million (\$2,871 thousand) and deferred losses on hedges decreased by ¥2 million (\$24 thousand), deferred income taxes increased by ¥266 million (\$3,236 thousand) and net unrealized gains on available-for-sale securities increased by ¥32 million (\$389 thousand) as of and for the fiscal year ended March 31, 2012.

13. Contingent Liability

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

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Guarantees for indebtedness of non-consolidated subsidiaries and employees	¥ 26	¥77	\$ 316
Guarantee liability for performance guarantee insurance contract of equity method non-application Affiliate for PFI business	295	—	3,589
	¥322	¥77	\$3,917

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

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

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Gain on insurance.....	¥14	¥ 0	\$170
Depreciation of prepaid expenses.....	(1)	(1)	(12)
Reversal of allowance for doubtful accounts	42	251	511
Other, net.....	16	(52)	194
	¥72	¥197	\$876

15. 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, 2012, was approved at the Board of Directors meeting held on May 25, 2012:

	Millions of yen	Thousands of U.S. dollars
Year-end cash dividends of ¥8.00 (\$0.09) per share	¥356	\$4,331

16. Finance Leases

Finance leases that existed at March 31, 2008 and do not transfer ownership of the leased property to the lessee are accounted for as operating lease transactions.

The pro forma information of such leases existing at the transition date on an "as if capitalized" basis for the years ended March 31, 2012 and 2011 is as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Machinery and equipment.....	¥ 112	¥ 112	\$ 1,362
Tools, furniture and fixtures.....	10	44	121
Other assets.....	28	40	340
Less: accumulated depreciation.....	(138)	(158)	(1,679)
	¥ 11	¥ 39	\$ 133

Obligations under finance leases as of March 31, 2012 and 2011 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Due within one year.....	¥ 9	¥27	\$109
Due after one year.....	2	11	24
	¥11	¥39	\$133

Total rental expenses for the above leases were ¥27 million (\$328 thousand) and ¥36 million for the years ended March 31, 2012 and 2011, respectively.

The pro forma depreciation expense computed by the straight-line method was ¥27 million (\$328 thousand) and ¥36 million for the years ended March 31, 2012 and 2011, respectively.

The pro forma information above does not exclude the imputed interest portion because the remaining financial lease obligations are not material, compared with the book values of property, plant and equipment.

17. 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 environment business and Industrial business mainly. Therefore, these 2 business are specified as reportable segments.

Water environment business: Water purification plant, Others

Industrial business: Chemistry plant, Iron and steel plant, Food plant, Others

(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, 2012						Consolidated financial statements
	Reportable segments			Other	Total	Adjustment	
	Water environment business	Industrial business	Subtotal				
Sales:							
Sales to external customers.....	¥42,191	¥30,259	¥72,450	¥ 30	¥72,480	¥ —	¥72,480
Intersegment sales or transfers	25	164	189	1,168	1,358	(1,358)	—
Total.....	42,217	30,423	72,640	1,199	73,839	(1,358)	72,480
Segment income (loss)	1,887	1,284	3,172	83	3,256	—	3,256
Depreciation and amortization.....	647	621	1,268	8	1,277	—	1,277
Amortization of goodwill.....	¥ —	¥ 46	¥ 46	¥ —	¥ 46	¥ —	¥ 46

	Year ended March 31, 2011						Consolidated financial statements
	Reportable segments			Other	Total	Adjustment	
	Water environment business	Industrial business	Subtotal				
Sales:							
Sales to external customers.....	¥40,618	¥24,403	¥65,022	¥ 20	¥65,042	¥ —	¥65,042
Intersegment sales or transfers	20	123	143	1,158	1,302	(1,302)	—
Total.....	40,638	24,527	65,165	1,178	66,344	(1,302)	65,042
Segment income (loss)	2,311	20	2,332	87	2,420	—	2,420
Depreciation and amortization.....	650	766	1,416	5	1,421	—	1,421
Amortization of goodwill.....	¥ —	¥ 46	¥ 46	¥ —	¥ 46	¥ —	¥ 46

	Year ended March 31, 2012						Consolidated financial statements
	Reportable segments			Other	Total	Adjustment	
	Water environment business	Industrial business	Subtotal				
Sales:							
Sales to external customers.....	\$513,334	\$368,159	\$881,494	\$ 365	\$881,859	\$ —	\$881,859
Intersegment sales or transfers	304	1,995	2,299	14,210	16,522	(16,522)	—
Total.....	513,651	370,154	883,805	14,588	898,393	(16,522)	881,859
Segment income (loss)	22,958	15,622	38,593	1,009	39,615	—	39,615
Depreciation and amortization.....	7,872	7,555	15,427	97	15,537	—	15,537
Amortization of goodwill.....	\$ —	\$ 559	\$ 559	\$ —	\$ 559	\$ —	\$ 559

(d) Related Information
Information by geographical segment

(1) Net Sales

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Area:			
Japan.....	¥58,805	¥55,502	\$715,476
Asia.....	12,858	7,710	156,442
Other.....	817	1,830	9,940
	¥72,480	¥65,042	\$881,859

(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, 2012 and 2011 for both years.

(e) Information by amortization of goodwill and unamortized balance

	Millions of yen				
	2012				
	Water environment business	Industrial business	Other	Elimination or common asset	Total
Amortization of goodwill	¥—	¥ 46	¥—	¥—	¥ 46
Unamortized balance	¥—	¥372	¥—	¥—	¥372

	Millions of yen				
	2011				
	Water environment business	Industrial business	Other	Elimination or common asset	Total
Amortization of goodwill	¥—	¥ 46	¥—	¥—	¥ 46
Unamortized balance	¥—	¥419	¥—	¥—	¥419

	Thousands of U.S. dollars				
	2012				
	Water environment business	Industrial business	Other	Elimination or common asset	Total
Amortization of goodwill	\$—	\$ 559	\$—	\$—	\$ 559
Unamortized balance	\$—	\$4,526	\$—	\$—	\$4,526

INDEPENDENT AUDITORS' 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 consolidated subsidiaries as of March 31, 2012 and the related consolidated statements of income, comprehensive income, changes in net assets and cash flows for the years 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 conformity with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatements, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audits in conformity 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 principles 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 consolidated subsidiaries as of March 31, 2012 and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

Convenience Translation

Our audit also comprehended the translation of Japanese yen amount into U.S. dollar amounts and, in our opinion, such translation has been made in conformity with the basis set forth 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.

Tokyo, Japan
June 28, 2012


Inoue Auditing Co., Inc.

Non-Consolidated Balance Sheets

TSUKISHIMA KIKAI CO., LTD.
Years ended March 31, 2012 and 2011

ASSETS

	Millions of yen (Note 1)		Thousands of U.S. dollars (Note 1)
	2012	2011	2012
Current assets:			
Cash and time deposits.....	¥ 8,626	¥ 8,398	\$104,951
Marketable securities (Notes 2, 5).....	3,000	4,000	36,500
Notes and accounts receivable.....	23,565	18,078	286,713
Less: allowance for doubtful accounts (Note 2).....	(38)	(32)	(462)
Work in process (Note 2).....	1,982	1,526	24,114
Raw materials and supplies (Note 2).....	50	49	608
Deferred income taxes (Note 8).....	1,838	2,089	22,362
Other current assets (Note 6).....	2,273	2,376	27,655
Total current assets.....	41,299	36,485	502,482
Property, plant and equipment (Note 2):			
Land.....	6,738	6,738	81,980
Buildings and structures.....	8,409	8,391	102,311
Machinery and equipment.....	10,215	10,329	124,285
Lease assets.....	407	234	4,951
Construction in progress.....	438	7	5,329
	26,209	25,701	318,883
Less: accumulated depreciation.....	(14,752)	(14,453)	(179,486)
Net property, plant and equipment.....	11,457	11,247	139,396
Investments and other assets:			
Software.....	357	657	4,343
Lease assets (Note 2).....	58	39	705
Investments in securities (Notes 2, 5).....	14,951	13,975	181,907
Stocks of subsidiaries and affiliates and long-term loans receivable from subsidiaries and affiliates (Note 6).....	721	714	8,772
Investments in capital of subsidiaries.....	200	—	2,433
Deferred income taxes (Note 8).....	119	1,065	1,447
Other assets.....	402	445	4,891
Less: allowance for doubtful accounts (Note 2).....	(149)	(185)	(1,812)
Total investments and other assets.....	16,661	16,711	202,713
Total assets	¥69,417	¥64,444	\$844,591

See Notes to Non-Consolidated Financial Statements.

LIABILITIES AND NET ASSETS

	Millions of yen (Note 1)		Thousands of U.S. dollars (Note 1)
	2012	2011	2012
Current liabilities:			
Accounts payable			
Trade.....	¥14,177	¥10,918	\$172,490
Other	1,272	1,338	15,476
Short-term loans payable (Note 6)	50	50	608
Current portion of long-term loans payable (Note 6)	66	66	803
Lease obligations (Note 6)	107	64	1,301
Accrued income taxes (Note 8)	47	55	571
Accrued expenses	859	788	10,451
Accrued warranty (Note 2)	1,086	1,329	13,213
Reserve for losses on contracts (Note 2)	395	209	4,805
Provision for loss on disaster	—	162	—
Advances received	5,016	2,763	61,029
Other current liabilities	1,080	2,638	13,140
Total current liabilities	24,159	20,383	293,940
Long-term liabilities:			
Long-term loans payable (Note 6)	17	83	206
Lease obligations (Note 6)	297	201	3,613
Long-term accounts payable-other	631	833	7,677
Provision for post-employment benefits (Note 2)	2,709	2,668	32,960
Asset retirement obligations	66	66	803
Total long-term liabilities	3,723	3,853	45,297
Contingent liability (Note 9)			
Net assets:			
Shareholders' equity:			
Common stock,			
Authorized: 180 million shares in 2012 and 2011			
Issued: 45,625,800 shares in 2012 and 2011	6,646	6,646	80,861
Additional paid-in capital	5,485	5,485	66,735
Retained earnings	29,582	28,685	359,922
Treasury stock	(593)	(592)	(7,214)
Total shareholders' equity	41,121	40,225	500,316
Valuation and translation adjustments			
Net unrealized gains or losses on available-for-sale securities	412	(18)	5,012
Deferred gains or losses on hedges	(0)	(0)	(0)
Total valuation and translation adjustments	412	(18)	5,012
Total net assets	41,534	40,206	505,341
Total liabilities and net assets	¥69,417	¥64,444	\$844,591

See Notes to Non-Consolidated Financial Statements.

Non-Consolidated Statements of Income

TSUKISHIMA KIKAI CO., LTD.
Years ended March 31, 2012 and 2011

	Millions of yen (Note 1)		Thousands of U.S. dollars (Note 1)
	2012	2011	2012
Net sales (Note 2)	¥47,590	¥37,969	\$579,024
Cost of sales (Note 7)	40,202	31,195	489,134
Gross profit	7,388	6,774	89,889
Selling, general and administrative expenses (Note 7)	6,190	6,201	75,313
Operating income	1,198	572	14,575
Other income (expenses):			
Interest and dividend income	1,061	1,001	12,909
Interest expenses	(1)	(1)	(12)
Gain on sales of investments in securities	96	11	1,168
Loss on sales and disposal of property, plant and equipment	(11)	(17)	(133)
Loss on sales of investments in securities	—	(0)	—
Loss on adjustment for changes of accounting standard for asset retirement obligations	—	(57)	—
Loss on disaster	—	(184)	—
Other, net (Note 10)	75	224	912
Other income (expenses), net	1,220	977	14,843
Income before income taxes	2,418	1,549	29,419
Income taxes (Notes 2, 8):			
Current	(102)	(418)	(1,241)
Deferred	955	651	11,619
Total income taxes	853	232	10,378
Net income	¥ 1,565	¥ 1,317	\$ 19,041

Per share	Yen	U.S. dollars (Note 1)
	Net income	¥35.17	¥29.58
Cash dividends	¥15.00	¥15.00

See Notes to Non-Consolidated Financial Statements.

Non-Consolidated Statements of Changes in Net Assets

TSUKISHIMA KIKAI CO., LTD.
Years ended March 31, 2012 and 2011

	Millions of yen (Note 1)									
	Thousands Number of shares of common stock issued	Shareholders' equity					Valuation and translation adjustments			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	Total valuation and translation adjustments	
Balance as of April 1, 2010	45,625	¥6,646	¥5,485	¥28,035	¥(580)	¥39,587	¥ 674	¥(1)	¥ 673	¥40,261
Cash dividends.....	—	—	—	(667)	—	(667)	—	—	—	(667)
Net income for the year ended March 31, 2011.....	—	—	—	1,317	—	1,317	—	—	—	1,317
Purchase of treasury stock.....	—	—	—	—	(11)	(11)	—	—	—	(11)
Net changes of items other than those in shareholders' equity.....	—	—	—	—	—	—	(692)	1	(691)	(691)
Balance as of March 31, 2011	45,625	¥6,646	¥5,485	¥28,685	¥(592)	¥40,225	¥ (18)	¥(0)	¥ (18)	¥40,206

	Millions of yen (Note 1)									
	Thousands Number of shares of common stock issued	Shareholders' equity					Valuation and translation adjustments			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	Total valuation and translation adjustments	
Balance as of April 1, 2011	45,625	¥6,646	¥5,485	¥28,685	¥(592)	¥40,225	¥ (18)	¥(0)	¥ (18)	¥40,206
Cash dividends.....	—	—	—	(667)	—	(667)	—	—	—	(667)
Net income for the year ended March 31, 2012.....	—	—	—	1,565	—	1,565	—	—	—	1,565
Purchase of treasury stock.....	—	—	—	—	(1)	(1)	—	—	—	(1)
Net changes of items other than those in shareholders' equity.....	—	—	—	—	—	—	430	(0)	430	430
Balance as of March 31, 2012	45,625	¥6,646	¥5,485	¥29,582	¥(593)	¥41,121	¥412	¥(0)	¥412	¥41,534

	Thousands of U.S. dollars (Note 1)									
	Thousands Number of shares of common stock issued	Shareholders' equity					Valuation and translation adjustments			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	Total valuation and translation adjustments	
Balance as of April 1, 2011	45,625	\$80,861	\$66,735	\$349,008	\$(7,202)	\$489,414	\$ (219)	\$ (0)	\$ (219)	\$489,183
Cash dividends.....	—	—	—	(8,115)	—	(8,115)	—	—	—	(8,115)
Net income for the year ended March 31, 2012.....	—	—	—	19,041	—	19,041	—	—	—	19,041
Purchase of treasury stock.....	—	—	—	—	(12)	(12)	—	—	—	(12)
Net changes of items other than those in shareholders' equity.....	—	—	—	—	—	—	5,231	(0)	5,231	5,231
Balance as of March 31, 2012	45,625	\$80,861	\$66,735	\$359,922	\$(7,214)	\$500,316	\$5,012	\$ (0)	\$5,012	\$505,341

See Notes to Non-Consolidated Financial Statements.

Non-Consolidated Statements of Cash Flows

TSUKISHIMA KIKAI CO., LTD.
Years ended March 31, 2012 and 2011

	Millions of yen (Note 1)		Thousands of U.S. dollars (Note 1)
	2012	2011	2012
Cash flows from operating activities:			
Income before income taxes	¥ 2,418	¥ 1,549	\$ 29,419
Adjustments for:			
Depreciation and amortization	1,046	1,176	12,726
Increase (decrease) in provision for post-employment benefits.....	41	54	498
Increase (decrease) in accrued bonus to employees	65	53	790
Increase (decrease) in allowance for doubtful accounts	(30)	(258)	(365)
Increase (decrease) in accrued warranty	(242)	358	(2,944)
Increase (decrease) in reserve for losses on contracts	186	66	2,263
Interest and dividend income	(1,061)	(1,001)	(12,909)
Interest expenses.....	1	1	12
Loss (gain) on sales and disposal of property, plant and equipment.....	11	17	133
Loss on adjustment for changes of accounting standard for asset retirement obligations.....	—	57	—
Loss (gain) on sales of investments in securities	(96)	(11)	(1,168)
(Increase) decrease in notes and accounts receivable	(5,487)	4,310	(66,759)
Increase (decrease) in advances received.....	2,252	191	27,399
(Increase) decrease in inventories.....	(457)	1,071	(5,560)
Increase (decrease) in accounts payable, trade.....	3,259	(3,139)	39,652
Other	(1,944)	(17)	(23,652)
Subtotal	(35)	4,481	(425)
Interest and dividend income received	1,062	1,001	12,921
Interest expenses paid	(1)	(1)	(12)
Income taxes (paid) refund	474	(345)	5,767
Net cash provided by (used in) operating activities.....	1,498	5,136	18,226
Cash flows from investing activities:			
Purchase of property, plant and equipment.....	(684)	(217)	(8,322)
Proceeds from sales of property, plant and equipment.....	0	0	0
Purchase of intangible fixed assets	(74)	(103)	(900)
Purchase of investments in securities	(600)	(166)	(7,300)
Proceeds from sales of investments in securities.....	392	126	4,769
Payments for investments in capital of subsidiaries.....	(200)	—	(2,433)
Payments for loans receivable	(802)	(970)	(9,757)
Collection of loans receivable	485	940	5,900
Other	(5)	(9)	(60)
Net cash provided by (used in) investing activities	(1,490)	(400)	(18,128)
Cash flows from financing activities:			
Proceeds from long-term loans payable	—	200	—
Repayments of long-term loans payable	(66)	(67)	(803)
Repayments of lease obligations.....	(81)	(15)	(985)
Additions of treasury stock.....	(1)	(11)	(12)
Cash dividends paid	(667)	(667)	(8,115)
Net cash provided by (used in) financing activities.....	(816)	(562)	(9,928)
Effect of exchange rate change on cash and cash equivalents.....	35	—	425
Net increase (decrease) in cash and cash equivalents.....	(772)	4,173	(9,392)
Cash and cash equivalents at beginning of period (Notes 2, 4).....	12,398	8,224	150,845
Cash and cash equivalents at end of period (Notes 2, 4).....	¥11,626	¥12,398	\$141,452

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 which 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 ¥82.19 to \$1, the approximate rate of exchange at March 30, 2012.

Amounts less than ¥1 million have been rounded down. And 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 debt 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 is computed by the declining balance method over the estimated useful lives of the assets, except for buildings placed in service after April 1, 1998, for which depreciation is computed by the straight-line method. The range of useful lives is from 3 to 60 years for buildings and structures and from 2 to 17 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.

Finance lease transactions starting before the fiscal year ended March 31, 2008 that do not transfer ownership of the leased property to the lessee are accounted for as operating leases.

(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 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.

(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 which 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 which 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**Application of the "Accounting Standard for Accounting Changes and Error Corrections"**

Effective from April 1, 2011, the "Accounting Standard for Accounting Changes and Error Corrections" (ASBJ Statement No. 24, issued on December 4, 2009) and the "Guidance on Accounting Standard for Accounting Changes and Error Corrections" (ASBJ Guidance No. 24, issued on December 4, 2009) have been applied for accounting changes and corrections of prior period errors.

4. Cash and Cash Equivalents

Cash and cash equivalents as of March 31, 2012 and 2011 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Cash and time deposits.....	¥ 8,626	¥ 8,398	\$104,951
Marketable securities.....	3,000	4,000	36,500
Cash and cash equivalents.....	¥11,626	¥12,398	\$141,452

5. Marketable Securities and Investments in Securities

The carrying amounts and aggregate fair values of marketable and investment securities at March 31, 2012 and 2011 were as follows:

	Millions of yen			
	2012			
	Cost	Unrealized gains	Unrealized losses	Fair value
Securities classified as:				
Available-for-sale:				
Equity securities.....	¥13,893	¥2,386	¥(1,746)	¥14,533
Others.....	3,004	1	—	3,006
	¥16,898	¥2,387	¥(1,746)	¥17,539
Held-to-maturity securities.....	¥ —	¥ —	¥ —	¥ —

	Millions of yen			
	2011			
	Cost	Unrealized gains	Unrealized losses	Fair value
Securities classified as:				
Available-for-sale:				
Equity securities.....	¥13,590	¥1,773	¥(1,805)	¥13,558
Others.....	4,004	1	—	4,005
	¥17,594	¥1,775	¥(1,805)	¥17,564
Held-to-maturity securities.....	¥ —	¥ —	¥ —	¥ —

	Thousands of U.S. dollars			
	2012			
	Cost	Unrealized gains	Unrealized losses	Fair value
Securities classified as:				
Available-for-sale:				
Equity securities.....	\$169,035	\$29,030	\$(21,243)	\$176,821
Others.....	36,549	12	—	36,573
	\$205,596	\$29,042	\$(21,243)	\$213,395
Held-to-maturity securities.....	\$ —	\$ —	\$ —	\$ —

6. 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, 2012 and 2011 were approximately 0.6 percent and 0.8 percent, respectively.

Long-term loans payable as of March 31, 2012 and 2011 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Loans payable, due 2013	¥83	¥150	\$1,009
Less: portion due within one year	(66)	(66)	(803)
	¥17	¥ 83	\$ 206

Lease obligations as of March 31, 2012 and 2011 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Current.....	¥107	¥ 64	\$1,301
Non-current.....	297	201	3,613
	¥405	¥266	\$4,927

The following assets were pledged as collateral.

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Short-term loans receivable	¥ 20	¥ —	\$ 243
Investments in securities	7	5	85
Stocks of subsidiaries and affiliates and long-term loans receivable from subsidiaries and affiliates.....	230	215	2,798
	¥258	¥220	\$3,139

Interest rates of long-term loans payable as of March 31, 2012 and 2011 were approximately 0.75 percent for both years.

7. Research and Development Costs

Research and development costs charged to income for the years ended March 31, 2012 and 2011 amounted to ¥776 million (\$9,441 thousand) and ¥806 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:

	2012	2011
Statutory tax rate.....	40.7%	40.7%
Expenses not deductible for tax purposes.....	4.2	6.2
Non-taxable dividend income.....	(15.0)	(22.2)
Per capita levy of inhabitant taxes.....	0.8	1.3
Valuation allowance.....	0.4	(1.9)
Effects from the income tax rate change.....	3.5	—
Other—net.....	0.7	(9.1)
Effective tax rate.....	35.3%	15.0%

Deferred tax assets and liabilities at March 31, 2012 and 2011 were composed of the following:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Deferred tax assets:			
Accrued cost of sales.....	¥ 231	¥ 300	\$ 2,810
Reserve for losses on contracts.....	150	85	1,825
Accrued warranty.....	412	540	5,012
Provision for post-employment benefits.....	982	1,085	11,947
Accrued bonus to employees.....	259	251	3,151
Tax loss carryforward.....	642	1,573	7,811
Allowance for doubtful accounts.....	67	75	815
Long-term accounts payable-other.....	233	338	2,834
Others.....	670	534	8,151
Less: valuation allowance.....	(299)	(289)	(3,637)
Total deferred tax assets.....	¥ 3,351	¥4,496	\$ 40,771
Deferred tax liabilities:			
Reserve for deferred gains on sales of fixed assets for tax purposes.....	¥(1,164)	¥(1,341)	\$(14,162)
Net unrealized gains on available-for-sale securities.....	(228)	—	(2,774)
Total deferred tax liabilities.....	(1,393)	(1,341)	(16,948)
Net deferred tax assets (liabilities).....	¥ 1,958	¥ 3,154	\$ 23,822

Change in statutory effective tax rate

The statutory effective tax rate used for the calculation of deferred tax assets and liabilities has changed to 38.0% for tax differences expected to be realized during April 1, 2012 to March 31, 2015 and to 35.6% for tax differences expected to be realized after April 1, 2015 from the 40.7% used in previous fiscal year. This is due to revisions of tax laws in Japan promulgated on December 2, 2011, which reduce the corporate tax rate while, at the same time, implementing a temporary tax increase to fund the rebuilding of areas devastated by the Great East Japan Earthquake.

Due to the change in the tax rate, amounts of deferred tax assets (net of deferred tax liabilities) decreased by ¥52 million (\$632 thousand) and deferred losses on hedges decreased by ¥0 million (\$0 thousand), deferred income taxes increased by ¥85 million (\$1,034 thousand) and net unrealized gains on available-for-sale securities increased by ¥32 million (\$389 thousand) as of and for the fiscal year ended March 31, 2012.

9. Contingent Liability

The Company was contingently liable for the following items:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Guarantees for indebtedness of subsidiaries and employees	¥ 886	¥879	\$10,779
Guarantee liability for performance guarantee insurance contract of equity method non-application Affiliate for PFI business.	295	—	3,589
	¥1,181	¥879	\$14,369

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

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

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Exchange gain (loss)	¥40	¥ (9)	\$486
Reversal of allowance for doubtful accounts	35	255	425
Other, net.....	(0)	(21)	(0)
	¥75	¥224	\$912

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, 2012, was approved at the Board of Directors meeting held on May 25, 2012.

	Millions of yen	Thousands of U.S. dollars
Year-end cash dividends of ¥8.00 (\$0.09) per share	¥356	\$4,331

12. Finance Leases

Finance leases that existed at March 31, 2008 and do not transfer ownership of the leased property to the lessee are accounted for as operating lease transactions.

The pro forma information of such leases existing at the transition date on an "as if capitalized" basis for the years ended March 31, 2012 and 2011 is as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Tools, furniture and fixtures	¥ 10	¥ 10	\$ 121
Other assets.....	11	18	133
Less: accumulated depreciation.....	(18)	(20)	(219)
	¥ 3	¥ 7	\$ 36

Obligations under finance leases as of March 31, 2012 and 2011 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Due within one year.....	¥1	¥4	\$12
Due after one year.....	2	3	24
	¥3	¥7	\$36

Total rental expenses for the above leases were ¥4 million (\$48 thousand) and ¥4 million for the years ended March 31, 2012 and 2011, respectively.

The pro forma depreciation expense computed by the straight-line method was ¥4 million (\$48 thousand) and ¥4 million for the years ended March 31, 2012 and 2011, respectively.

The pro forma information above does not exclude the imputed interest portion because the remaining financial lease obligations are not material, compared with the book values of property, plant and equipment.

INDEPENDENT AUDITORS' 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, 2012 and the related non-consolidated statements of income, changes in net assets and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

Management's Responsibility for the Non-consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these non-consolidated financial statements in conformity 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 misstatements, 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 audits in conformity 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 principles 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, 2012 and the non-consolidated results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

Convenience Translation

Our audit also comprehended the translation of Japanese yen amount into U.S. dollar amounts and, in our opinion, such translation has been made in conformity with the basis set forth 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.

Tokyo, Japan
June 28, 2012

Inoue Auditing Co., Inc.

Inoue Auditing Co., Inc.

CORPORATE DATA (As of march 31, 2012)

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	643
Stock listing	Tokyo Stock Exchange and Osaka Securities Exchange
Common stock	Authorized: 180,000,000 shares Issued: 45,625,800 shares
Number of shareholders	5,256
Transfer agent	Mitsubishi UFJ Trust and Banking Corporation 4-5 Marunouchi 1-chome, Chiyoda-ku, Tokyo 100-8212, Japan

Overseas

Offices

TSK Jakarta Representative Office
TSK Hanoi Representative Office
TSK Mumbai Liaison Office

Group Companies

Tsukishima Engineering Singapore Pte. Ltd.
Tsukishima Engineering Malaysia Sdn. Bhd.
TSK Engineering Taiwan Co., Ltd.
TSK Engineering Thailand Co., Ltd.
TSK Engineering China Co., Ltd.

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.
October	Environmental Process Development Center opened.
November	Tsukishima Techno 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 June	Electron beam welding equipment, one of the biggest in Japan, installed at the Ichikawa Factory.
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.

TSUKISHIMA KIKAI CO., LTD.

17-15, Tsukuda 2-chome, Chuo-ku, Tokyo 104-0051, Japan

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

FAX. +81-(0)3-3536-0573

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

