



TOWARDS A CLEANER FUTURE

PROFILE

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

Operations of
the Tsukishima Kikai Group

TSK

TSUKISHIMA
KIKAI

Basic technologies and
applications associated with
sugar refining

Core technologies

Reaction, Crystallization,
Distillation, Centrifuge separation,
Filtration, Dehydration,
Incineration, Storage

Applications

Applications



Water Environmental Business

Water: Filtration and purification,
Wastewater treatment

Sewage: Sewage treatment, Sludge treatment

Affiliated companies

- Tsukishima Technology Maintenance Service Co., Ltd.
- Samukawa Water Service
- Owari Water & Energy



Industrial Business

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

Affiliated companies

- SUN ECO THERMAL Co., Ltd.
- Tsukishima Kankyo Engineering Ltd.
- Tsukishima Machine Sales Co., Ltd.
- TSK Engineering (Thailand) Co., Ltd.
- TSK Engineering China Co., Ltd.
- DAIDO CHEMICAL ENGINEERING CORP.
- BOKELA GmbH
- SANSHIN KOGYO Co., Ltd.



Hiroshima East Power Plant (Hiroshima City)



Sewage treatment plant (Hoi An, Vietnam)

BUSINESS SEGMENTS

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

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



Steam Tube Dryer



Distillation Equipment

A Year of Progress Towards a New Stage

KAZUHIKO YAMADA

President and Chief Executive Officer,
Representative Director

I am pleased to present our Annual Report 2019, covering the period from April 1, 2018 to March 31, 2019.

Regarding the market environment faced by Tsukishima Kikai in the fiscal year ended March 31, 2019, the domestic economy has been experiencing improving corporate profits and a gradual recovery in capital spending, even as the world economy faces an uncertain future. Overseas, a mild recovery has been evident despite the risk of a global slowdown resulting from ever more severe trade frictions.

In this environment, the Tsukishima Kikai Group is carrying out its business in line with its medium-term management plan, now in its third and final year, which is founded on the basic principal of creating a stable income base and a base for growth.

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

In the Industrial Business segment, our goal was to capture demand for capital investment through wide-ranging marketing activities targeting industrial plant, process equipment, and environment-related equipment in the Japanese and overseas markets. As part of our strategic investments, we focused on developing technology for producing energy from sewage sludge and upgrading process equipment while also carrying out plans to expand the range of customers we serve by proposing solutions in cooperation with partner companies.

Net sales and income

Our consolidated financial results for the fiscal year are shown in the graphs on the right.

*1: PFI (Private Finance Initiative)

A structure that pulls together private sector funds, technology, and efficient operating expertise to provide public services that require facility development.

*2: DBO (Design Build Operate)

An approach in which a business corporation is entrusted with the design, building, and operation of facilities, while a government agency arranges finance and assumes ownership.

*3: FIT (Feed-in Tariff)

A system that requires electric power operators to purchase electricity generated using renewable energy at a fixed, predetermined price.

SEGMENT RESULTS

Water Environmental Business

In the Water Environmental Business, public investment related to water environmental infrastructure was relatively strong in Japan. Orders increased for multi-year work and comprehensive operation and maintenance services (O&M^{*4}), as well as PFI and DBO projects combining facility construction with long-term operation and maintenance services.

Under these conditions, the Tsukishima Kikai Group has been addressing the demand of expansion and renewal projects for domestic sludge treatment, facilities used in water and sewage systems. To this end, we have been enhancing our sales activities for sludge treatment plants, such as sludge dewatering, drying and incineration facilities for sewage treatment, and sludge treatment facilities for water purification plants. In addition, we have also been expanding sales activities in repair work as well as in comprehensive O&M services. In sludge treatment facilities, the result of these efforts was the achievement of orders for a next-generation sludge incineration



system as well as overseas orders for sewage treatment plants. In O&M services, we increased orders by expanding the scope of work entrusted to us and by winning multi-year O&M service contracts. In addition, in electric power generation projects using sludge digestion gas and applying FIT, we received several projects and are expanding the proportion of business with steady long-term revenue.

These results are shown in the graphs on the right.

***4: Comprehensive O&M services**

Services that encompass not only facility operation and management, but also comprehensive maintenance and management including facility repair and the provision of chemicals and other supplies.

Industrial Business

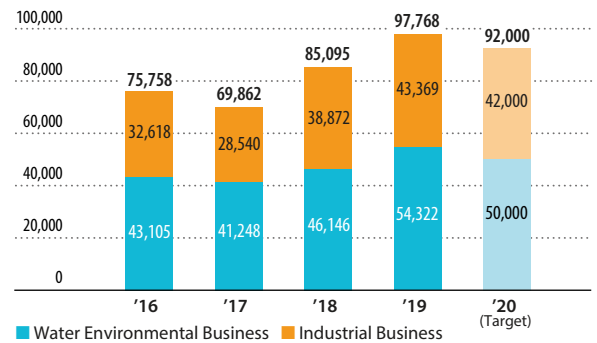
In the Industrial Business, the domestic economy is seeing improving corporate profits and an increase in capital investment, even as the world economy faces an uncertain future. Overseas, a mild recovery has been appearing, but caution is required because of the risk of a slowdown in the global economy posed by more severe trade frictions.

Under these conditions, the Tsukishima Kikai Group expanded its domestic and international business activities in plant facilities and in process equipment such as dryers, separators, filtration equipment, and gas holders. We have been especially focused on addressing the demand for capital investment, including the demand for renewal projects, in the foodstuff, chemicals, and steel sectors in Japan and overseas. Also, in environmental-related business, we have been expanding sales activities, both in Japan and overseas, for waste-liquid combustion systems, solid waste incineration facilities, and exhaust gas treatment facilities.

These results are shown in the graphs on the right.

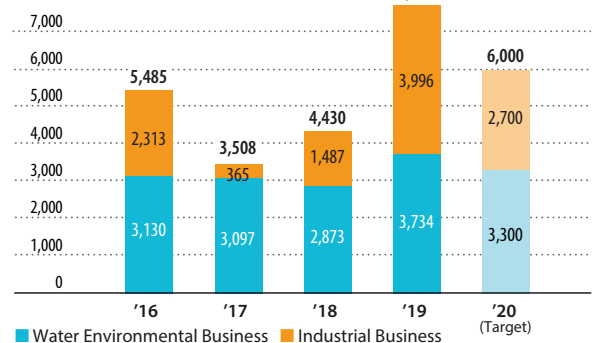
I would like to ask all shareholders, investors, and customers for your further support and cooperation in our future endeavors.

Sales* (Millions of yen)



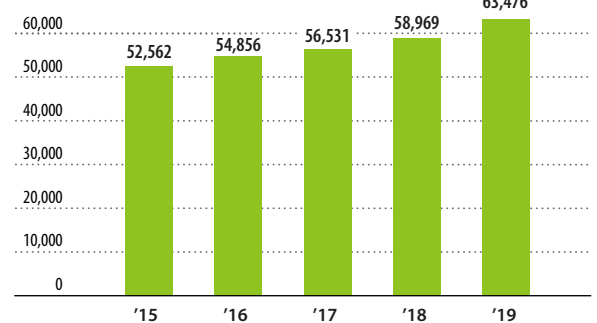
* Totals include the Other segment.

Operating income* (Millions of yen)

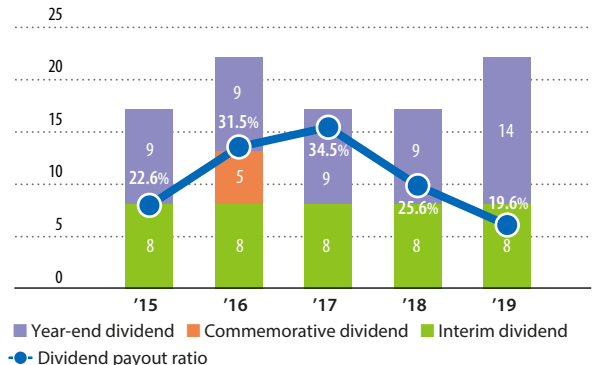


* Totals include the Other segment.

Total shareholders' equity (Millions of yen)



Dividend per share (Yen)



MEDIUM-TERM MANAGEMENT PLANS: TRENDS AND THE NEW PLAN

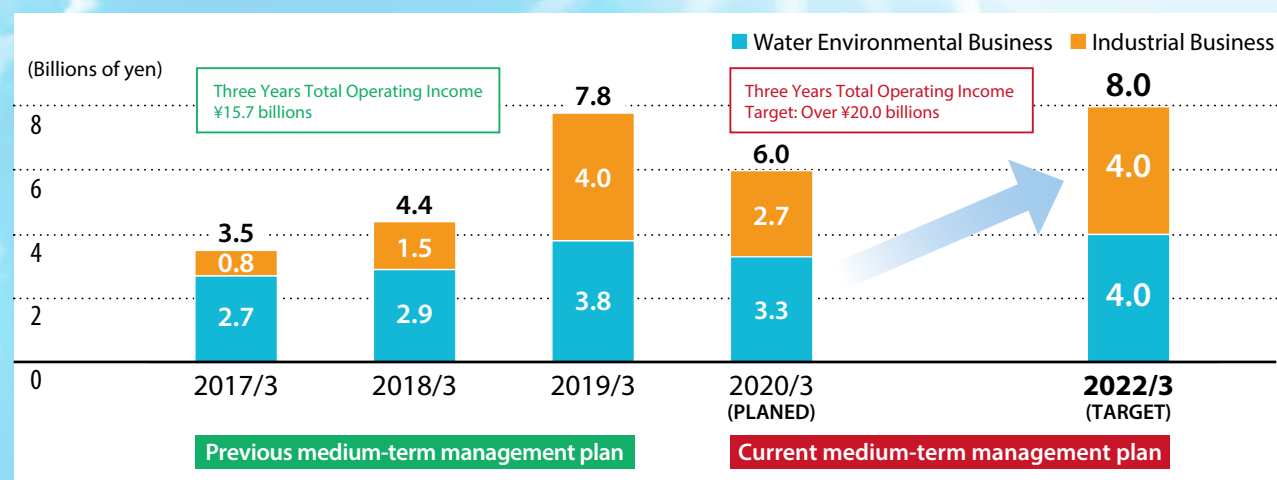
With the aim of enhancing corporate value with sustainable growth, we have drafted and released a new medium-term management plan covering the period from April 1, 2019, to March 31, 2022, and founded on the basic principles of fortifying the business foundation and promoting a growth strategy. Under the key words of energy and the environment, and through business expansion that supports both themes at the same time, we aim to raise our contribution to society and our corporate value. The medium-term management plan for the next period targets consolidated operating income of ¥10 billion, net income of ¥6 billion, and ROE of at least 8%.

The targets of the medium-term management plan are as follows.

Numerical Targets

	Previous Mid-term Plan Results in 2019/3	Previous Mid-term Plan Three-years Average	Current Mid-term Plan Target of 2022/3
Net sales	¥97.8 billion	¥84.2 billion	¥110.0 billion
Operating income	¥7.8 billion	¥5.2 billion	¥8.0 billion
Operating income ratio	8.0%	6.1%	7.3%
Ordinary income	¥8.1 billion	¥5.6 billion	¥8.3 billion
Profit attributable to owners of parent	¥5.0 billion	¥3.4 billion	¥5.4 billion
ROE	7.6%	5.3%	Over 7.0%

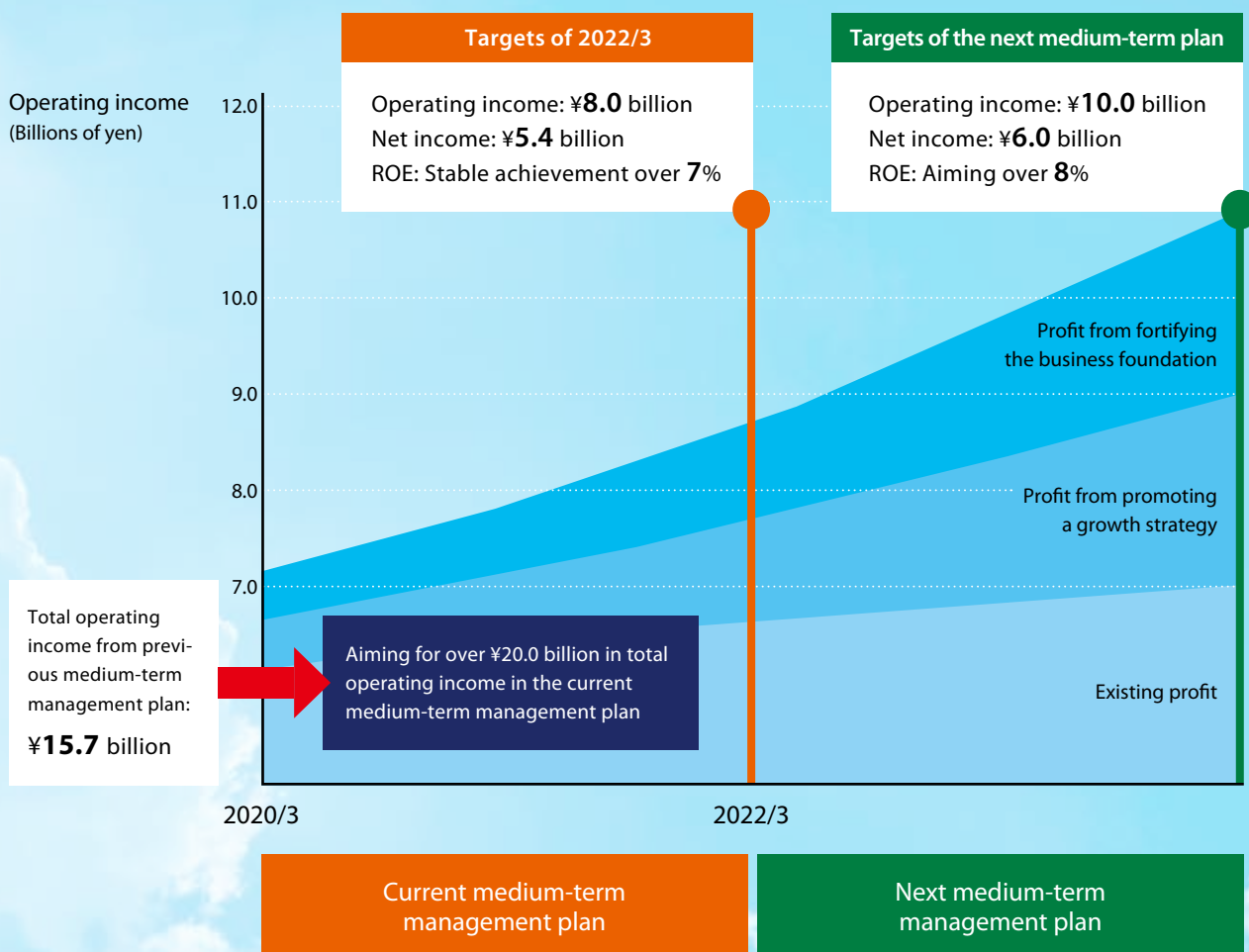
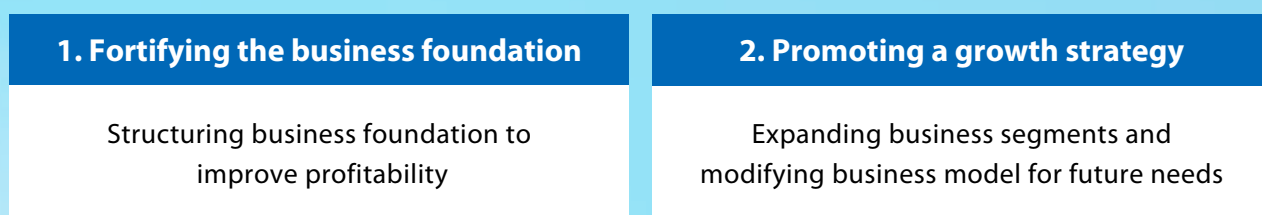
Operating Income Results and Targets by Segment



Basic Policies

With the aim of promoting sustainable growth, Tsukishima Kikai is carrying out its medium-term management plan, founded on the basic principles of fortifying the business foundation and promoting a growth strategy. We will aim to achieve the plan by transforming our business model and profit structure to improve our basic earning power.

Basic Policy of Our New Medium-term Management Plan





TOPIC
01

Construction completed on Muroan Factory

In the process equipment market, competition with foreign companies has been intensifying as globalization marches on. Therefore, in order to raise the efficiency of our production, the decision was made to relocate the Ichikawa Factory (Ichikawa City in Chiba Prefecture), the site of a Tsukushima Kikai manufacturing facility, to a location inside of the Muroan Plant (at Muroan City in Hokkaido) owned by The Japan Steel Works, Ltd. (JSW). Factory construction was completed and manufacturing started in April 2019.

The required equipment for manufacturing was moved mainly from the Ichikawa Factory, but some equipment that was difficult to move for reasons such as aging and equipment that could contribute to productivity improvements were newly installed. The manufacturing workforce consists of Tsukushima Kikai employees who were relocated from Ichikawa Factory and employees seconded from JSW. Outside of the Company's products, we have also been involved at Muroan Factory in the manufacturing of large-scale pressure vessels for use in refining oil as work on consignment from JSW.

By combining the manufacturing technology cultivated up to now by Tsukushima Kikai with the manufacturing know-how of JSW, we are striving forward in pursuit of even higher quality.



TOPIC
02

Making use of the Ichikawa Factory site and relocating the R&D center

Because the Company's manufacturing facilities at Ichikawa Factory are relocating to the Muroan Factory, Ichikawa Factory is scheduled to be closed by 2020. The Company's R&D Center located adjacent to the Ichikawa Factory will be moved to Yachiyo City in Chiba Prefecture in conjunction with the closing of the factory.

In addition to enhancing our research and development resources for water supply and sewage treatment facilities, including sewage sludge treatment, as well as process equipment for the foodstuff and chemicals sectors, which we have been focusing on, we have also been engaged in development for new ventures.

We have been studying how to make use of the Ichikawa Factory site after it closes. It is located very close to an expressway interchange, which makes it a highly convenient location for access to central Tokyo, and so we decided to jointly develop this site into a logistic facility together with Mitsui Fudosan Co., Ltd. By leveraging Mitsui Fudosan's know-how as a general developer and its abundant experience in developing logistic facilities, and by maximizing the site's value as a logistic facility by unifying approach from business planning operation and management, we will create a new source of revenue and profit.





TOPIC
03

Order for design and major facilities for the second phase of construction concerning sludge treatment for the Shidongkou sewage treatment plant in Shanghai, China

Tsukishima Kikai, which has a top-class record domestically for sludge treatment at sewage treatment plants is the only Japanese company with a track record on drying and incineration facilities in China, with multiple projects to its name. Tsukishima Kikai has received orders from the city of Shanghai for sludge drying and incineration facilities, starting with the Zhuyuan sludge treatment plant in 2011 followed by the Shidongkou sewage treatment plant in 2016. The high regard for the quality of the engineering work and Tsukishima Kikai's operational performance in the previous projects has enabled it to receive a subsequent order for sludge dewatering, drying, and incineration facilities related to the second phase of construction for sludge treatment at the Shidongkou sewage treatment plant. For this construction, a consortium represented by the Company is in charge of overall design work for the facilities. As such, we are the first Japanese company to receive an order as the leader of a consortium in the China sewage treatment business.

Tsukishima Kikai boasts strengths in sludge treatment at sewage treatment plants and has an abundant track record on sludge thickening, digestion, dewatering, drying, and incineration. We are also actively engaged in expanding the overseas water supply and sewage treatment business by applying sludge treatment technology and know-how cultivated in Japan.



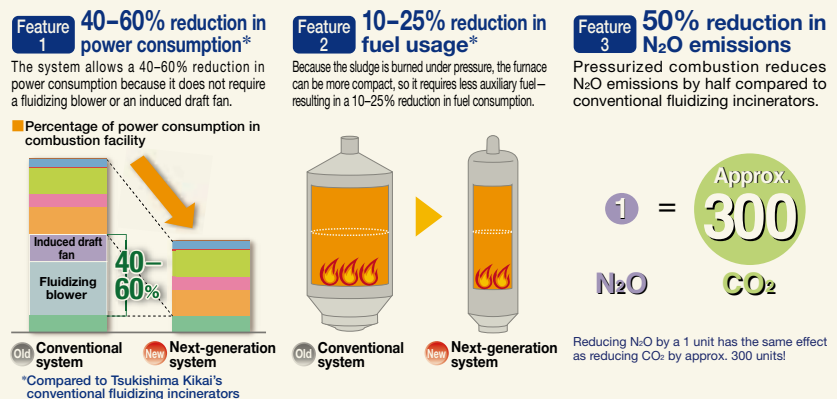
TOPIC
04

Strong orders for next-generation sludge incineration systems

Tsukishima Kikai has received orders for next-generation sludge incineration systems from the Tokyo Metropolitan Government and Yokosuka City. Next-generation sludge incineration systems are systems that consist of fluidized bed incinerators and turbochargers. Compared to conventional fluidized incinerators, they realize greater energy savings (40–60% reduction in power consumption), lower environmental impact (50% reduction in emissions of N₂O which is one of typical greenhouse gasses), and reduced usage of auxiliary fuel (by 10–25%). We have now received 10 orders of this type.

Tsukishima Kikai excels at sludge treatment equipment at water supply and sewage treatment facilities, including being ranked among the top in its class globally for sludge incineration facilities. We are now entering an update phase for sewage sludge incineration facilities at regional and local governments, and requirements to address global warming in sewage treatment are expected to increase more and more.

Tsukishima Kikai will take an active response to the demand for updating sewage sludge incineration facilities and is contributing to energy conservation and the fight against global warming at sewage treatment facilities.



BOARD OF DIRECTORS



From left

MICHIYOSHI MAZUKA

Board Member
(Outside Director)

BUNYU FUTAMURA

Board Member
(Outside Director)

YOSHIYUKI FUKUZAWA

Board Member,
Managing
Executive Officer

JUN KAWASAKI

Board Member,
Managing
Executive Officer

TAKESHI ODAGI

Board Member
(Outside Director)

From left

YOSHIRO FUJII

Board Member,
Managing Executive Officer

KAZUHIKO YAMADA

President and Chief Executive Officer,
Representative Director

KEITA TAKATORI

Senior Managing Executive Officer,
Representative Director

NAOYA FUJITA

Board Member,
Managing 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)
	2019	2018	2017	2016	2015	2019
For the year:						
Net sales	¥ 97,768	¥ 85,095	¥ 69,862	¥75,758	¥ 75,639	\$ 880,872
Operating income.....	7,796	4,430	3,508	5,485	5,273	70,240
Profit before income taxes	7,701	5,484	3,427	5,065	5,794	69,384
Profit attributable to owners of parent.....	4,996	2,940	2,169	3,055	3,344	45,013
At year-end:						
Total assets	131,991	117,958	106,630	99,753	105,002	1,189,215
Total shareholders' equity.....	¥ 63,476	¥ 58,969	¥ 56,531	¥54,856	¥ 52,562	\$ 571,907
Per share:						
Basic earnings	¥ 112.53	¥ 66.51	¥ 49.31	¥ 69.82	¥ 75.25	\$ 1.01
Dividends.....	¥ 22.00	¥ 17.00	¥ 17.00	¥ 22.00	¥ 17.00	\$ 0.19
Number of shares outstanding (in thousands)						
	45,625	45,625	45,625	45,625	45,625	

Notes: 1. U.S. dollar amounts are translated from yen at the rate of ¥110.99 to US\$1, solely for the convenience of the reader.

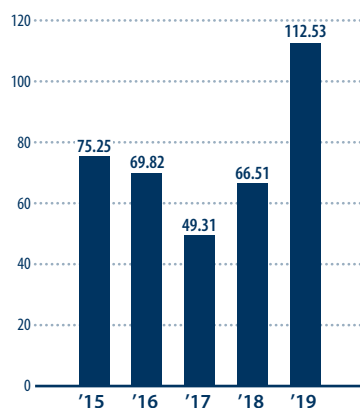
Amounts less than ¥1 million, \$1 thousand and the number of shares outstanding in thousands have been rounded down.

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

3. The Company and its consolidated subsidiaries have applied "Partial Amendments to Accounting Standard for Tax Effect Accounting" (ASBJ statement No. 28 February 16, 2018) and relevant guidances effective from the beginning of the fiscal year ended March 31, 2019. The results for the fiscal year ended March 31, 2018 are those after retrospective application.

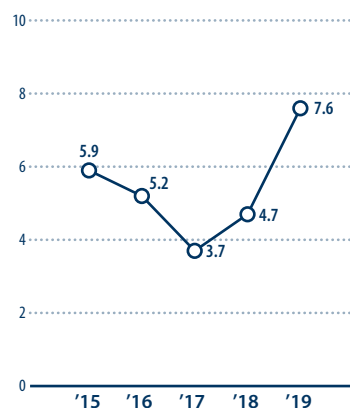
Basic Earnings per Share

(Yen)



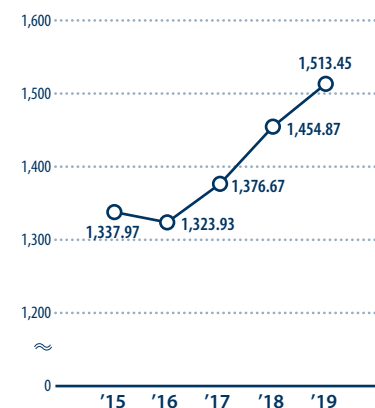
Return on Equity

(%)



Equity per Share

(Yen)



Consolidated Balance Sheets

TSUKISHIMA KIKAI CO., LTD. and its consolidated subsidiaries
Years ended March 31, 2019 and 2018

ASSETS

	Millions of yen (Note 1)		Thousands of U.S. dollars (Note 1)
	2019	2018	2019
Current assets:			
Cash and time deposits (Notes 7, 9).....	¥ 22,215	¥ 21,320	\$ 200,153
Marketable securities (Notes 7, 8).....	6,058	6,005	54,581
Notes and accounts receivable (Notes 7, 9, 10).....	41,320	36,788	372,285
Electronically recorded monetary claims-operating (Note 7).....	1,847	1,741	16,641
Less: allowance for doubtful accounts.....	(256)	(155)	(2,306)
Work in process.....	7,703	6,751	69,402
Raw materials and supplies.....	334	348	3,009
Other current assets (Note 10).....	1,448	1,870	13,046
Total current assets.....	80,671	74,671	726,831
Property, plant and equipment:			
Land (Notes 4, 10, 16).....	11,710	5,328	105,505
Buildings and structures (Notes 4, 10, 16).....	11,149	12,045	100,450
Machinery and equipment (Note 16).....	20,600	20,526	185,602
Lease assets.....	1,305	566	11,757
Construction in progress.....	4,525	947	40,769
	49,291	39,415	444,103
Less: accumulated depreciation.....	(22,273)	(22,023)	(200,675)
Net property, plant and equipment.....	27,017	17,392	243,418
Investments and other assets:			
Goodwill.....	271	357	2,441
Software.....	746	426	6,721
Lease assets.....	6	19	54
Investments in securities (Notes 7, 8, 10).....	19,996	21,809	180,160
Long-term loans receivable (Note 10).....	173	183	1,558
Deferred income taxes (Notes 3, 13).....	1,998	1,923	18,001
Other assets.....	1,987	2,030	17,902
Less: allowance for doubtful accounts.....	(878)	(854)	(7,910)
Total investments and other assets.....	24,302	25,895	218,956
Total assets.....	¥131,991	¥117,958	\$1,189,215

See Notes to Consolidated Financial Statements.

LIABILITIES AND NET ASSETS

	Millions of yen (Note 1)		Thousands of U.S. dollars (Note 1)
	2019	2018	2019
Current liabilities:			
Notes and accounts payable.....			
Trade (Notes 7, 9).....	¥17,361	¥15,230	\$156,419
Other	3,189	2,630	28,732
Electronically recorded obligations	5,387	4,248	48,535
Short-term loans payable (Notes 7, 10).....	215	269	1,937
Current portion of long-term loans payable (Notes 7, 9, 10).....	770	806	6,937
Lease obligations (Note 10)	272	129	2,450
Accrued income taxes (Note 13)	1,815	753	16,352
Accrued expenses.....	3,275	3,075	29,507
Accrued warranty.....	1,157	900	10,424
Reserve for losses on contracts.....	603	550	5,432
Reserve for losses on transfer.....	452	—	4,072
Provision for loss on guarantees.....	52	—	468
Advances received	6,592	6,369	59,392
Other current liabilities	1,713	2,014	15,433
Total current liabilities	42,860	36,978	386,160
Long-term liabilities:			
Bonds payables (Note 7).....	5,000	—	45,049
Long-term loans payable (Notes 4, 7, 9, 10).....	6,927	7,985	62,411
Lease obligations (Note 10).....	642	141	5,784
Deferred tax liabilities (Notes 3, 13).....	1,836	2,721	16,542
Net defined benefit liability (Note 11).....	4,780	3,601	43,066
Reserve for retirement payments to officers.....	292	363	2,630
Asset retirement obligations.....	620	544	5,586
Other long-term liabilities.....	605	517	5,450
Total long-term liabilities.....	20,704	15,876	186,539
Contingent liability (Note 14)			
Net assets:			
Shareholders' equity:			
Common stock,			
Authorized: 180 million shares in 2019 and 2018			
Issued: 45,625,800 shares in 2019 and 2018.....	6,646	6,646	59,879
Additional paid-in capital.....	5,484	5,484	49,409
Retained earnings	51,946	47,707	468,024
Treasury stock (Note 4)	(601)	(869)	(5,414)
Total shareholders' equity.....	63,476	58,969	571,907
Accumulated other comprehensive income:			
Net unrealized gains or losses on available-for-sale securities.....	5,527	6,402	49,797
Deferred gains or losses on hedges.....	(10)	9	(90)
Foreign currency translation adjustment.....	(378)	(321)	(3,405)
Remeasurements of defined benefit plans (Note 11)	(1,260)	(607)	(11,352)
Total accumulated other comprehensive income.....	3,879	5,483	34,949
Non-controlling interests	1,069	651	9,631
Total net assets	68,425	65,104	616,496
Total liabilities and net assets	¥131,991	¥117,958	\$1,189,215

See Notes to Consolidated Financial Statements.

Consolidated Statements of Income

TSUKISHIMA KIKAI CO., LTD. and its consolidated subsidiaries
Years ended March 31, 2019 and 2018

	Millions of yen (Note 1)		Thousands of U.S. dollars (Note 1)
	2019	2018	2019
Net Sales (Note 19)	¥97,768	¥85,095	\$880,872
Cost of sales (Note 12)	77,509	68,167	698,342
Gross profit	20,259	16,927	182,529
Selling, general and administrative expenses (Note 12)	12,462	12,497	112,280
Operating income (Note 19)	7,796	4,430	70,240
Other income(expenses):			
Interest and dividend income	487	463	4,387
Interest expenses	(80)	(68)	(720)
Gain on sales of investments in securities	1	124	9
Gain on sales of property, plant and equipment	2,721	0	24,515
Loss on sales and disposal of property, plant and equipment (Note 4)	(14)	(5)	(126)
Loss on sales of investments in securities	—	(0)	—
Loss on construction contracts	—	(315)	—
Amortization of goodwill	—	(2,304)	—
Provision of allowance for doubtful accounts	—	(212)	—
Impairment loss (Note 16)	(1,060)	—	(9,550)
Equity in earnings of affiliates	28	27	252
Loss on valuation of investments in securities	(523)	—	(4,712)
Taxes and dues	(41)	(64)	(369)
Gain on bargain purchase	—	1,291	—
Gain on contribution of securities to retirement benefit trust	—	2,177	—
Transfer expenses	(1,406)	—	(12,667)
Bond issuance cost	(36)	—	(324)
Loss on investments in silent partnership (Note 3)	(80)	(13)	(720)
Other, net (Note 15)	(91)	(46)	(819)
Other income(expenses), net	(95)	1,054	(855)
Profit before income taxes	7,701	5,484	69,384
Income taxes (Note 13):			
Current	2,514	1,789	22,650
Deferred	(251)	573	(2,261)
Total income taxes	2,262	2,362	20,380
Profit	5,438	3,121	48,995
Profit(Loss) attributable to non-controlling interests	442	181	3,982
Profit attributable to owners of parent	¥ 4,996	¥ 2,940	\$ 45,013
Per share			
Basic earnings	¥112.53	¥ 66.51	\$ 1.01
Dividends	¥ 22.00	¥ 17.00	\$ 0.19

See Notes to Consolidated Financial Statements.

Consolidated Statements of Comprehensive Income

TSUKISHIMA KIKAI CO., LTD. and its consolidated subsidiaries
Years ended March 31, 2019 and 2018

	Millions of yen (Note 1)		Thousands of U.S. dollars (Note 1)
	2019	2018	2019
Profit	¥ 5,438	¥3,121	\$ 48,995
Other comprehensive income (Note 5):			
Net unrealized gains or losses on available-for-sale securities	(874)	1,152	(7,874)
Deferred gains or losses on hedges.....	(19)	68	(171)
Foreign currency translation adjustment.....	(63)	157	(567)
Remeasurements of defined benefit plans.....	(652)	(45)	(5,874)
Share of other comprehensive income of associates accounted for using equity method.....	(0)	1	(0)
Total other comprehensive income.....	(1,611)	1,335	(14,514)
Comprehensive income	¥ 3,827	¥4,457	\$ 34,480
(Breakdown)			
Comprehensive income attributable to owners of parent.....	¥ 3,392	¥4,239	\$ 30,561
Comprehensive income attributable to non-controlling interests.....	¥ 435	¥ 217	\$ 3,919

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, 2019 and 2018

	Thousands	Millions of yen (Note 1)											
	Number of shares of common stock issued	Shareholders' equity					Accumulated other comprehensive income					Non-controlling interests	Total net assets
		Common stock	Additional paid-in capital	Retained earnings	Treasury stock	Total shareholders' equity	Net unrealized gains or losses on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income		
Balance as of April 1, 2017	45,625	¥6,646	¥5,485	¥45,528	¥(1,130)	¥56,531	¥5,249	¥(60)	¥(442)	¥(562)	¥4,183	¥542	¥61,257
Dividends.....	—	—	—	(756)	—	(756)	—	—	—	—	—	—	(756)
Profit attributable to owners of parent for the year ended March 31, 2018.....	—	—	—	2,940	—	2,940	—	—	—	—	—	—	2,940
Change of scope of consolidation....	—	—	—	(4)	(3)	(8)	—	—	—	—	—	—	(8)
Change of scope of equity method..	—	—	—	(0)	—	(0)	—	—	—	—	—	—	(0)
Purchase of treasury stock.....	—	—	—	—	(0)	(0)	—	—	—	—	—	—	(0)
Disposal of treasury stock.....	—	—	0	—	264	264	—	—	—	—	—	—	264
Sales of shares of consolidated subsidiaries.....	—	—	(1)	—	0	(1)	—	—	—	—	—	—	(1)
Net changes of items other than those in shareholders' equity.....	—	—	—	—	—	—	1,153	70	121	(45)	1,299	108	1,408
Balance as of March 31, 2018	45,625	¥6,646	¥5,484	¥47,707	¥(869)	¥58,969	¥6,402	¥9	¥(321)	¥(607)	¥5,483	¥651	¥65,104

	Thousands	Millions of yen (Note 1)											
	Number of shares of common stock issued	Shareholders' equity					Accumulated other comprehensive income					Non-controlling interests	Total net assets
		Common stock	Additional paid-in capital	Retained earnings	Treasury stock	Total shareholders' equity	Net unrealized gains or losses on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income		
Balance as of April 1, 2018	45,625	¥6,646	¥5,484	¥47,707	¥(869)	¥58,969	¥6,402	¥9	¥(321)	¥(607)	¥5,483	¥651	¥65,104
Dividends.....	—	—	—	(756)	—	(756)	—	—	—	—	—	—	(756)
Profit attributable to owners of parent for the year ended March 31, 2019.....	—	—	—	4,996	—	4,996	—	—	—	—	—	—	4,996
Change of scope of consolidation....	—	—	—	—	—	—	—	—	—	—	—	—	—
Change of scope of equity method..	—	—	—	—	—	—	—	—	—	—	—	—	—
Purchase of treasury stock.....	—	—	—	—	(0)	(0)	—	—	—	—	—	—	(0)
Disposal of treasury stock.....	—	—	—	—	267	267	—	—	—	—	—	—	267
Sales of shares of consolidated subsidiaries.....	—	—	—	—	—	—	—	—	—	—	—	—	—
Net changes of items other than those in shareholders' equity.....	—	—	—	—	—	—	(874)	(19)	(56)	(652)	(1,603)	418	(1,185)
Balance as of March 31, 2019	45,625	¥6,646	¥5,484	¥51,946	¥(601)	¥63,476	¥5,527	¥(10)	¥(378)	¥(1,260)	¥3,879	¥1,069	¥68,425

	Thousands	Thousands of U.S. dollars (Note 1)											
	Number of shares of common stock issued	Shareholders' equity					Accumulated other comprehensive income					Non-controlling interests	Total net assets
		Common stock	Additional paid-in capital	Retained earnings	Treasury stock	Total shareholders' equity	Net unrealized gains or losses on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income		
Balance as of April 1, 2018	45,625	\$59,879	\$49,409	\$429,831	\$(7,829)	\$531,300	\$57,680	\$81	\$(2,892)	\$(5,468)	\$49,400	\$5,865	\$586,575
Dividends.....	—	—	—	(6,811)	—	(6,811)	—	—	—	—	—	—	(6,811)
Profit attributable to owners of parent for the year ended March 31, 2019.....	—	—	—	45,013	—	45,013	—	—	—	—	—	—	45,013
Change of scope of consolidation....	—	—	—	—	—	—	—	—	—	—	—	—	—
Change of scope of equity method..	—	—	—	—	—	—	—	—	—	—	—	—	—
Purchase of treasury stock.....	—	—	—	—	(0)	(0)	—	—	—	—	—	—	(0)
Disposal of treasury stock.....	—	—	—	—	2,405	2,405	—	—	—	—	—	—	2,405
Sales of shares of consolidated subsidiaries.....	—	—	—	—	—	—	—	—	—	—	—	—	—
Net changes of items other than those in shareholders' equity.....	—	—	—	—	—	—	(7,874)	(171)	(504)	(5,874)	(14,442)	3,766	(10,676)
Balance as of March 31, 2019	45,625	\$59,879	\$49,409	\$468,024	\$(5,414)	\$571,907	\$49,797	\$(90)	\$(3,405)	\$(11,352)	\$34,949	\$9,631	\$616,496

See Notes to Consolidated Financial Statements.

Consolidated Statements of Cash Flows

TSUKISHIMA KIKAI CO., LTD. and its consolidated subsidiaries
Years ended March 31, 2019 and 2018

	Millions of yen (Note 1)		Thousands of U.S. dollars (Note 1)
	2019	2018	2019
Cash flows from operating activities:			
Profit before income taxes	¥7,701	¥5,484	\$69,384
Adjustments for:			
Depreciation and amortization.....	1,397	1,435	12,586
Impairment loss.....	1,060	—	9,550
Amortization of goodwill	86	2,565	774
Gain on bargain purchase.....	—	(1,291)	—
Gain on securities contribution to employees' retirement benefit trust.....	—	(2,177)	—
Increase (decrease) in net defined benefit liability.....	238	(740)	2,144
Increase (decrease) in accrued bonus to employees	135	178	1,216
Increase (decrease) in reserve for retirement payments to officers.....	(63)	22	(567)
Increase (decrease) in allowance for doubtful accounts.....	128	205	1,153
Increase (decrease) in accrued warranty	259	(60)	2,333
Increase (decrease) in reserve for losses on contracts	53	88	477
Increase (decrease) in reserve for losses on transfer	452	—	4,072
Increase (decrease) in provision for loss on guarantees	52	—	468
Interest and dividend income	(487)	(463)	(4,387)
Interest expenses.....	80	68	720
Equity in (earnings) losses of affiliates	(28)	(27)	(252)
Loss (gain) on sales and disposal of property, plant and equipment.....	(2,707)	5	(24,389)
Loss (gain) on sales of investments in securities	(1)	(124)	(9)
Loss (gain) on valuation of investments in securities	523	—	4,712
(Increase) decrease in notes and accounts receivable	(4,688)	(6,303)	(42,238)
Increase (decrease) advances received	253	(2,300)	2,279
(Increase) decrease in inventories.....	(964)	4,249	(8,685)
Increase (decrease) in notes and accounts payable, trade	3,293	400	29,669
Other	971	(2)	8,748
Subtotal	7,746	1,211	69,790
Interest and dividend income received	511	467	4,604
Interest expenses paid	(70)	(64)	(630)
Income taxes paid.....	(1,496)	(2,258)	(13,478)
Net cash provided by (used in) operating activities.....	6,691	(643)	60,284
Cash flows from investing activities:			
Purchase of property, plant and equipment.....	(11,543)	(1,995)	(104,000)
Proceeds from sales of property, plant and equipment	2,878	0	25,930
Purchase of intangible fixed assets	(178)	(245)	(1,603)
Purchase of investments in securities	(46)	(545)	(414)
Proceeds from sales and redemption of short-term and long-term investment securities.....	13	531	117
Purchase of shares of subsidiaries resulting in change in scope of consolidation	—	(1,490)	—
Purchase of shares of subsidiaries.....	(57)	(539)	(513)
Payments for loans receivable	(3)	(3)	(27)
Collection of loans receivable	28	17	252
Other	162	524	1,459
Net cash provided by (used in) investing activities.....	(8,747)	(3,747)	(78,808)
Cash flows from financing activities:			
Increase (decrease) in short-term payable	(39)	253	(351)
Proceeds from long-term loans payable	—	3,776	—
Repayments of long-term loans payable	(1,092)	(1,018)	(9,838)
Proceeds from issuance of bonds.....	5,000	—	45,049
Repayments of lease obligations.....	(478)	(164)	(4,306)
Additions of treasury stock.....	(0)	(0)	(0)
Proceeds from sales of treasury stock.....	287	265	2,585
Dividends paid.....	(756)	(756)	(6,811)
Dividends paid to non-controlling interests	(16)	(21)	(144)
Proceeds from sales and leasebacks	304	—	2,738
Other	(36)	—	(324)
Net cash provided by (used in) financing activities.....	3,171	2,334	28,570
Effect of exchange rate change on cash and cash equivalents	(77)	171	(693)
Net increase(decrease) in cash and cash equivalents	1,037	(1,885)	9,343
Cash and cash equivalents at beginning of period (Note 6)	27,101	28,878	244,175
Increase in cash and cash equivalents from newly consolidated subsidiaries	—	108	—
Cash and cash equivalents at end of period (Note 6)	¥28,139	¥27,101	\$253,527

See Notes to Consolidated Financial Statements.

Notes to Consolidated Financial Statements

1. Basis of Presenting Consolidated Financial Statements

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

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

For the convenience of the reader, the accompanying consolidated financial statements have been presented in U.S. dollars by translating all Japanese yen amounts at the exchange rate of ¥110.99 to \$1, the approximate rate of exchange at March 31, 2019.

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

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

2. Summary of Significant Accounting Policies

(a) Principles of Consolidation

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

The 14 major subsidiaries that have been consolidated with the Company are listed below:

- Tsukishima Technology Maintenance Service Co., Ltd.
- SUN ECO THERMAL Co., Ltd.
- Tsukishima Kankyo Engineering Ltd.
- Samukawa Water Service Co., Ltd.
- Tsukishima Machine Sales Co., Ltd.
- Tsukishima Business Support Co., Ltd.
- TSK Engineering (Thailand) Co., Ltd.
- TSK Engineering China Co., Ltd.
- DAIDO CHEMICAL ENGINEERING CORP.
- BOKELA GmbH
- Owari Water & Energy Co., Ltd.
- SANSHIN KOGYO Co., Ltd.
- ADVANTHREE Co., Ltd.
- SANSHIN Co., Ltd.

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

(b) Accounting for Investments in Unconsolidated Subsidiaries and Affiliates

The equity method is applied to the investments in 8 affiliates.

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

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

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

(c) Marketable Securities and Investments in Securities

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

Non-marketable available-for-sale securities are stated at cost, determined by the moving-average method. In regard to investments in anonymous associations (deemed to be securities under Article 2, Section 2 of the Japanese Financial Instruments and Exchange Act), the Company uses the net amount corresponding to the ownership portion, based on the most recent obtainable settlement documents for the settlement reporting date stipulated in the partnership contract.

(d) Inventories

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

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

(e) Property, Plant and Equipment Excluding Lease Assets

Property, plant and equipment are carried at cost. Depreciation of property, plant and equipment of the Company and its consolidated domestic subsidiaries is principally computed by the declining balance method over the estimated useful lives of the assets, while the straight-line method is applied to buildings placed in service after April 1, 1998 (excluding facilities attached to buildings), facilities attached to buildings and structures acquired after April 1, 2016, power generating equipment and property, plant and equipment of foreign subsidiaries.

The range of useful lives is from 3 to 60 years for buildings and structures and from 2 to 20 years for machinery and equipment.

(f) Lease Assets

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

(g) Allowance for Doubtful Accounts

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

(h) Accrued Warranty

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

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

(i) Reserve for Losses on Contracts

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

(j) Reserve for Losses of Transfer

A reserve for losses of transfer is provided for an estimated amount of losses regard to the transfer of the Company's factory and Research & Development Center.

(k) Provision for Loss on Guarantees

A provision for loss on guarantees is provided for the estimated repayment amount of the outstanding debts of the E-Ship Trust.

(l) Net Defined Benefit Liability

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

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

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

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

(m) 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.

(n) 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.

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

In translating the financial statements of foreign subsidiaries into Japanese yen, all assets and liabilities are translated into yen at current exchange rates while capital accounts and retained earnings are translated at historical rates, and revenue and expense items are translated at the average exchange rates during the year. The resulting translation adjustments are shown as "Foreign currency translation adjustment" in the accompanying consolidated balance sheets as of March 31, 2019 and 2018.

(p) Research and Development Costs

Research and development costs are charged to income as incurred.

(q) Recognition of Contract Revenue

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

(r) 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.

(s) Cash Equivalents

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

(t) 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, interest rate swap contracts and interest rate and currency swap contracts are utilized by the Company and certain consolidated subsidiaries to reduce foreign currency exchange risks and interest rate risks.

Derivatives are carried at fair value with gains or losses recognized in the consolidated statements of income. For derivatives used for hedging purposes, if derivatives meet the requirements for hedge accounting, gains or losses on derivatives are deferred until recognition of the hedged transactions.

If foreign exchange forward contracts are used as a hedge and meet certain criteria, the exchange forward contracts are not stated at fair value, and instead the amount to be received under the exchange forward contracts is added to or deducted from the assets or liabilities for which the exchange forward contract was executed ("Designation accounting").

If interest rate swap contracts are used as a hedge and meet certain hedging criteria, the interest rate swaps are not stated at fair value, and instead the amount to be received under the interest rate swap contract is added to or deducted from the interest on the liabilities for which the swap contract was executed ("Short-cut method").

If interest rate and currency swap contracts are used as a hedge and meet certain hedging criteria, the interest rate and currency swap contracts are not stated at fair value, and instead the amount to be received under the interest rate and currency swap contracts is added to or deducted from the interest on the liabilities for which the swap contracts were executed, and the liabilities denominated in foreign currencies, for which the interest rate and currency swap contracts were executed, are translated at the contracted rate ("Integral method").

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

3. Change in Presentation

(Consolidated Balance Sheets)

The Company and its subsidiaries have applied the "Partial Amendments to Accounting Standard for Tax Effect Accounting" (ASBJ Statement No. 28, February 16, 2018) and relevant guidances effective from the beginning of the fiscal year ended March 31, 2019. Accordingly, deferred tax assets are presented under investments and other assets and deferred tax liabilities are presented under non-current liabilities. As a result, in the consolidated balance sheets as of March 31, 2018, "Deferred income taxes" of ¥727 million previously included in "Current assets" are included in "Deferred income taxes" of ¥1,923 million under "Investments and other assets" and "Deferred income taxes" of ¥952 million previously included in "Deferred income taxes" under "Current assets" are included in "Deferred tax liabilities" under "Non-current liabilities" of ¥2,721 million.

(Consolidated Statements of Income)

Loss on investments in silent partnership, which had been included in "Other, net" under Other income (expenses) for the year ended March 31, 2018, is presented separately for the year ended March 31, 2019 because its materiality has increased.

To reflect this change in presentation, Loss on investments in silent partnership of ¥13 million, which had been previously included in "Other, net" under Other income (expenses), was reclassified as "Loss on investments in silent partnership" for the year ended March 31, 2018.

4. Additional Information

(Trust Type Employee Stock Ownership Incentive Plan)

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

(1) Overview

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

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

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

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

The Company posts the book value of shares of the Company that are not sold to the Shareholding Association and, therefore, remaining in the trust (excluding incidental expenses), as treasury stock in net assets. The book value and the number of shares of treasury stock were ¥0 million (\$0 thousand) and 0 thousand shares, for the year ended March 31, 2019 and ¥268 million and 203 thousand shares, for the year ended March 31, 2018.

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

¥52 million (\$468 thousand) and ¥340 million for the years ended March 31, 2019 and 2018, respectively.

(Sales of Fix Assets and Extra Ordinary Profit)

As the Company announced on February 27, 2019, the Company decided to jointly develop the site of Ichikawa Factory and R&D center after their relocation, into a logistic facility, together with Mitsui Fudosan Co., Ltd. For this purpose, the Company setting up the trust beneficiary rights to its land and partially selling in the fiscal year ending March 2019 and March 2022 (at the completion of the logistic facility).

The profit from the selling of the trust beneficiary rights presents in “Gain on sales of property, plant and equipment” under other income (expenses) and the amounts are ¥2,719 million (\$24,515 thousand) and around ¥5,300 million for the fiscal year ending March 2019, and March 2022, respectively.

(1) Buyer	Mitsui Fudosan Co., Ltd.
(2) Location of the land	Shiohama Ichikawa City, Chiba
(3) Area of the land	82,616m ²
(4) Usage of the land after sales	Logistic facility

In addition, the sales price and the selling area of the land are not disclosed due to the confidential duty and the requirement from the buyer.

(Demolition Costs for the Existing Buildings of Ichikawa Factory, etc.)

To proceed with the construction of new facility, demolition costs for the existing buildings of Ichikawa Factory, etc. will be occurred from the fiscal year ending March 2020.

The Company is currently investigating its scope, costs and the timing of the event however it is difficult to reasonably estimate its expenses at this time.

5. Other Comprehensive Income

Reclassification adjustments and tax effects of each component of other comprehensive income for the fiscal year ended March 31, 2019 and 2018 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Net unrealized gains or losses on available-for-sale securities			
Amount arising during the year	¥(1,779)	¥ 3,961	\$(16,028)
Reclassification adjustments	521	(2,302)	4,694
Net unrealized gains or losses on available-for-sale securities before tax effect....	(1,257)	1,658	(11,325)
Tax effect	383	(505)	3,450
Net unrealized gains or losses on available-for-sale securities	(874)	1,152	(7,874)
Deferred gains or losses on hedges			
Amount arising during the year	(31)	96	(279)
Reclassification adjustments	3	2	27
Deferred gains or losses on hedges before tax effect	(28)	99	(252)
Tax effect	8	(30)	72
Deferred gains or losses on hedges	(19)	68	(171)
Foreign currency translation adjustment			
Amount arising during the year	63	157	567
Tax effect	—	—	—
Foreign currency translation adjustment	63	157	567
Remeasurements of defined benefit plans			
Amount arising during the year	(1,147)	(218)	(10,334)
Reclassification adjustments	206	153	1,856
Remeasurements of defined benefit plans before tax effect	(940)	(65)	(8,469)
Tax effect	288	20	2,594
Remeasurements of defined benefit plans	(652)	(45)	(5,874)
Share of other comprehensive income of associates accounted for using equity method			
Amount arising during the year	(1)	(0)	(9)
Reclassification adjustments	0	1	0
Share of other comprehensive income of associates accounted for using equity method	(0)	1	(0)
Total other comprehensive income	¥(1,611)	¥ 1,335	\$(14,514)

6. Cash Flow Statements

(a) Cash and Cash Equivalents

Cash and cash equivalents as of March 31, 2019 and 2018 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Cash and time deposits.....	¥22,215	¥21,320	\$200,153
Marketable securities.....	6,008	6,005	54,131
Less: time deposits that mature or become due over three months after the date of acquisition.....	(85)	(225)	(765)
Cash and cash equivalents.....	¥28,139	¥27,101	\$253,527

(b) Purchases of Newly Consolidated Subsidiaries

For the fiscal year ended March 31, 2018, SANSHIN KOGYO Co., Ltd. and 2 other subsidiaries were acquired by the Company.

Assets and liabilities of these companies at the time of consolidation, cash paid for the capital and cash paid in conjunction with the purchases of consolidated subsidiaries were as follow:

	Millions of yen
	2018
Current assets.....	¥10,597
Noncurrent assets.....	3,449
Current liabilities.....	(6,548)
Noncurrent liabilities.....	(872)
Gain on bargain purchase.....	(1,291)
Cash paid for the capital.....	5,334
Cash and cash equivalents of consolidated subsidiaries.....	(3,843)
Purchase of shares of subsidiaries resulting in change in scope of consolidation.....	¥ 1,490

7. Financial Instruments

Amounts on the consolidated balance sheets as of March 31, 2019 and 2018, fair value and variance were as follows:

	Millions of yen		
	2019		
	Amounts on the consolidated Balance Sheets	Fair value	Variance
(1) Cash and time deposits.....	¥22,215	¥22,215	¥ —
(2) Notes and accounts receivable.....	41,320	41,300	(19)
(3) Electronically recorded monetary claims-operating.....	1,847	1,847	—
(4) Marketable securities and Investments in securities			
Held to maturity securities.....	1,096	1,149	52
Other securities.....	23,746	23,746	—
Total.....	90,226	90,258	32
(5) Notes and accounts payable-trade.....	17,361	17,361	—
(6) Electronically recorded obligations.....	5,387	5,387	—
(7) Short-term loans payable.....	215	215	—
(8) Bonds payables.....	5,000	5,080	80
(9) Long-term loans payable (Include portion due within one year).....	7,698	7,716	18
Total.....	35,663	35,761	98
(10) Derivative transactions*.....	¥ (13)	¥ (13)	¥ 0

	Millions of yen		
	2018		
	Amounts on the consolidated Balance Sheets	Fair value	Variance
(1) Cash and time deposits.....	¥21,320	¥21,320	¥ —
(2) Notes and accounts receivable.....	36,788	36,739	(48)
(3) Electronically recorded monetary claims-operating.....	1,741	1,741	—
(4) Marketable securities and Investments in securities			
Held to maturity securities.....	1,096	1,138	41
Other securities.....	25,612	25,612	—
Total.....	86,559	86,553	(6)
(5) Notes and accounts payable-trade.....	15,230	15,230	—
(6) Electronically recorded obligations.....	4,248	4,248	—
(7) Short-term loans payable.....	269	269	—
(8) Bonds payables.....	—	—	—
(9) Long-term loans payable (Include portion due within one year).....	8,792	8,814	21
Total.....	28,541	28,562	21
(10) Derivative transactions*.....	¥ 15	¥ 15	¥ 0

Thousands of U.S. dollars

	2019		
	Amounts on the consolidated Balance Sheets	Fair value	Variance
(1) Cash and time deposits.....	\$200,153	\$200,153	\$ —
(2) Notes and accounts receivable.....	372,285	372,105	(171)
(3) Electronically recorded monetary claims-operating.....	16,641	16,641	—
(4) Marketable securities and Investments in securities			
Held to maturity securities.....	9,874	10,352	468
Other securities.....	213,947	213,947	—
Total.....	812,920	813,208	288
(5) Notes and accounts payable-trade.....	156,419	156,419	—
(6) Electronically recorded obligations.....	48,535	48,535	—
(7) Short-term loans payable.....	1,937	1,937	—
(8) Bonds payables.....	45,049	45,769	720
(9) Long-term loans payable (Include portion due within one year).....	69,357	69,519	162
Total.....	321,317	322,200	882
(10) Derivative transactions*.....	\$ (117)	\$ (117)	\$ 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) Electronically recorded monetary claims-operating
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.
 - (4) Marketable securities and Investments in securities
Marketable securities are negotiable certificate of deposit etc. and settled in a short period of time and the fair value is almost equal to the book value, their book value is presented.
Debt securities are valued based on the prices provided by correspondent financial institutions.
Marketable securities and investments in securities are valued at the exchange trading price.
 - (5) 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.
 - (6) Electronically recorded obligations
As these items are settled in a short period of time and the fair value is almost equal to the book value, their book value is presented.
 - (7) Short-term loans payable
As these items are settled in a short period of time and the fair value is almost equal to the book value, their book value is presented.
 - (8) Bonds payables
The fair value of bonds payables is measured at market price.
 - (9) Long-term loans payable(Include portion due within one year)
The fair values of long-term loans payable are determined by discounting the aggregate amount of the principal and interest at the rate assumed based on interest rates on government securities and credit risk.
For long-term loans payable bearing variable interest rates, in cases subject to the short-cut method with interest rate swaps and the integral method with interest rate and currency swaps, the fair value is estimated based on the total of principal and interest those are integrated with interest rate swaps and interest rate and currency swaps, discounted by the interest rate that would be applied if similar new loans payable were entered into.

For other long-term loans payable bearing variable interest rates, book value is used as fair value, as this is deemed to reflect market interest rates within a short term.

(10) 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 and interest rate and currency swaps accounted for integral 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
	2019	2018	2019
Non-listed stocks.....	¥724	¥695	\$6,523
Non-consolidated subsidiary and associated company stocks.....	280	203	2,522
Investments in silent partnership.....	206	206	1,856
Investments in limited liability company.....	¥ 2	¥ —	\$ 18

c. The aggregate maturities of monetary claims and securities with maturity outstanding as of March 31, 2019 and 2018 were as follows:

	Millions of yen			
	2019			
	Within 1 year	Over 1 year Within 5 years	Over 5 years Within 10 years	Over 10 years
Cash and time deposits.....	¥22,215	¥ —	¥ —	¥ —
Notes and accounts receivable.....	39,203	1,326	790	—
Electronically recorded monetary claims-operating.....	1,847	—	—	—
Marketable securities and Investments in securities				
Held to maturity securities.....	50	210	311	505
Other securities.....	6,008	—	—	—
Total.....	¥69,235	¥1,537	¥1,101	¥505

	Millions of yen			
	2018			
	Within 1 year	Over 1 year Within 5 years	Over 5 years Within 10 years	Over 10 years
Cash and time deposits.....	¥21,320	¥ —	¥ —	¥ —
Notes and accounts receivable.....	34,346	1,347	1,093	—
Electronically recorded monetary claims-operating.....	1,741	—	—	—
Marketable securities and Investments in securities				
Held to maturity securities.....	—	256	210	605
Other securities.....	6,005	—	—	—
Total.....	¥63,414	¥1,603	¥1,304	¥605

	Thousands of U.S. dollars			
	2019			
	Within 1 year	Over 1 year Within 5 years	Over 5 years Within 10 years	Over 10 years
Cash and time deposits.....	\$200,153	\$ —	\$ —	\$ —
Notes and accounts receivable.....	353,212	11,947	7,117	—
Electronically recorded monetary claims-operating.....	16,641	—	—	—
Marketable securities and Investments in securities				
Held to maturity securities.....	450	1,892	2,802	4,549
Other securities.....	54,131	—	—	—
Total.....	\$623,794	\$13,848	\$9,919	\$4,549

d. The aggregate maturities of long-term loans payable outstanding as of March 31, 2019 and 2018 were as follows:

Millions of yen						
2019						
	Within 1 year	Over 1 year Within 2 years	Over 2 years Within 3 years	Over 3 years Within 4 years	Over 4 years Within 5 years	Over 5 years
Short-term loans payable.....	¥215	¥ —	¥ —	¥ —	¥ —	¥ —
Bonds payables	—	—	—	—	—	5,000
Long-term loans payable (Include portion due within one year) ...	770	819	747	747	751	3,862
Total.....	¥986	¥819	¥747	¥747	¥751	¥8,862

Millions of yen						
2018						
	Within 1 year	Over 1 year Within 2 years	Over 2 years Within 3 years	Over 3 years Within 4 years	Over 4 years Within 5 years	Over 5 years
Short-term loans payable.....	¥ 269	¥ —	¥ —	¥ —	¥ —	¥ —
Bonds payables	—	—	—	—	—	—
Long-term loans payable (Include portion due within one year) ...	806	1,110	766	747	747	4,614
Total.....	¥1,076	¥1,110	¥766	¥747	¥747	¥4,614

Thousands of U.S. dollars						
2019						
	Within 1 year	Over 1 year Within 2 years	Over 2 years Within 3 years	Over 3 years Within 4 years	Over 4 years Within 5 years	Over 5 years
Short-term loans payable.....	\$1,937	\$ —	\$ —	\$ —	\$ —	\$ —
Bonds payables	—	—	—	—	—	45,049
Long-term loans payable (Include portion due within one year) ...	6,937	7,379	6,730	6,730	6,766	34,795
Total.....	\$8,883	\$7,379	\$6,730	\$6,730	\$6,766	\$79,845

8. Marketable Securities and Investments in Securities

The carrying amounts and aggregate fair values of marketable and investment securities at March 31, 2019 and 2018 were as follows:

Millions of yen				
2019				
	Cost	Unrealized gains	Unrealized losses	Fair value
Securities classified as:				
Available-for-sale:				
Equity securities.....	¥ 9,683	¥8,332	¥(279)	¥17,737
Others.....	6,008	—	—	6,008
	¥15,692	¥8,332	¥(279)	¥23,746
Held-to-maturity securities.....	¥ 1,096	¥ 60	¥ (7)	¥ 1,149

	Millions of yen			
	2018			
	Cost	Unrealized gains	Unrealized losses	Fair value
Securities classified as:				
Available-for-sale:				
Equity securities	¥10,216	¥9,873	¥(482)	¥19,607
Others.....	6,005	—	—	6,005
	¥16,222	¥9,873	¥(482)	¥25,612
Held-to-maturity securities.....	¥ 1,096	¥ 53	¥ (11)	¥ 1,138
	Thousands of U.S. dollars			
	2019			
	Cost	Unrealized gains	Unrealized losses	Fair value
Securities classified as:				
Available-for-sale:				
Equity securities	\$ 87,242	\$75,069	\$(2,513)	\$159,807
Others.....	54,131	—	—	54,131
	\$141,382	\$75,069	\$(2,513)	\$213,947
Held-to-maturity securities.....	\$ 9,874	\$ 540	\$ (63)	\$ 10,352

9. Derivative Transactions

Derivative financial instruments with fair value as of March 31, 2019 and 2018 were as follows:

(a) Derivative transactions not qualifying for hedge accounting

There is not the matter.

(b) Derivative transactions qualifying for hedge accounting

(1) Currency-rated

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

		Millions of yen		
		2019		
		Contracts outstanding	Contracts outstanding (Over one year)	Fair value
Forward foreign currency exchange contracts:				
Sell U.S. dollar, buy Japanese yen	Accounts receivable.....	¥372	¥—	¥(3)
Sell Thai baht, buy Japanese yen	.....	—	—	—
Sell Chinese yuan, buy Japanese yen	.....	—	—	—
Buy U.S. dollar, sell Japanese yen	Accounts payable-trade.....	83	—	0
Buy Euro, sell Japanese yen	.....	51	—	(1)
Buy Singapore dollar, sell Japanese yen	.....	—	—	—
Buy Swiss franc, sell Japanese yen	.....	9	—	(0)
Total.....		¥516	¥—	¥(5)

		Millions of yen		
		2018		
		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.....	¥1,192	¥13	¥35
Sell Thai baht, buy Japanese yen	.....	268	—	(2)
Sell Chinese yuan, buy Japanese yen	.....	53	—	(5)
Buy U.S. dollar, sell Japanese yen	Accounts payable-trade.....	176	—	(8)
Buy Euro, sell Japanese yen	.....	57	—	(0)
Buy Singapore dollar, sell Japanese yen	.....	13	—	(0)
Buy Swiss franc, sell Japanese yen	.....	—	—	—
Total.....		¥1,762	¥13	¥19

		Thousands of U.S. dollar		
		2019		
		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.....	\$3,351	\$—	\$(27)
Sell Thai baht, buy Japanese yen	.....	—	—	—
Sell Chinese yuan, buy Japanese yen	.....	—	—	—
Buy U.S. dollar, sell Japanese yen	Accounts payable-trade.....	747	—	0
Buy Euro, sell Japanese yen	.....	459	—	(9)
Buy Singapore dollar, sell Japanese yen	.....	—	—	—
Buy Swiss franc, sell Japanese yen	.....	81	—	(0)
Total.....		\$4,649	\$—	\$(45)

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

		Millions of yen		
		2019		
		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	¥1,916	¥1,650	¥(8)
Interest rate and currency swaps:				
(Integral method)				
Receive floating U.S. dollar, pay fixed Japanese yen	Long-term loans payable	1,350	1,170	Notes b.
Total.....		¥3,266	¥2,820	¥(8)

		Millions of yen		
		2018		
		Contracts outstanding	Contracts outstanding (Over one year)	Fair value
Interest rate swaps:	Principal items hedged:			
(Principle method)				
Receive floating, pay fixed	Long-term loans payable	¥2,178	¥1,916	¥(4)
Interest rate and currency swaps:				
(Integral method)				
Receive floating U.S. dollar, pay fixed Japanese yen	Long-term loans payable	1,530	1,350	Notes b.
Total.....		¥3,708	¥3,266	¥(4)

		Thousands of U.S. dollar		
		2019		
		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	\$17,262	\$14,866	\$(72)
Interest rate and currency swaps:				
(Integral method)				
Receive floating U.S. dollar, pay fixed Japanese yen	Long-term loans payable	12,163	10,541	Notes b.
Total.....		\$29,426	\$25,407	\$(72)

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

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

10. Short-term Loans Payable, Long-term Loans Payable, Bonds Payable and Lease Obligations

Short-term loans payable are represented by 12-month notes, and the weighted average interest rate applicable to such loans payable as of March 31, 2019 was approximately 0.5 percent.

The weighted average interest rates of long-term loans payable as of March 31, 2019 and 2018 was approximately 0.6 percent for both years.

The interest rate of bonds payables as of March 31, 2019 was 0.61 percent.

Long-term loans payable as of March 31, 2019 and 2018 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Loans payable, due 2037	¥7,698	¥8,792	\$69,357
Less: portion due within one year	(770)	(806)	(6,937)
	¥6,927	¥7,985	\$62,411

Bonds payable as of March 31, 2019 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Bonds payable, due 2028	¥5,000	¥—	\$45,049
	¥5,000	¥—	\$45,049

Lease obligations as of March 31, 2019 and 2018 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Current	¥272	¥129	\$2,450
Non-current	642	141	5,784
	¥915	¥270	\$8,243

The following assets were pledged as collateral for the long-term loans payable of ¥5,368 million (\$48.364 thousand) and ¥5,857 million for the years ended March 31, 2019 and 2018, respectively.

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Deposit	¥601	¥738	\$5,414
Account receivable	332	201	2,991
Accounts receivable - other	5	6	45
Buildings	—	132	—
Land	—	45	—
	¥940	¥1,124	\$8,469

The following assets were pledged as collateral for the long-term loans payable at affiliated companies and others of ¥6,104 million (\$54,995 thousand) and ¥6,538 million for the years ended March 31, 2019 and 2018, respectively.

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Short-terms loans receivable	¥ 12	¥ 11	\$ 108
Investment in securities.....	56	41	504
Long-term loans receivable.....	173	183	1,558
	¥241	¥236	\$2,171

*Other than above collateral assets, investment security was deposited with Osaka city as the contract guarantee for electric power generating business. The value of deposited investment security was ¥170 million(\$1,531 thousand) and ¥168 million for the years ended March 31, 2019 and 2018 respectively.

11. Net Defined Benefit Liability

Outline of net defined benefit liability

The company has defined benefit corporate pension plans (all funded plans), retirement lump-sum plans (which is funded plans as a result of setting up employee pension trust), and defined contribution pension plan.

The consolidated subsidiaries have retirement lump-sum plans (which include unfunded plans and funded plans as a result of setting up employee pension trust).

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

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

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Balance at beginning of year	¥8,269	¥8,057	\$74,502
Service costs	514	504	4,631
Interest costs	44	51	396
Actuarial differences	188	108	1,693
Benefit paid	(558)	(451)	(5,027)
Balance at end of year	¥8,458	¥8,269	\$76,205

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

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Balance at beginning of year	¥5,324	¥1,384	\$47,968
Expected return on pension assets.....	21	20	189
Actuarial differences	(958)	(110)	(8,631)
Contribution by the employer.....	75	99	675
Benefit paid	(108)	(69)	(973)
Amount of establishment retirement benefit trust	—	3,999	—
Balance at end of year	¥4,355	¥5,324	\$39,237

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

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Balance at beginning of year	¥656	¥495	\$5,910
Retirement benefit expenses.....	63	82	567
Benefit paid	(42)	(29)	(378)
Other	(0)	1	(0)
Change of scope of consolidation.....	—	106	—
Balance at end of year	¥676	¥656	\$6,090

The reconciliation of the defined benefit obligations and pension assets to net defined benefit liability recognized in the consolidated balance sheet as of March 31, 2019 and 2018, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Funded defined benefit obligations.....	¥ 8,458	¥ 8,269	\$ 76,205
Pension assets	(4,355)	(5,324)	(39,237)
	4,103	2,944	36,967
Unfunded defined benefit obligations.....	676	656	6,090
Net amount of liability and assets recognized in the consolidated balance sheet	4,780	3,601	43,066
Net defined benefit liability	4,780	3,601	43,066
Net defined benefit asset	—	—	—

Retirement benefit expenses for the years ended March 31, 2019 and 2018 consisted of the followings:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Service costs	¥514	¥504	\$4,631
Interest costs	44	51	396
Expected return on pension assets.....	(21)	(20)	(189)
Actuarial differences recognized in the year	199	169	1,792
Prior service cost recognized in the year	6	(15)	54
Retirement benefit expenses accounted for by the simplified method.....	63	82	567
Retirement benefit expenses for the defined retirement benefit plan	¥806	¥770	\$7,261

The breakdown of remeasurements of defined benefit plans in other comprehensive income (before tax effects) for the years ended March 31, 2019 and 2018, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Prior service cost.....	¥ 6	¥(15)	\$ 54
Actuarial differences	(947)	(49)	(8,532)
	¥(940)	¥(65)	\$ (8,469)

The breakdown of remeasurements of defined benefit plans in accumulated other comprehensive income (before tax effects) as of March 31, 2019 and 2018, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Unrecognized prior service cost.....	¥ 71	¥ 78	\$ 639
Unrecognized actuarial differences	1,744	797	15,713
	¥1,816	¥875	\$16,361

The breakdown of pension assets by major category as of March 31, 2019 and 2018, were as follows:

	2019	2018
Bonds.....	34.7%	9.2%
Stocks	51.3	60.3
Cash and cash equivalent	0.0	18.4
Insurance company general accounts.....	6.5	5.4
Alternative investments	6.6	5.5
Other.....	0.9	1.2
Total.....	100.0%	100.0%

Notes 1. Alternative investments are mainly investments of hedge funds.

2. 67.0% and 72.6% as of March 31, 2019 and 2018, respectively, of the total plan assets are assets contributed to a retirement benefit trust for retirement lump-sum plans.

Major actuarial assumptions as of March 31, 2019 and 2018, were as follows:

	2019	2018
Discount rate.....	0.4%	0.5–0.6%
Expected rate of return on pension assets.....	1.5%	1.5%

Defined contribution pension plan

The amount of contribution required for the defined contribution pension plan paid by the Company and its consolidated subsidiaries, including the expense for small and medium enterprises retirement benefit mutual aid schemes, were ¥95 million (\$855 thousand) and ¥89 million for the years ended March 31, 2019 and 2018, respectively.

12. Research and Development Costs

Research and development costs charged to income for the years ended March 31, 2019 and 2018 amounted to ¥1,086 million (\$ 9,784 thousand) and ¥1,185 million, respectively.

13. 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:

	2019	2018
Statutory tax rate	—%	30.9%
Expenses not deductible for tax purposes.....	—	1.8
Non-taxable dividend income.....	—	(0.9)
Per capita levy of inhabitant taxes	—	0.6
Valuation allowance.....	—	1.8
Tax credit of experiment and research expenses.....	—	(2.0)
Amortization of goodwill	—	14.4
Other—net.....	—	(3.5)
Effective tax rate.....	—%	43.1%

Note: For the year ended March 31, 2019 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, 2019 and 2018 were composed of the following:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Deferred tax assets:			
Accrued cost of sales.....	¥ 301	¥ 174	\$ 2,711
Accrued enterprise taxes.....	113	99	1,018
Reserve for losses on contracts.....	184	168	1,657
Accrued warranty.....	335	272	3,018
Net defined benefit liability.....	2,701	2,345	24,335
Unrealized profit.....	37	46	333
Accrued bonus to employees.....	769	727	6,928
Tax loss carryforward.....	0	9	0
Allowance for doubtful accounts.....	319	305	2,874
Long-term accounts payable-other.....	43	43	387
Impairment loss	480	166	4,324
Others.....	975	854	8,784
Less: valuation allowance.....	(918)	(1,008)	(8,271)
Total deferred tax assets.....	¥ 5,344	¥ 4,206	\$ 48,148
Deferred tax liabilities:			
Reserve for deferred gains on sales of fixed assets for tax purposes.....	¥(1,523)	¥ (977)	\$(13,721)
Net unrealized gains on available-for-sale securities.....	(2,468)	(2,880)	(22,236)
Gain on contribution of securities to retirement benefits trust.....	(666)	(666)	(6,000)
Others.....	(523)	(479)	(4,712)
Total deferred tax liabilities	(5,182)	(5,004)	(46,688)
Net deferred tax assets (liabilities).....	¥ 162	¥ (798)	\$ 1,459

14. Contingent Liability

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

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Guarantees for indebtedness of employees.....	¥ 0	¥0	\$ 0
Notes receivable endorsed.....	31	5	279
	¥31	¥6	\$279

15. Other Income/ (Expenses)— Other, net

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

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Exchange gain (loss)	¥ 7	¥(57)	\$ 63
Reversal of allowance for doubtful accounts.....	—	20	—
Guarantee expenses	(34)	(17)	(306)
Other, net.....	(64)	8	(576)
	¥(91)	¥(46)	\$(819)

16. Impairment loss

For the fiscal year ended March 31, 2019, the Company and its consolidated subsidiaries recognized impairment loss of fixed assets on the following groups of assets.

Use	Type of assets	Location
Assets for disposal	Buildings, structures, machinery and equipment	Ichikawa factory and Research & Development Center Ichikawa city, Chiba

(Background of the recognition)

The Company and its consolidated subsidiaries recognized impairment loss for buildings, structures, machinery and equipment at the Ichikawa factory and Research & Development Center that are determined to be disposed for the transfer of their facilities.

(Amount of impairment loss)

Type of Assets	Millions of yen	Thousands of U.S. dollars
Buildings	¥ 889	\$8,009
Structures.....	99	891
Machinery and equipment.....	71	639
Total.....	¥1,060	\$9,550

(Method for grouping assets)

The Company and its consolidated subsidiaries, in principle, grouped their assets on company units due to the difficulty of ascertaining a close relationship between specific business segments and their fix assets and in consideration of the size of the consolidated subsidiaries. However, the assets determined to be idle assets or assets for disposal or destruction, and which therefore have no projected future use are grouped by individual property units.

(Method for calculating recoverable values)

The Company and its consolidated subsidiaries use net realizable value to estimate the recoverable value and the evaluation is based upon memorandum value because the assets are difficult to sell or divert.

17. Subsequent Events

Appropriation of Retained Earnings

The following appropriation of retained earnings of the Company, which has not been reflected in the accompanying consolidated financial statements for the year ended March 31, 2019 was approved at the Board of Directors meeting held on May 30, 2019

	Millions of yen	Thousands of U.S. dollars
Year-end dividends of ¥14.00 (\$0.12) per share	¥623	\$5,613

Repurchase of Treasury Stocks

At the meeting of Board of Directors held on May 13, 2019, the Company resolved the repurchase of treasury stocks pursuant to Article 156 of the Companies Act, which is applicable in accordance with Article 165, paragraph 3 of the Companies Act.

1. Reason for the repurchase of treasury stocks

In order to improve the capital efficiency and to enhance the return for shareholders

2. Detail of the repurchase

(1) Type of stock purchased

Common stock of the Company

(2) Aggregate number of stocks repurchased

Up to 1,000,000 shares (2.19% of Issued shares)

(3) Aggregate repurchase price of stocks

Up to ¥1,800 million

(4) Period of repurchases

From May 14, 2019 to May 13, 2020

Introducing of Restricted Stock Compensation Plan

At the meeting of Board of Directors held on May 13, 2019, the Company resolved to introduce a restricted stock compensation plan (hereinafter the "compensation plan"). The proposal for the compensation plan was approved at the 157th ordinary general meeting of shareholders held on June 25, 2019.

1. Purpose for introducing of the compensation plan

The compensation plan aims to provide incentives for Directors (excluding outside directors; hereinafter, the "Eligible Directors") to contribute to sustainable improvement in the corporate value of the Company, as well as to further promoting shared value between shareholders and the Company.

2. Overview of the compensation plan

The Eligible Directors shall pay all the monetary compensation claims provided by the Company under this compensation plan, in the form of payment in kind, in accordance with the resolution of the Board of Directors, and then the common stocks of the Company are issued or disposed.

The total amount of the monetary compensation claims provided by the Company under the compensation plan shall be ¥80 million or less per year. Details of timing and allocation of the grant for each Eligible Director shall be determined at the Board of Directors.

The total number of the issued or disposed common stocks of the Company shall be 93,000 or less per year; provided, however, that in case of share split (including allotment of common stocks of the Company without contribution), or share consolidation of the common stocks of the Company, or any other circumstances that require adjustment to the total number of common stocks of the Company to be issued or disposed as restricted shares on and after the day of approval of this compensation plan, such total number of shares shall be adjusted within a reasonable range.

The amount to be paid per share shall be determined at the Board of Directors, based on the closing price of the common stock of the Company at the Tokyo Stock Exchange on the business day immediately prior to the day of each such resolution at the Board of Directors (if no transactions are established on such date, the closing price of the immediate preceding trading day), within the range not particularly advantageous to the Eligible Directors who are to receive the common stocks. Besides, the Company and each Eligible Director shall enter into an agreement on the allotment of restricted shares (the "Allotment Agreement") that include the following terms for the issuance or disposal of the common stock of the Company.

(1) Transfer Restriction Period

The Eligible Directors shall not transfer, create a security interest on, or otherwise dispose of the common stocks of the Company (the "Allotted Shares") allotted under the Allotment Agreement (the "Transfer Restriction"), for a period as prescribed by the Board of Directors beforehand (the "Transfer Restriction Period") ranging from 3 to 30 years following the allotment.

(2) Procedures for loss of position of the Eligible Director

When the Eligible Director loses his/her position as Director of the Company, prior to the expiration of the Transfer Restriction Period, the Company shall automatically acquire the Allotted Shares without contribution unless such loss of position is due to justifiable reasons including expiration of the term of his/her office or death.

(3) Lifting of the Transfer Restrictions

Notwithstanding the provisions in (1) above, the Company shall lift the Transfer Restrictions for all of the Allotted Shares upon expiration of the Transfer Restriction Period, on condition that the Eligible Director remained in the position of Director of the Company during such Transfer Restriction Period; provided, however, that if such Eligible Director loses his/her position as set out in (2) above, prior to the expiration of the Transfer Restriction Period, due to justifiable reasons including expiration of the term of his/her office or death, as set out in (2) above, the number of the Allotted Shares subject to such lifting of the Transfer Restrictions as well as the timing thereof shall be reasonably adjusted as appropriate.

Furthermore, the Company shall automatically acquire the Allotted Shares without contribution yet to be subject to the lifting of the Transfer Restrictions, immediately after such lifting pursuant to the provisions mentioned above.

(4) Procedures in case of organizational restructuring, etc.
 Notwithstanding the provisions in (1) above, if matters related to a merger agreement in which the Company is to become an absorbed company, a share exchange agreement or share transfer plan in which the Company is to become a wholly-owned subsidiary, or other organizational restructuring, etc., are approved during the Transfer Restriction Period by the General Meeting of Shareholders of the Company (or by the Board of Directors of the Company where such organizational restructuring, etc., does not require approval of the General Meeting of Shareholders of the Company), the Company shall lift the Transfer Restrictions prior to the effective date of such organizational restructuring, etc., for the number of the Allotted Shares as determined reasonably commensurate with the length of period between the beginning of the Transfer Restriction Period and the date of approval for the organizational restructuring, etc., by the resolution of the Board of Directors of the Company. In the case where the aforementioned provisions apply, the Company shall automatically acquire without contribution the Allotted Shares, not subject to lifting of the Transfer Restrictions, immediately after the lifting of the Transfer Restrictions.

(5) Other matters
 Any other matters related to the Allotment Agreement shall be determined by the Board of Directors of the Company. The Company also intends to grant restricted shares, similar to those granted to Eligible Directors, to the Executive Officers of the Company not concurrently serving as Directors, as well as to some of Directors of the subsidiaries of the Company, by the resolution of the Board of Directors, thereby issuing or disposing of common stock of the Company.

Selling of Investments in Securities

The Company resolved to sell a part of investments in securities, and sold on June 17, 2019. As a result, the Company and its consolidated subsidiaries will record the profit of ¥1,348 million as "Gain on Sales of Investments in securities" under other income (expenses), in the first quarter of the fiscal year ending March 2020.

18. Finance Leases

1. Finance leases (Lessee)

Finance leases which do not transfer ownership

(1) Leased assets

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

(2) Depreciation method for lease assets

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

2. Operating lease (Lessee)

Future lease payments for the non-cancelable portion of the Company and its subsidiaries' operating leases at March 31, 2019 and 2018, were as follows

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Due within one year.....	¥23	¥14	\$207
Due after one year.....	37	32	333
Total.....	¥60	¥46	\$540

19. Segment Information

(a) Description of reportable segments

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

The Tsukishima Kikai Group conducts Water environmental business and Industrial business mainly.

Therefore, these 2 business are specified as reportable segments.

Water environmental business:

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

Industrial business:

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

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

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

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

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

Year ended March 31, 2019	Millions of yen						Consolidated financial statements
	Reporting segments			Other	Total	Adjustment	
	Water environmental business	Industrial business	Subtotal				
Sales							
Sales to external customers.....	¥54,322	¥43,369	¥97,692	¥ 76	¥97,768	¥ —	¥97,768
Inter-segment sales or transfers	77	3	81	302	384	(384)	—
Total.....	54,400	43,373	97,774	378	98,152	(384)	97,768
Segment income (loss) ...	3,734	3,996	7,730	66	7,796	—	7,796
Depreciation and amortization	828	568	1,396	1	1,397	—	1,397
Amortization of goodwill.....	¥ —	¥ 86	¥ 86	¥ —	¥ 86	¥ —	¥ 86

Year ended March 31, 2018		Millions of yen					
	Reporting segments			Other	Total	Adjustment	Consolidated financial statements
	Water environmental business	Industrial business	Subtotal				
Sales							
Sales to external customers.....	¥46,146	¥38,872	¥85,019	¥76	¥85,095	¥ —	¥85,095
Inter-segment sales or transfers	5	1	6	316	322	(322)	—
Total.....	46,151	38,873	85,025	392	85,418	(322)	85,095
Segment income (loss)....	2,873	1,487	4,361	69	4,430	—	4,430
Depreciation and amortization	870	563	1,434	0	1,435	—	1,435
Amortization of goodwill*.....	¥ —	¥ 2,565	¥ 2,565	¥—	¥ 2,565	¥ —	¥ 2,565

*Amortization of goodwill includes ¥2,304 in amortization of goodwill included in other expenses.

Year ended March 31, 2019		Thousands of U.S. dollars					
	Reporting segments			Other	Total	Adjustment	Consolidated financial statements
	Water environmental business	Industrial business	Subtotal				
Sales							
Sales to external customers.....	\$489,431	\$390,746	\$880,187	\$ 684	\$880,872	\$ —	\$880,872
Inter-segment sales or transfers	693	27	729	2,720	3,459	(3,459)	—
Total.....	490,134	390,782	880,926	3,405	884,331	(3,459)	880,872
Segment income (loss) ...	33,642	36,003	69,645	594	70,240	—	70,240
Depreciation and amortization	7,460	5,117	12,577	0	12,586	—	12,586
Amortization of goodwill.....	\$ —	\$ 774	\$ 774	\$ —	\$ 774	\$ —	\$ 774

(d) Related Information Information by geographical segment

(1) Net Sales

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Area:			
Japan.....	¥83,163	¥72,443	\$749,283
Asia.....	12,214	10,987	110,045
Other.....	2,390	1,664	21,533
	¥97,768	¥85,095	\$880,872

(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, 2019 and 2018 for both years.

(e) Information regarding impairment loss of fix assets

Millions of yen					
2019					
	Water environment business	Industrial business	Others	Elimination or common assets	Total
Impairment loss*	¥—	¥—	¥—	¥1,060	¥1,060

Thousands of U.S. dollars					
2019					
	Water environment business	Industrial business	Others	Elimination or common assets	Total
Impairment loss*	\$0	\$0	\$0	\$9,550	\$9,550

*Impairment loss is related to the decision for the disposal of fix assets that are caused by the transfer of Ichikawa factory and research & development center.

(f) Information regarding amortization of goodwill and unamortized balance

Millions of yen					
2019					
	Water environment business	Industrial business	Others	Elimination or common assets	Total
Amortization of goodwill	¥—	¥ 86	¥—	¥—	¥ 86
Unamortized balance	¥—	¥271	¥—	¥—	¥271

Millions of yen					
2018					
	Water environment business	Industrial business	Others	Elimination or common assets	Total
Amortization of goodwill*	¥—	¥2,565	¥—	¥—	¥2,565
Unamortized balance	¥—	¥ 357	¥—	¥—	¥ 357

*Amortization of goodwill includes ¥2,304 in amortization of goodwill included in other expenses.

Thousands of U.S. dollars					
2019					
	Water environment business	Industrial business	Others	Elimination or common assets	Total
Amortization of goodwill	\$—	\$ 774	\$—	\$—	\$ 774
Unamortized balance	\$—	\$2,441	\$—	\$—	\$2,441

(g) Information by gain on bargain purchase

Fiscal year ended March 31, 2019

Not applicable

Fiscal year ended March 31, 2018

SANSHIN KOGYO Co., Ltd and 2 other subsidiaries were acquired by the Company in industrial business segment.

Gain on bargain purchase resulting from this event is ¥1,291 millions.

INDEPENDENT AUDITOR'S REPORT

Independent Auditor's Report

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

We have audited the accompanying consolidated financial statements of Tsukishima Kikai Co., Ltd. and its consolidated subsidiaries, which comprise the consolidated balance sheet as of March 31, 2019, the consolidated statements of income, comprehensive income, changes in net assets, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Tsukishima Kikai Co., Ltd. and its consolidated subsidiaries as of March 31, 2019, and their financial performance and cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

Emphasis of Matter

As discussed in Note 17 to the consolidated financial statements, the Company resolved the repurchase of treasury stocks at the meeting of Board of Directors held on May 13, 2019. Our opinion is not qualified in respect of this matter

As discussed in Note 17 to the consolidated financial statements, the Company sold a part of investments in securities on June 17, 2019. Our opinion is not qualified in respect of this matter

Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2019 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

Inoue Audit Corporation
INOUE AUDIT CORPORATION

June 25, 2019
Tokyo, Japan

CORPORATE HISTORY

1905	August	Densaku Kuroita founded Tokyo Tsukishima Kikai Seisakusho.
1917	May	Tsukishima Kikai Co., Ltd. incorporated.
1937	December	Daini Tsukishima Kikai, Co., Ltd. in Tsurumi-ku, Yokohama City, merged.
1944	March	The company merged with Tsukishima Kikai Chuko Co., Ltd.
1949	May	Stock listed on the Tokyo Stock Exchange.
1961	October	Stock listed on the Second Section of the Osaka Securities Exchange. A laboratory built within the Tsukudajima Factory to strengthen research and development.
1962	April	Tsukishima Kikai Engineer Training Center created.
1976	January	The Ichikawa Factory began its operations.
1977	July	The Ichikawa Factory acquired the ASME (American Society of Mechanical Engineers) certificate.
1991	February	TSK Engineering Malaysia Sdn. Bhd. was founded.
1993	April	TSK Engineering (Thailand) Co., Ltd. was founded.
1994	November	TSK Engineering Taiwan Co., Ltd. was founded.
1996	October	The company acquired ISO 9001.
2000	June	The company acquired ISO 14001.
	November	Tsukishima Technology Maintenance Service Co., Ltd. was formed as the result of the merger of Tsukishima Maintenance Co., Ltd. and Tsukishima Plant Koji Co., Ltd.
2001	December	Tsukishima Techno Machinery Co., Ltd. was founded.
2003	December	Tsukishima Techno Solution Co., Ltd. was founded.
2004	January	Kanuma Kankyo Bika Center changed its name to SUN ECO THERMAL Co., Ltd.
2005	March	The company acquired the management rights of Nittetsu Chemical Engineering Ltd.
2006	April	Nittetsu Chemical Engineering Ltd. changed its name to Tsukishima Kankyo Engineering Ltd.
2008	December	The company absorbed Tsukishima Real Estate Co., Ltd., formerly a non-consolidated subsidiary.
2011	March	TSK Engineering China Co., Ltd. was founded as a business base in China.
2012	July	Tsukishima Techno Solution Co., Ltd. acquired the Industrial Machinery Business from Tsukishima Techno Machinery Co., Ltd. and changed its name to Tsukishima Machine Sales Co., Ltd. Tsukishima Kikai Co., Ltd. merged with Tsukishima Techno Machinery Co., Ltd. in an absorption type merger.
2013	December	Head Office was relocated to the current location.
2014	October	The company acquired the management authority of DAIDO CHEMICAL ENGINEERING CORP.
	December	The company acquired the management authority of BOKELA GmbH.
2017	July	The company acquired the management authority of SANSHIN KOGYO Co., Ltd.
2019	April	The Muroran Factory was opened.

CORPORATE DATA (As of March 31, 2019)

Company name	TSUKISHIMA KIKAI CO., LTD.
Address of Head Office	3-5 Harumi 1-chome, Chuo-ku, Tokyo 104-0053, JAPAN
President & CEO	Kazuhiko Yamada
Established	August 1905
Capital stock	¥6,646 million
Number of employee	2,537 (consolidated) 592 (non-consolidated)

STOCK INFORMATION (As of March 31, 2019)

Stock listing(Code)	Tokyo Stock Exchange(6332)
Common stock	Authorized: 180,000,000 shares Issued: 45,625,800 shares
Number of shares per unit	100
Number of shareholders	4,776
Transfer agent	Mitsubishi UFJ Trust and Banking Corporation 1-1, Nikkocho, Fuchu-city, Tokyo 183-0044, Japan
Fiscal year	From April 1 to March 31
Regular general meeting of shareholders	Within three months after the end of fiscal year

Major Shareholders

Name/ Title	Number of shares held (thousands)	Percentage of outstanding shares
Daido Life Insurance Company	2,115	4.75
Taiyo Life Insurance Company	1,885	4.23
The Master Trust Bank of Japan, Ltd. (Trust Account)	1,757	3.94
Tokyo Century Corporation	1,757	3.94
Japan Trustee Services Bank, Ltd. (Trust Account)	1,422	3.19
MUFG Bank, Ltd.	1,344	3.02
The Japan Steel Works, Ltd.	1,300	2.92
Takasago Thermal Engineering Co., Ltd.	1,287	2.89
OYO Corporation	1,172	2.63
Tsukishima Kikai Client Stock Ownership	1,086	2.44

Notes: 1. The above table excludes treasury stock of 1,120,813 Company-held shares.
2. Proportions of total shares issued are calculated after deducting treasury stock.
3. Treasury stock excludes 100 shares of Tsukishima Kikai stock held by the Tsukishima Kikai Employee Stock Ownership Association Trust.

NETWORK



JAPAN

Offices

Head Office
Tokyo Branch
Osaka Branch
Sapporo Sales Branch
Sendai Sales Branch
Yokohama Sales Branch
Nagoya Sales Branch
Hiroshima Sales Branch
Fukuoka Sales Branch
Okinawa Sales Office
Kansai Group (Industrial Sales Dept.)
Niigata Sales Office, Wakayama Sales Office
Kumamoto Sales Office, Chiba Sales Office

Factory and Laboratory

Muroran Factory
Ichikawa R&D Center**

Group Companies

Tsukishima Technology Maintenance Service Co., Ltd.*
SUN ECO THERMAL Co., Ltd.*
Tsukishima Kankyo Engineering Ltd.*
Samukawa Water Service Co., Ltd.*
Tsukishima Machine Sales Co., Ltd.*
Tsukishima Business Support Co., Ltd.*
DAIDO CHEMICAL ENGINEERING CORP.*
Owari Water & Energy Co., Ltd.*
SANSHIN KOGYO Co., Ltd.*

OVERSEAS

Offices

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

Group Companies

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

* Consolidated subsidiary

** Ichikawa R&D Center will be relocated to Yachiyo City, Chiba, in the fall of 2019.

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