

Pursuing New Paths of Innovation

Annual Report **2010**

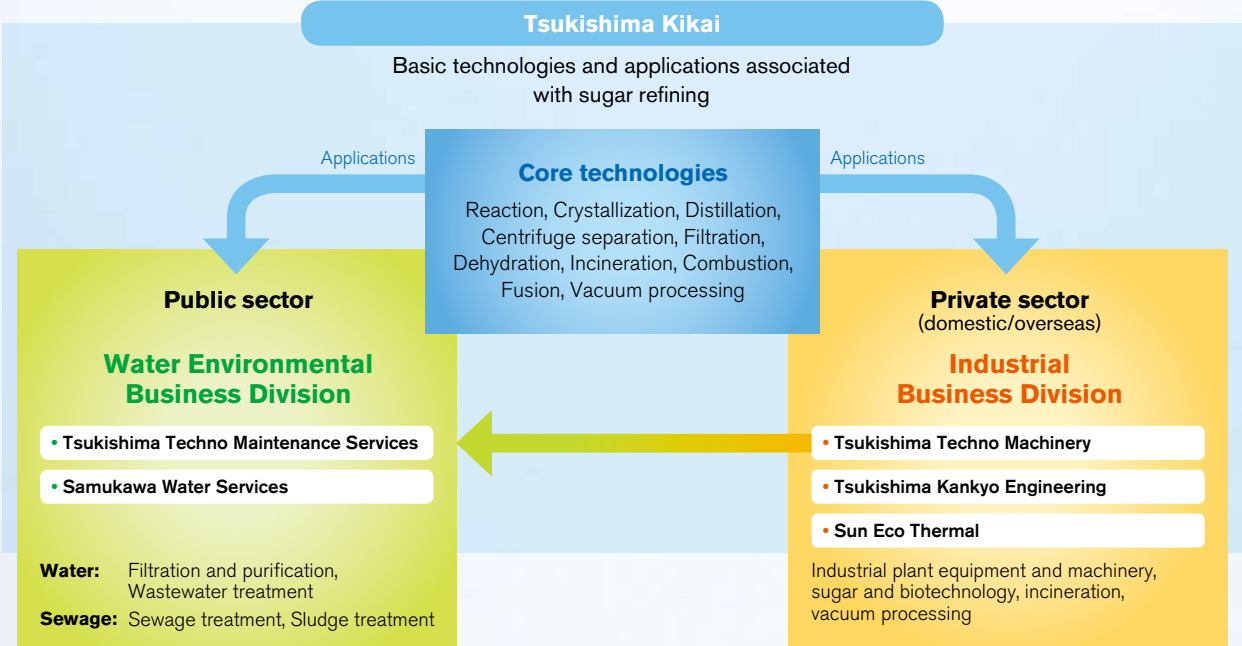




Profile

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

Operations of the Tsukishima Kikai Group



Business Segments

	Subsegment	Business description
Water Environmental Business	Plants and process equipment	• Various plants and equipment
	Life cycle business	• PFI/DBO/Comprehensive O&M contracts
	O&M*	• One-year/multi-year O&M contracts Maintenance/Parts/Repair/Chemicals
Industrial Business	Plants and process equipment	• Various plants and equipment
	Incineration	• Incineration plants and equipment
	O&M	• Maintenance/Parts
	Other	• Intermediary treatment of industrial and non-industrial waste (incineration)

*O&M: Operation and Maintenances

Topics for 2010

Sewage Sludge Treatment Facility in China

Economic growth in China has led to an increase in sewage sludge volume, and an alternative to landfill disposal, which imposes a heavy environmental load, is urgently required. The Tsukishima Kikai Group has an established reputation as a leader in sludge treatment technologies, including digestion, dewatering, drying, and incineration. Recently we won our first contract to supply sewage sludge drying equipment to China. There have also been many inquiries from China about incineration plants as well as drying plants, indicating that major business opportunities are starting to emerge.

Seawater Flue Gas Desulfurization System

Exhaust gases produced by fuel combustion in thermal power stations contain sulfur oxides, which are harmful to human health and the environment. Our seawater desulfurization process uses the alkaline substances naturally contained in seawater to neutralize such sulfur-containing gases. The investment and operating costs are lower than conventional systems based on the limestone process, and there have already been many inquiries from Asia, South America, the Middle East, and other parts of the world. We have already secured an order for a project in North Africa this year, and we are determined to expand our sales of this technology globally.



PDCB

In March 2010, we won a contract for the supply of a para-dichlorobenzene (PDCB) production plant from a Chinese company producing chlorine-based chemicals. It was the first order won after the signing of a technology licensing agreement with Nippon Light Metal Co., Ltd. (NLM) and attributable to the technical superiority thereby brought forth.

PDCB is used as the raw material for polyphenylene sulfide (PPS) resin. The recovery of the markets for motor vehicles and electronics industries is resulting in increase of inquiries not only from China but also from India.



Expanding Our Focus on Environment and Energy

Kazuhiko Yamada
President and Chief Executive Officer,
Representative Director



Market Circumstances

I am pleased to present the Annual Report of the Tsukishima Kikai Group (Tsukishima Kikai Co., Ltd. and its consolidated subsidiaries) for fiscal 2009 (April 1, 2009–March 31, 2010).

During the year under review, the Japanese economy began to show signs of a gradual recovery driven by improving overseas economic trends and other factors. However, there was continuing concern about downward pressures on economic performance. Of particular significance were a persistently widespread perception of excess capacity in the business sector, a worsening employment environment, and continuing deflation.

Uncertainty about the outlook for public works expenditure in the areas of water supply and sewage continued to affect the machinery industry. In the area of industrial machinery, the downward trend in orders began to slow in step with a recovery in production levels in some industries. Nevertheless, business sector capital investment remained generally slow and did not result in sufficient impetus for an economic recovery.

Trends in Orders, Net Sales and Income

Our key concepts for the Tsukishima Kikai Group in these circumstances were the environment and energy, both of which have become the focus of increasing global concern. Our Water Environmental Business centers on the Japanese market for water supply and sewage facilities. We won contracts for PFI¹ and DBO² projects for water purification and sewage treatment plants. We were also able to expand our orders in a key business area within this segment, the “Life cycle business”, which includes multi-year comprehensive operation and maintenance (O&M) services. In the Industrial Business segment, we mainly serve private sector markets in Japan and overseas. In this area, we worked to win domestic and overseas orders for plants, including chemical, iron and steel and food plants, as well as for process equipment.

We again faced challenging business conditions, and net sales were lower year on year. However, we implemented group-wide initiatives to ensure profitability, including the use of centralized and overseas procurement of materials and equipment to reduce the cost of sales. We also accelerated our efforts to reduce fixed costs by introducing structural reforms, especially measures to improve the efficiency of our engineering operations.

As a result of these efforts, we achieved orders of ¥68,340 million, net sales of ¥67,674 million, operating income of ¥1,945 million, ordinary income of ¥2,018 million, and net income of ¥753 million.

Notes:

1. PFI: Private finance initiative

This is a mechanism that allows private sector financial resources, technology, and efficient operating expertise to be utilized in public service projects that involve the development of facilities.

2. DBO: Design, build, operate

With this method, business corporations are given comprehensive contracts to design, build, and operate facilities. Government agencies own the facilities and raise the funds required.

Our segment results for the consolidated accounting year ended March 31, 2010 were as follows:

Water Environmental Business

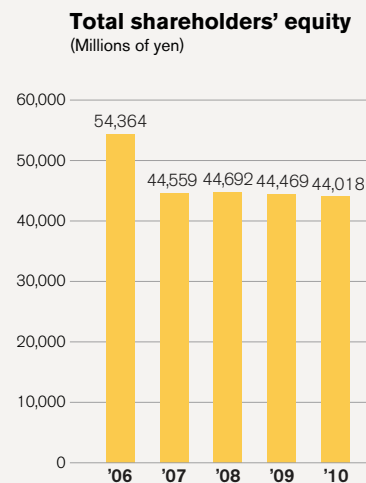
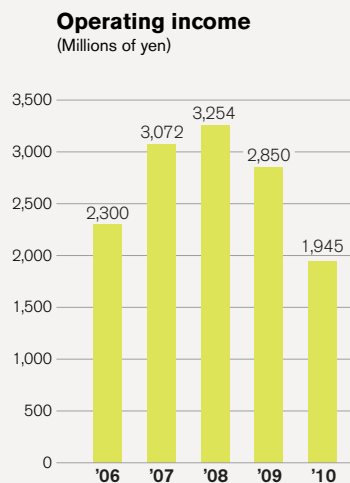
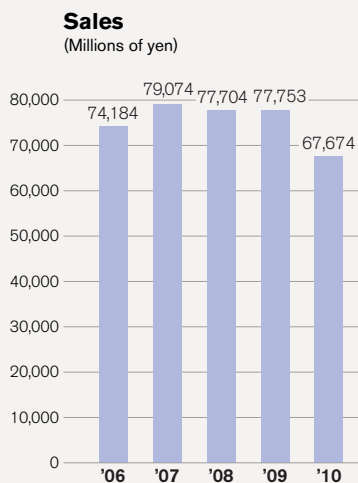
Demand for machinery and facilities in this segment remained generally slow because of reduced public investment. However, there was firm demand for replacement of facilities for water purification and sewage treatment plants, as well as for facility O&M, and repair work. We also recognized a gradual increase in orders for PFI and DBO projects and other projects combining facility construction with long-term operation and maintenance.

One of the areas targeted by the Tsukishima Kikai Group under these business conditions was replacement projects for water purification plants and sewage sludge treatment facilities. Environmental and energy technologies, including sludge-to-fuel production systems, and new energy-saving dewatering systems, are playing a key role in this area. We also focused on PFI and DBO projects that offered opportunities to capitalize on our group value chains in such areas as design, procurement, manufacturing and O&M. Another goal was the expansion of our “Life cycle business” activities, including comprehensive multi-year O&M services.

Orders received in the Water Environmental Business totaled ¥46,701 million. Net sales reached ¥43,418 million and operating income ¥2,790 million.

Industrial Business

Despite improving production levels in some domestic industries, business sector capital investment remained slow in general. However, looking at in overseas markets, there was a gradual recovery in capital investment demand in Asia, especially in the Chinese market.



In this business segment, our core fields of expertise are environmental and energy technologies that contribute to the reduction of CO₂ emissions in various industries. In the Japanese market, we used our expertise through our business activities in related areas, including gas holders for the iron and steel industry, and dryers for the chemical industry. In overseas markets, we focused on marketing our drying and incineration equipment to various industries in Asia, Europe and North America.

Orders in the Industrial Business segment amounted to ¥21,638 million, and net sales reached ¥24,255 million. There was an operating loss of ¥844 million.

Capital investment

Total capital investment in fiscal 2009 amounted to ¥226 million. The main areas of investment were the replacement of production facilities in our factory, and IT.

Research and Development

Research and development are vital to the continuing technology-based growth of the Tsukishima Kikai Group. We will increase our efforts to expand our range of new products and develop technology to differentiate our products and services, especially in environment- and energy-related fields.

In addition to the expansion of our basic research relating to sludge treatment, which is one of our major markets in the Water Environmental Business segment, we will also accelerate the commercialization of new energy-saving incineration systems and step up our efforts to win first-time orders. In the Industrial Business segment, we will strengthen our market competitiveness through differentiation based on core technologies in environmental and energy-related areas. Our research and development will focus mainly on thermal technologies, including a highly efficient drying technology for low-grade coal, and a system to use waste heat to generate electricity.

Research and development investment in the year ended March 31, 2010 amounted to ¥1,093 million.

Outlook and Priorities

New Medium-term Management Plan

In May 2010, the Tsukishima Kikai Group formulated a new medium-term management plan covering the three-year period from fiscal 2010 to fiscal 2012. The core concepts in the basic policy under this plan are the environment and energy, both of which are the focus of increasing global concern. We will continue to contribute to the prevention of global warming by improving our environmental and energy-related technologies. Another goal is the expansion of our overseas business activities, especially in emerging markets where capital investment demand is strong.

Basic Policies under the Medium-term Management Plan

Water Environmental Business

The Tsukishima Kikai Group is differentiating its products and services in this segment by developing new environmental and energy-related technologies with the potential to contribute to the prevention of global warming. These include sludge-to-fuel production systems, and a turbocharged fluidized bed incineration system with excellent energy efficiency. By using these technologies to develop our "Life cycle business", including PFI and DBO projects and comprehensive O&M services, we will evolve into a business group capable of generating reliable income streams.

Industrial Business

Global warming countermeasures have become an urgent priority for many industries. Our goal is to attract more orders from those industries through our environmental and energy-related technologies, including flue-gas desulfurization systems, liquid waste combustion facilities, and solid waste treatment equipment. A particular priority is the development of additional applications for our large-scale dryers, which we have already supplied to many users.

Many overseas governments have tightened their environmental regulations, including measures designed to fight global warming. This trend is an opportunity for the Tsukishima Kikai Group to win more orders in overseas markets. We have many achievements in the fields of environmental technology and highly efficient production facilities, and we aim to expand our overseas business activities by taking these technologies and products into foreign markets.

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

Board of Directors



Kunihiko Sawa
Board Member

Takashi Kikkawa
Board Member,
Executive Officer

Torahiko Maki
Board Member,
Executive Officer

Kazuo Nakajima
Board Member,
Executive Officer

Akihiko Watanabe
Board Member,
Executive Officer

Toshio Yonezawa
Board Member

Hiroshi Sano
Board Member,
Executive Officer

Kazuhiko Yamada
President and Chief Executive Officer,
Representative Director

Naoyuki Oishi
Senior Managing Executive Officer,
Representative Director

Katsunori Nishida
Board Member,
Managing Executive Officer

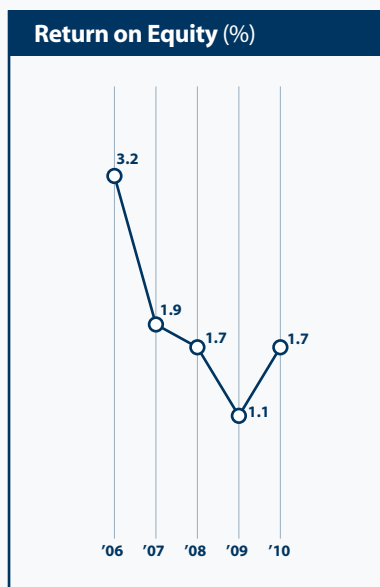
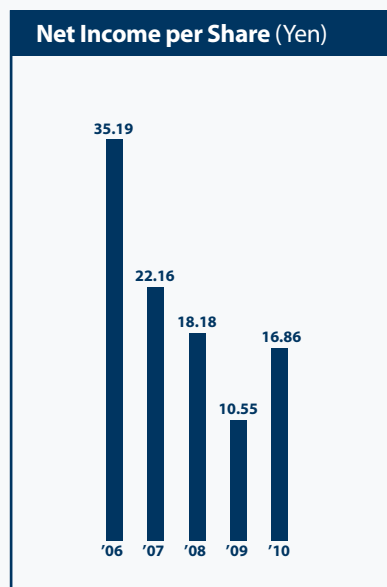
Financial Section

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)
	2010	2009	2008	2007	2006	2010
For the year:						
Net sales.....	¥67,674	¥77,753	¥77,704	¥79,074	¥74,184	\$727,364
Operating income	1,945	2,850	3,254	3,072	2,300	20,904
Income before income taxes.....	2,007	1,182	2,057	1,821	2,598	21,571
Net income.....	753	480	827	1,009	1,660	8,093
At year-end:						
Total assets	89,809	92,916	102,925	117,502	107,924	965,273
Total shareholders' equity.....	44,018	44,469	44,692	44,559	54,364	473,108
Per share:						
Net income.....	¥16.86	¥10.55	¥18.18	¥22.16	¥35.19	\$0.18
Cash dividends.....	15.00	15.00	15.00	15.00	15.00	0.16
Number of shares outstanding (in thousands)						
	45,625	45,626	45,626	45,626	45,626	

Note: U.S. dollar amounts are translated from yen at the rate of ¥93.04 to US\$1, solely for the convenience of the reader.
Amounts less than ¥1 million, \$1 thousand and Number of shares outstanding in thousands had been rounded off until 2009.
These amounts have been rounded down from 2010.



CONSOLIDATED BALANCE SHEETS

TSUKISHIMA KIKAI CO., LTD. and its consolidated subsidiaries
Years ended March 31, 2010 and 2009

ASSETS

	Millions of yen (Note 1)		Thousands of U.S. dollars (Note 1)
	2010	2009	2010
Current assets:			
Cash and time deposits (Notes 4, 7)	¥13,291	¥ 7,832	\$142,852
Marketable securities (Notes 2, 4, 5)	1,000	1,000	10,748
Notes and accounts receivable (Notes 4, 6, 7).....	35,043	43,675	376,644
Less: allowance for doubtful accounts (Note 2).....	(313)	(145)	(3,364)
Work in process (Note 2)	4,027	4,641	43,282
Raw materials and supplies (Note 2).....	157	148	1,687
Deferred income taxes (Note 10)	1,993	3,274	21,420
Other current assets.....	815	1,469	8,759
Total current assets	56,016	61,894	602,063
Property, plant and equipment (Note 2):			
Land.....	7,020	7,025	75,451
Buildings and structures.....	9,160	9,310	98,452
Machinery and equipment	15,120	15,224	162,510
Lease assets	39	27	419
Construction in progress.....	15	7	161
	31,358	31,593	337,037
Less: accumulated depreciation	(18,170)	(17,662)	(195,292)
Net property, plant and equipment.....	13,187	13,931	141,734
Investments and other assets:			
Goodwill (Note 2)	465	—	4,997
Software	1,263	1,873	13,574
Investments in securities (Notes 2, 4, 5)	15,176	11,071	163,112
Long-term loans (Note 7)	42	104	451
Deferred income taxes (Note 10)	3,337	3,666	35,866
Other assets.....	562	632	6,040
Less: allowance for doubtful accounts (Note 2).....	(241)	(255)	(2,590)
Total investments and other assets	20,605	17,091	221,463
Total assets	¥89,809	¥92,916	\$965,273

See Notes to Consolidated Financial Statements.

LIABILITIES AND NET ASSETS

	Millions of yen (Note 1)		Thousands of U.S. dollars (Note 1)
	2010	2009	2010
Current liabilities:			
Notes and accounts payable			
Trade (Notes 4, 6).....	¥19,728	¥22,129	\$212,037
Other	1,610	1,736	17,304
Short-term loans (Note 7)	200	200	2,149
Current portion of long-term loans (Notes 4, 7).....	622	664	6,685
Lease obligations (Note 7).....	8	5	85
Accrued income taxes (Note 10)	789	696	8,480
Accrued expenses	2,011	2,029	21,614
Accrued warranty (Note 2).....	1,142	1,952	12,274
Reserve for losses on contracts (Note 2).....	263	108	2,826
Advances received.....	4,161	4,085	44,722
Other current liabilities	3,190	3,131	34,286
Total current liabilities	33,728	36,735	362,510
Long-term liabilities:			
Long-term loans (Notes 4, 6, 7).....	4,999	5,640	53,729
Lease obligations (Note 7)	23	19	247
Long-term accounts payable-other (Note 2).....	1,037	—	11,145
Provision for post-employment benefits (Notes 2, 8).....	5,240	6,349	56,319
Reserve for retirement payments to officers (Note 2)	118	335	1,268
Other	56	73	601
Total long-term liabilities	11,476	12,416	123,344
Contingent liability (Note 11)			
Net assets:			
Shareholders' equity:			
Common stock,			
Authorized: 180 million shares in 2010 and 2009			
Issued: 45,625,800 shares in 2010 and 2009	6,646	6,647	71,431
Additional paid-in capital.....	5,485	5,486	58,953
Retained earnings	32,533	32,454	349,666
Treasury stock	(646)	(118)	(6,943)
Total shareholders' equity	44,018	44,469	473,108
Valuation and translation adjustments			
Net unrealized gains or losses on available-for-sale securities	674	(1,043)	7,244
Deferred gains or losses on hedges	(89)	(108)	(956)
Total valuation and translation adjustments.....	584	(1,151)	6,276
Minority interests	—	447	—
Total net assets.....	44,603	43,765	479,395
Total liabilities and net assets	¥89,809	¥92,916	\$965,273

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF INCOME

TSUKISHIMA KIKAI CO., LTD. and its consolidated subsidiaries
Years ended March 31, 2010 and 2009

	Millions of yen (Note 1)		Thousands of U.S. dollars (Note 1)
	2010	2009	2010
Net sales (Notes 2, 15)	¥67,674	¥77,753	\$727,364
Cost of sales (Note 9)	56,151	64,940	603,514
Gross profit	11,522	12,813	123,839
Selling, general and administrative expenses (Note 9)	9,576	9,963	102,923
Operating income.....	1,945	2,850	20,904
Other income (expenses):			
Interest and dividend income	280	541	3,009
Interest expenses	(173)	(193)	(1,859)
Gain on sales of investments in securities	0	0	0
Gain on sales of property, plant and equipment	0	1	0
Loss on sales and disposal of property, plant and equipment	(34)	(100)	(365)
Loss on valuation of inventories	—	(97)	—
Write-down of securities.....	—	(256)	—
Write-down of investments in securities.....	(1)	(110)	(10)
Loss on sales of investments in securities.....	—	(834)	—
Loss on construction contracts	—	(98)	—
Loss on abolishment of retirement benefit plan.....	(43)	—	(462)
Provision of accrued warranty.....	—	(500)	—
Equity in earnings of affiliates (Note 2).....	9	12	96
Other, net (Note 12).....	22	(34)	236
Other income (expenses), net.....	61	(1,668)	655
Income before income taxes	2,007	1,182	21,571
Income taxes (Notes 2, 10):			
Current.....	784	910	8,426
Deferred	425	(313)	4,567
Total income taxes.....	1,210	597	13,005
Minority interests.....	(43)	(105)	(462)
Net income	¥ 753	¥ 480	\$ 8,093

Per share	Yen		U.S. dollars (Note 1)
Net income.....	¥ 16.86	¥ 10.55	\$ 0.18
Cash dividends.....	15.00	15.00	0.16

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, 2010 and 2009

	Thousands	Millions of yen (Note 1)									
	Number of shares of common stock issued	Shareholders' equity				Valuation and translation adjustments				Minority interests	Total net assets
		Common stock	Additional paid-in capital	Retained earnings	Treasury stock	Total shareholders' equity	Net unrealized gains or losses on available-for-sale securities	Deferred gains or losses on hedges	Total valuation and translation adjustments		
Balance as of March 31, 2008	45,626	¥6,647	¥5,486	¥32,665	¥(106)	¥44,692	¥1,764	¥(90)	¥1,674	¥355	¥46,721
Cash dividends	—	—	—	(682)	—	(682)	—	—	—	—	(682)
Net income for the year ended March 31, 2009	—	—	—	480	—	480	—	—	—	—	480
Change of scope of equity method..	—	—	—	(9)	—	(9)	—	—	—	—	(9)
Purchase of treasury stock.....	—	—	—	—	(12)	(12)	—	—	—	—	(12)
Net changes of items other than those in shareholders' equity	—	—	—	—	—	—	(2,807)	(18)	(2,825)	92	(2,733)
Balance as of March 31, 2009	45,626	¥6,647	¥5,486	¥32,454	¥(118)	¥44,469	¥(1,043)	¥(108)	¥(1,151)	¥447	¥43,765

	Thousands	Millions of yen (Note 1)									
	Number of shares of common stock issued	Shareholders' equity				Valuation and translation adjustments				Minority interests	Total net assets
		Common stock	Additional paid-in capital	Retained earnings	Treasury stock	Total shareholders' equity	Net unrealized gains or losses on available-for-sale securities	Deferred gains or losses on hedges	Total valuation and translation adjustments		
Balance as of March 31, 2009	45,625	¥6,646	¥5,485	¥32,454	¥(118)	¥44,469	¥(1,042)	¥(108)	¥(1,151)	¥447	¥43,765
Cash dividends	—	—	—	(675)	—	(675)	—	—	—	—	(675)
Net income for the year ended March 31, 2010.....	—	—	—	753	—	753	—	—	—	—	753
Purchase of treasury stock.....	—	—	—	—	(528)	(528)	—	—	—	—	(528)
Net changes of items other than those in shareholders' equity	—	—	—	—	—	—	1,717	18	1,736	(447)	1,288
Balance as of March 31, 2010	45,625	¥6,646	¥5,485	¥32,533	¥(646)	¥44,018	¥674	¥(89)	¥584	—	¥44,603

	Thousands	Thousands of U.S. dollars (Note 1)									
	Number of shares of common stock issued	Shareholders' equity				Valuation and translation adjustments				Minority interests	Total net assets
		Common stock	Additional paid-in capital	Retained earnings	Treasury stock	Total shareholders' equity	Net unrealized gains or losses on available-for-sale securities	Deferred gains or losses on hedges	Total valuation and translation adjustments		
Balance as of March 31, 2009	45,625	\$71,431	\$58,953	\$348,817	\$(1,268)	\$477,955	\$(11,199)	\$(1,160)	\$(12,371)	\$4,804	\$470,389
Cash dividends	—	—	—	(7,254)	—	(7,254)	—	—	—	—	(7,254)
Net income for the year ended March 31, 2010.....	—	—	—	8,093	—	8,093	—	—	—	—	8,093
Purchase of treasury stock.....	—	—	—	—	(5,674)	(5,674)	—	—	—	—	(5,674)
Net changes of items other than those in shareholders' equity	—	—	—	—	—	—	18,454	193	18,658	(4,804)	13,843
Balance as of March 31, 2010	45,625	\$71,431	\$58,953	\$349,666	\$(6,943)	\$473,108	\$ 7,244	\$ (956)	\$ 6,276	—	\$479,395

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

TSUKISHIMA KIKAI CO., LTD. and its consolidated subsidiaries
Years ended March 31, 2010 and 2009

	Millions of yen (Note 1)		Thousands of U.S. dollars (Note 1)
	2010	2009	2010
Cash flows from operating activities:			
Income before income taxes and minority interests	¥2,007	¥ 1,182	\$21,571
Adjustments for:			
Depreciation and amortization	1,554	1,677	16,702
Increase (decrease) in provision for post-employment benefits	(1,108)	57	(11,908)
Increase (decrease) in accrued bonus to employees	(7)	5	(75)
Increase (decrease) in reserve for retirement payments to officers	(216)	(9)	(2,321)
Increase (decrease) in allowance for doubtful accounts.....	154	212	1,655
Increase (decrease) in accrued warranty.....	(809)	(707)	(8,695)
Increase (decrease) in reserve for losses on contracts	156	(132)	1,676
Interest and dividend income	(280)	(541)	(3,009)
Interest expenses	173	193	1,859
Equity in (earnings) losses of affiliates.....	(9)	(12)	(96)
Loss (gain) on sales and disposal of property, plant and equipment.....	33	96	354
Write-down of securities.....	—	256	—
Loss (gain) on sales of investments in securities	(0)	834	(0)
Write-down of investments in securities.....	1	110	10
(Increase) decrease in notes and accounts receivable.....	8,631	(4,604)	92,766
Increase (decrease) in advances received.....	76	(693)	816
(Increase) decrease in inventories	604	2,586	6,491
Increase (decrease) in notes and accounts payable, trade.....	(2,400)	(1,356)	(25,795)
Other	1,711	(1,276)	18,389
Subtotal	10,271	(2,122)	110,393
Interest and dividend income received.....	280	538	3,009
Interest expenses paid.....	(174)	(193)	(1,870)
Income taxes paid.....	(616)	(2,396)	(6,620)
Net cash provided by (used in) operating activities.....	9,761	(4,173)	104,911
Cash flows from investing activities:			
Purchase of marketable securities	—	(2,299)	—
Proceeds from sales of marketable securities.....	—	2,300	—
Purchase of property, plant and equipment	(174)	(566)	(1,870)
Proceeds from sales of property, plant and equipment.....	3	4	32
Purchase of intangible fixed assets	(90)	(122)	(967)
Purchase of investments in securities	(1,200)	(826)	(12,897)
Proceeds from sales of investments in securities.....	0	93	0
Payments for loans receivable	(5)	(43)	(53)
Collection of loans receivable.....	44	6	472
Purchase of treasury stock of subsidiaries in consolidation.....	(948)	—	(10,189)
Other	(26)	27	(279)
Net cash provided by (used in) investing activities.....	(2,397)	(1,426)	(25,763)
Cash flows from financing activities:			
Repayments of long-term loans.....	(681)	(674)	(7,319)
Repayments of lease obligations.....	(7)	(3)	(75)
Additions of treasury stock.....	(528)	(12)	(5,674)
Cash dividends paid	(675)	(682)	(7,254)
Cash dividends paid to minority shareholders	(11)	(12)	(118)
Net cash provided by (used in) financing activities.....	(1,904)	(1,383)	(20,464)
Net increase (decrease) in cash and cash equivalents.....	5,459	(6,982)	58,673
Cash and cash equivalents at beginning of period (Notes 2, 3)	8,782	15,727	94,389
Increase in cash and cash equivalents resulting from merger with unconsolidated subsidiaries	—	37	—
Cash and cash equivalents at end of period (Notes 2, 3).....	¥14,241	¥ 8,782	\$153,063

See Notes to Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of Presenting Consolidated Financial Statements

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

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

For the convenience of the reader, the accompanying consolidated financial statements have been presented in U.S. dollars by translating all Japanese yen amounts at the exchange rate of ¥93.04 to \$1, the approximate rate of exchange at March 31, 2010.

Amounts less than ¥1 million and \$1 thousand had been rounded off until 2009.

Amounts less than ¥1 million have been rounded down from 2010. And U.S. dollars are translated from these amounts and have been rounded down.

The total amounts in Japanese yen and translated U.S. dollars shown in the consolidated financial statements and notes of March 31, 2010 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 5 major subsidiaries that have been consolidated with the Company are listed below:

- Tsukishima Technology Maintenance Service Co., Ltd.
- Tsukishima Techno Machinery Co., Ltd.
- Sun Eco Thermal Co., Ltd.
- Tsukishima Kankyo Engineering, Ltd.
- Samukawa Water Service, Co., Ltd.

(b) Accounting for Investments in Unconsolidated Subsidiaries and Affiliates

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

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

The affiliate accounted for by the equity method is listed below:

- Edogawa Water Service, Co., Ltd.

(c) Marketable Securities and Investments in Securities

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

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

(d) Inventories

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

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

(e) Property, Plant and Equipment excluding Lease Assets

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

(f) Lease Assets

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

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

(g) Allowance for Doubtful Accounts

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

(h) Accrued Warranty

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

(i) Reserve for Losses on Contracts

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

(j) Provision for Post-employment Benefits

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

(Change in Accounting Policy)

Effective from the fiscal year ended March 31, 2010, "Partial Amendments to Accounting Standard for Retirement Benefits (Part 3)" (ASBJ Statement No. 19, issued on July 31, 2008) has been applied.

This change has no impact on operating income and income before income taxes for the fiscal year ended March 31, 2010.

(Additional Information)

Effective March 1, 2010, the Company amended its employees' retirement plans from a combination of lump-sum defined benefit plans and tax-qualified pension plans to a combination of lump-sum defined benefit plans, defined benefit plans and defined contribution plans. The Company applied the accounting treatment specified in the guidance issued by the Accounting Standards Board of Japan ("ASBJ").

The effect of this plan amendment decreased income before income taxes by ¥43 million (\$462 thousand) for the year ended March 31, 2010.

(k) Reserve for Retirement Payments to Officers

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

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

(Additional Information)

A resolution for the abolishment of a retirement benefits plan for directors and corporate auditors of the Company was approved at the annual general meeting of shareholders held on June 26, 2009.

As a result, the Company has reclassified the balance of the related accrued retirement benefits as of June 26, 2009 to "Long-term liabilities: Long-term accounts payable-other".

Such balance included in long-term accounts payable-other as of March 31, 2010 amounted to ¥221 million (\$2,375 thousand).

(l) Income Taxes

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

(m) Translation of Foreign Currencies

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

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

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

(n) Research and Development Costs

Research and development costs are charged to income as incurred.

(o) Recognition of Contract Revenue

(Change in Accounting Policy)

Until the fiscal year ended March 31, 2009, the percentage-of-completion method was applied for significant construction contracts in which total proceeds are more than ¥0.3 billion and the construction period is longer than one year. Effective for the fiscal year ended March 31, 2010, the Company and its consolidated subsidiaries adopted "Accounting Standard for Construction Contracts" (ASBJ Statement No. 15, December 27, 2007) and "Guidance on Accounting Standard for Construction Contracts" (ASBJ Guidance No. 18, December 27, 2007). The Company and its consolidated subsidiaries apply the percentage-of-completion method for the construction contracts made in the current fiscal year which fulfill the conditions that the outcome of the construction activity is deemed certain during the course of the activity. Otherwise, the Company and its consolidated subsidiaries apply the completed-contract method.

As a result of this change, net sales were ¥2,564 million (\$27,558 thousand) higher, and both operating income and income before income taxes were ¥365 million (\$3,923 thousand) higher than under the previous method of accounting.

(p) Goodwill

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

(q) Cash Equivalents

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

(r) Derivative Financial Instruments

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

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

3. Cash and Cash Equivalents

Cash and cash equivalents as of March 31, 2010 and 2009 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Cash and time deposits	¥13,291	¥7,832	\$142,852
Marketable securities	1,000	1,000	10,748
Less: time deposits that mature or become due over three months after the date of acquisition.....	(50)	(50)	(537)
Cash and cash equivalents	¥14,241	¥8,782	\$153,063

4. Financial Instruments

Amounts on the consolidated balance sheets as of March 31, 2010, fair value and variance were as follows:

	Millions of yen		
	2010		
	Amounts on the consolidated Balance Sheets	Fair value	Variance
(1) Cash and time deposits.....	¥13,291	¥13,291	¥ —
(2) Notes and accounts receivable	35,043	33,682	(1,361)
(3) Marketable securities and Investments in securities			
Securities classified as available-for-sale	15,691	15,691	—
Total.....	64,027	62,665	(1,361)
(4) Notes and accounts payable-trade.....	19,728	19,728	—
(5) Long-term loans (Include portion due within one year) ...	5,622	5,640	18
Total.....	25,350	25,369	18
(6) Derivative transactions*	¥ (60)	¥ (61)	¥ (0)

	Thousands of U.S. dollars		
	2010		
	Amounts on the consolidated Balance Sheets	Fair value	Variance
(1) Cash and time deposits.....	\$142,852	\$142,852	\$ —
(2) Notes and accounts receivable	376,644	362,016	(14,628)
(3) Marketable securities and Investments in securities			
Securities classified as available-for-sale	168,647	168,647	—
Total.....	688,166	673,527	(14,628)
(4) Notes and accounts payable-trade.....	212,037	212,037	—
(5) Long-term loans (Include portion due within one year) ...	60,425	60,619	193
Total.....	272,463	272,667	193
(6) Derivative transactions*	\$ (644)	\$ (655)	\$ (0)

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

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

(1) Cash and time deposits

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

(2) Notes and accounts receivable

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

(3) Marketable securities and Investments in securities

Marketable securities are negotiable certificate of deposit and settled in a short period of time and the fair value is almost equal to the book value, their book value is presented. Investment securities are valued at the exchange trading price.

(4) Notes and accounts payable-trade

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

(5) Long-term loans (Include portion due within one year)

The current value of a long-term loan payable is calculated by discounting the aggregate amount of the principal and interest by the interest rate deemed applicable to a new loan of the same amount.

(6) Derivative transactions

The fair value of derivative transactions qualifying for hedge accounting is the forward quotation or the price presented by correspondent financial institutions.

b. Non-listed stocks (consolidated balance sheet amount of ¥412 million (\$4,428 thousand)) and non-consolidated subsidiary and associated company stocks (consolidated balance sheet amount of ¥72 million (\$773 thousand)) are not included in "(3) Marketable securities and Investments in securities", since the identification of the current values thereof is deemed extremely difficult, due to the absence of market values.

c. The aggregate maturities of monetary claims and available-for-sale securities with maturity outstanding as of March 31, 2010 were as follows:

	Millions of yen			
	2010			
	Within 1 year	Over 1 year Within 5 years	Over 5 years Within 10 years	Over 10 years
Cash and time deposits	¥13,291	¥ —	¥ —	¥ —
Notes and accounts receivable.....	29,521	1,632	1,859	2,030
Marketable securities and Investments in securities				
Securities classified as available-for-sale.....	1,000	—	—	—
Total.....	¥43,813	¥1,632	¥1,859	¥2,030

	Thousands of U.S. dollars			
	2010			
	Within 1 year	Over 1 year Within 5 years	Over 5 years Within 10 years	Over 10 years
Cash and time deposits	\$142,852	\$ —	\$ —	\$ —
Notes and accounts receivable.....	317,293	17,540	19,980	21,818
Marketable securities and Investments in securities				
Securities classified as available-for-sale.....	10,748	—	—	—
Total.....	\$470,904	\$17,540	\$19,980	\$21,818

d. The aggregate maturities of long-term loans outstanding as of March 31, 2010 were as follows:

	Millions of yen					
	2010					
	Within 1 year	Over 1 year Within 2 years	Over 2 years Within 3 years	Over 3 years Within 4 years	Over 4 years Within 5 years	Over 5 years
Long-term loans (Include portion due within one year).....	¥622	¥1,054	¥253	¥260	¥268	¥3,162
Total.....	¥622	¥1,054	¥253	¥260	¥268	¥3,162

	Thousands of U.S. dollars					
	2010					
	Within 1 year	Over 1 year Within 2 years	Over 2 years Within 3 years	Over 3 years Within 4 years	Over 4 years Within 5 years	Over 5 years
Long-term loans (Include portion due within one year).....	\$6,685	\$11,328	\$2,719	\$2,794	\$2,880	\$33,985
Total.....	\$6,685	\$11,328	\$2,719	\$2,794	\$2,880	\$33,985

(Additional Information)

Effective from the fiscal year ended March 31, 2010, the Company and its consolidated subsidiaries adopted "Accounting Standard for Financial Instruments" (ASBJ Statement No. 10, March 10, 2008) and "Guidance on Disclosures about the Fair Value of Financial Instruments" (ASBJ Guidance No. 19, March 10, 2008).

5. Marketable Securities and Investments in Securities

The carrying amounts and aggregate fair values of marketable and investment securities at March 31, 2010 and 2009 were as follows:

	Millions of yen			
	2010			
	Cost	Unrealized gains	Unrealized losses	Fair value
Securities classified as:				
Available-for-sale:				
Equity securities.....	¥13,549	¥2,191	¥(1,056)	¥14,684
Others	1,004	1	—	1,006
	¥14,554	¥2,193	¥(1,056)	¥15,691
Held-to-maturity securities.....	¥ —	¥ —	¥ —	¥ —
	Millions of yen			
	2009			
	Cost	Unrealized gains	Unrealized losses	Fair value
Securities classified as:				
Available-for-sale:				
Equity securities.....	¥12,351	¥1,278	¥(3,036)	¥10,593
Others	5	—	—	5
	¥12,356	¥1,278	¥(3,036)	¥10,598
Held-to-maturity securities.....	¥ —	¥ —	¥ —	¥ —
	Thousands of U.S. dollars			
	2010			
	Cost	Unrealized gains	Unrealized losses	Fair value
Securities classified as:				
Available-for-sale:				
Equity securities.....	\$145,625	\$23,549	\$(11,349)	\$157,824
Others	10,791	10	—	10,812
	\$156,427	\$23,570	\$(11,349)	\$168,647
Held-to-maturity securities.....	\$ —	\$ —	\$ —	\$ —

6. Derivative transactions

Derivative financial instruments with fair value as of March 31, 2010 were as follows:

(1) Derivative transactions not qualifying for hedge accounting

There is not the matter.

(2) Derivative transactions qualifying for hedge accounting

(a) Currency-related

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

		Millions of yen		
		2010		
		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.....	¥135	¥ —	¥(4)
Buy U.S. dollar, sell Japanese yen	Accounts payable-trade	16	—	0
Buy Australia dollar, sell Japanese yen	.....	1	—	0
Buy Singapore dollar, sell Japanese yen	.....	7	—	0
Buy Swiss franc, sell Japanese yen	.....	8	—	(0)
Total		¥169	¥ —	¥(4)

		Thousands of U.S. dollars		
		2010		
		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.....	\$1,450	\$ —	\$(42)
Buy U.S. dollar, sell Japanese yen	Accounts payable-trade	171	—	0
Buy Australia dollar, sell Japanese yen	.....	10	—	0
Buy Singapore dollar, sell Japanese yen	.....	75	—	0
Buy Swiss franc, sell Japanese yen	.....	85	—	(0)
Total		\$1,816	\$ —	¥(42)

Note The fair value is the forward quotation.

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

		Millions of yen		
		2010		
		Contracts outstanding	Contracts outstanding (Over one year)	Fair value
Interest rate swaps:	Principal items hedged:			
Receive floating, pay fixed	Long-term loans	¥4,287	¥4,011	¥(56)
Total.....		¥4,287	¥4,011	¥(56)

		Thousands of U.S. dollars		
		2010		
		Contracts outstanding	Contracts outstanding (Over one year)	Fair value
Interest rate swaps:	Principal items hedged:			
Receive floating, pay fixed	Long-term loans	\$46,076	\$43,110	\$(601)
Total.....		\$46,076	\$43,110	\$(601)

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

7. Short-term Loans, Long-term Loans and Lease Obligations

Short-term loans are represented by 12-month notes, and the weighted average interest rates applicable to such loans as of March 31, 2010 and 2009 were approximately 0.9 percent and 1.5 percent, respectively.

Long-term loans as of March 31, 2010 and 2009 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Loans, due 2026	¥5,622	¥6,304	\$60,425
Less: portion due within one year.....	(622)	(664)	(6,685)
	¥4,999	¥5,640	\$53,729

Lease obligations as of March 31, 2010 and 2009 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Current.....	¥ 8	¥ 5	\$ 85
Non-current.....	23	19	247
	¥31	¥24	\$333

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

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Deposit	¥615	¥563	\$6,610
Account receivable	184	184	1,977
Long-term loans.....	42	41	451
	¥843	¥788	\$9,060

Interest rates of long-term loans as of March 31, 2010 and 2009 were between 1.39 percent and 4.00 percent for both years.

8. Provision for Post-employment Benefits

Provision for post-employment benefit obligations as of March 31, 2010 and 2009 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
a. Post-employment benefit obligations	¥(6,703)	¥(7,977)	\$(72,044)
b. Pension assets	1,015	1,097	10,909
c. Net-total (a+b)	(5,687)	(6,880)	(61,124)
d. Unrecognized actuarial differences	493	809	5,298
e. Unrecognized prior service cost.....	(46)	(278)	(494)
f. Provisions for post-employment benefits (c+d+e).....	¥(5,240)	¥(6,349)	\$(56,319)

Post-employment benefit expenses for the years ended March 31, 2010 and 2009 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
a. Service costs	¥567	¥515	\$6,094
b. Interest costs	146	186	1,569
c. Expected return	(16)	(21)	(171)
d. Amortization of unrecognized actuarial differences	196	259	2,106
e. Amortization of prior service cost	(30)	(30)	(322)
f. Post-employment benefit expenses total	¥863	¥909	\$9,275
g. Loss on abolishment of retirement benefit plan.....	43	—	462
Total (f+g)	¥906	¥909	\$9,737

Basic measurement of post-employment benefit obligations and other items

	2010	2009
a. Allocation method for projected post-employment benefits....	Straight-line method	Straight-line method
b. Discount rate	2.0%	2.0%
c. Expected rate of return	1.5%	1.5%
d. Amortization period of prior service cost	11–14 years	11 years
e. Amortization period of actuarial differences	7 years	7 years

9. Research and Development Costs

Research and development costs charged to income for the years ended March 31, 2010 and 2009 amounted to ¥1,093 million (\$11,747 thousand) and ¥1,319 million, respectively.

10. 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:

	2010	2009
Statutory tax rate	40.7%	40.7%
Expenses not deductible for tax purposes.....	6.6	9.3
Non-taxable dividend income.....	(2.7)	(10.3)
Per capita levy of inhabitant taxes.....	1.5	2.5
Valuation allowance.....	15.5	7.8
Other—net.....	(1.3)	0.5
Effective tax rate.....	60.3%	50.5%

Deferred tax assets and liabilities at March 31, 2010 and 2009 were composed of the following:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Deferred tax assets:			
Accrued cost of sales	¥ 269	¥ 321	\$2,891
Accrued enterprise taxes	47	63	505
Loss on construction contracts	—	1,161	—
Reserve for losses on contracts	107	—	1,150
Accrued warranty.....	464	794	4,987
Provision for post-employment benefits	2,132	2,584	22,914
Unrealized profit	81	96	870
Accrued bonus to employees.....	611	615	6,567
Tax loss carryforward.....	2,515	1,416	27,031
Allowance for doubtful accounts	212	—	2,278
Long-term accounts payable-other	422	—	4,535
Net unrealized losses on available-for-sale securities	—	715	—
Others	968	920	10,404
Less: valuation allowance.....	(687)	(378)	(7,383)
Total deferred tax assets.....	¥ 7,147	¥ 8,307	\$76,816
Deferred tax liabilities:			
Reserve for deferred gains on sales of fixed assets for tax purposes.....	¥(1,353)	¥(1,366)	\$(14,542)
Net unrealized gains on available-for-sale securities	(462)	—	(4,965)
Others	—	(1)	—
Total deferred tax liabilities	(1,816)	(1,367)	(19,518)
Net deferred tax assets (liabilities)	¥ 5,330	¥ 6,940	\$57,287

11. Contingent Liability

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

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Guarantees for indebtedness of employees.....	¥7	¥17	\$75

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

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

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Gain on insurance	¥ 43	¥ 27	\$ 462
Depreciation of prepaid expenses	(4)	(5)	(42)
Other, net	(15)	(56)	(161)
	¥ 22	¥(34)	\$ 236

13. 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, 2010, was approved at the Board of Directors meeting held on May 26, 2010:

	Millions of yen	Thousands of U.S. dollars
Year-end cash dividends of ¥8.00 (\$0.08) per share.....	¥356	\$3,826

14. Finance Leases

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

The pro forma information of such leases existing at the transition date on an “as if capitalized” basis for the years ended March 31, 2010 and 2009 is as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Machinery and equipment.....	¥ 112	¥ 112	\$ 1,203
Tools, furniture and fixtures.....	67	109	720
Other assets.....	37	42	397
Less: accumulated depreciation.....	(144)	(146)	(1,547)
	¥ 74	¥ 117	\$ 795

Obligations under finance leases as of March 31, 2010 and 2009 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Due within one year.....	¥35	¥ 43	\$376
Due after one year	38	74	408
	¥74	¥117	\$795

Total rental expenses for the above leases were ¥43 million (\$462 thousand) and ¥52 million for the years ended March 31, 2010 and 2009, respectively.

The pro forma depreciation expense computed by the straight-line method was ¥43 million (\$462 thousand) and ¥52 million for the years ended March 31, 2010 and 2009, respectively.

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

15. Segment Information

(a) Information by Industry Segment

The Company and its consolidated subsidiaries are primarily engaged in the following industry segments:

Water environment business: Water purification plant, Others

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

(Change in Accounting Policy)

Effective from the fiscal year ended March 31, 2010, the Company and its consolidated subsidiaries adopted "Accounting Standard for Construction Contracts" (ASBJ Statement No. 15, December 27, 2007) and "Guidance on Accounting Standard for Construction Contracts" (ASBJ Guidance No. 18, December 27, 2007).

As a result of this change, net sales were ¥1,720 million (\$18,486 thousand) and operating income were ¥182 million (\$1,956 thousand) higher respectively in Water environment business and net sales were ¥843 million (\$9,060 thousand) and operating income were ¥183 million (\$1,966 thousand) higher respectively in Industrial business.

Year ended March 31, 2010

Millions of yen

	Water environment business	Industrial business	Total	Eliminations	Consolidated
Sales:					
Customers	¥43,418	¥24,255	¥67,674	¥ —	¥67,674
Intersegment	—	—	—	—	—
Total	43,418	24,255	67,674	—	67,674
Operating expenses.....	40,627	25,100	65,728	—	65,728
Operating income (loss)	2,790	(844)	1,945	—	1,945
Total assets.....	38,246	23,396	61,643	28,166	89,809
Depreciation.....	658	895	1,554	—	1,554
Capital expenditures.....	86	140	226	—	226

Year ended March 31, 2009

Millions of yen

	Water environment business	Industrial business	Total	Eliminations	Consolidated
Sales:					
Customers	¥42,158	¥35,595	¥77,753	¥ —	¥77,753
Intersegment	—	—	—	—	—
Total	42,158	35,595	77,753	—	77,753
Operating expenses.....	40,282	34,621	74,903	—	74,903
Operating income	1,876	974	2,850	—	2,850
Total assets.....	35,619	33,865	69,484	23,432	92,916
Depreciation.....	687	990	1,677	—	1,677
Capital expenditures.....	351	502	853	—	853

	Thousands of U.S. dollars				
	Water environment business	Industrial business	Total	Eliminations	Consolidated
Year ended March 31, 2010					
Sales:					
Customers	\$466,659	\$260,694	\$727,364	\$ —	\$727,364
Intersegment	—	—	—	—	—
Total	466,659	260,694	727,364	—	727,364
Operating expenses	436,661	269,776	706,448	—	706,448
Operating income (loss)	29,987	(9,071)	20,904	—	20,904
Total assets	411,070	251,461	662,542	302,730	965,273
Depreciation	7,072	9,619	16,702	—	16,702
Capital expenditures	924	1,504	2,429	—	2,429

(b) Overseas Sales

Overseas sales by area and percentage of overseas sales over consolidated net sales for the years ended March 31, 2010 and 2009 were as follows:

	Millions of yen		Thousands of U.S. dollars	Percentage	
	2010	2009	2010	2010	2009
Area:					
Asia	¥6,155	¥10,672	\$66,154	9.1%	13.7%
Other	768	2,364	8,254	1.1%	3.0%
	¥6,924	¥13,036	\$74,419	10.2%	16.8%

Major countries and areas included in each geographic area are as follows:

Asia: Korea, Saudi Arabia, China

Other: Poland, Brazil, U.S.A., Portugal

(Change in Accounting Policy)

Effective from the fiscal year ended March 31, 2010, the Company and its consolidated subsidiaries adopted "Accounting Standard for Construction Contracts" (ASBJ Statement No. 15, December 27, 2007) and "Guidance on Accounting Standard for Construction Contracts" (ASBJ Guidance No. 18, December 27, 2007).

As a result of this change, net sales were ¥75 million (\$806 thousand) higher in Asia area.

Independent Auditors' Report

INDEPENDENT AUDITORS' REPORT

INOUE AUDITING CO., INC.

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

We have audited the accompanying consolidated balance sheets of Tsukishima Kikai Co., Ltd. and consolidated subsidiaries as of March 31, 2009 and 2010, and the related consolidated statements of income, changes in net assets and cash flows for the years then ended, all expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to independently 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 plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Tsukishima Kikai Co., Ltd. and consolidated subsidiaries as of March 31, 2009 and 2010, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

Supplemental Information:

As described in Note 2 (o) of the notes to consolidated financial statements, effective for the fiscal year ended March 31, 2010, the Company and its consolidated subsidiaries adopted "Accounting Standard for Construction Contracts" and "Guidance on Accounting Standard for Construction Contracts".

The amounts expressed in U.S. dollars, which are provided solely for the convenience of the readers, have been translated on the basis set forth in Note 1 of the notes to consolidated financial statements.

Inoue Auditing Co., Inc.

Inoue Auditing Co., Inc.

Tokyo, Japan
June 29, 2010

NON-CONSOLIDATED BALANCE SHEETS

TSUKISHIMA KIKAI CO., LTD.
Years ended March 31, 2010 and 2009

	Millions of yen (Note 1)		Thousands of U.S. dollars (Note 1)
	2010	2009	2010
ASSETS			
Current assets:			
Cash and time deposits	¥ 7,234	¥ 4,173	\$ 77,751
Marketable securities (Notes 2, 4)	1,000	1,000	10,748
Notes and accounts receivable	22,389	29,188	240,638
Less: allowance for doubtful accounts (Note 2)	(278)	(49)	(2,987)
Work in process (Note 2)	2,588	3,294	27,815
Raw materials and supplies (Note 2)	57	32	612
Deferred income taxes (Note 7)	1,293	2,475	13,897
Other current assets	1,325	1,585	14,241
Total current assets	35,611	41,698	382,749
Property, plant and equipment (Note 2):			
Land	6,738	6,609	72,420
Buildings and structures	8,318	8,248	89,402
Machinery and equipment	10,498	10,661	112,833
Lease assets	25	22	268
Construction in progress	2	2	21
	25,583	25,542	274,967
Less: accumulated depreciation	(14,177)	(13,730)	(152,375)
Net property, plant and equipment	11,406	11,812	122,592
Investments and other assets:			
Software	1,191	1,781	12,800
Investments in securities (Notes 2, 4)	15,102	11,008	162,317
Investments and long-term loans to subsidiaries (Note 5)	723	772	7,770
Deferred income taxes (Note 7)	2,038	2,497	21,904
Other assets	417	567	4,481
Less: allowance for doubtful accounts (Note 2)	(197)	(256)	(2,117)
Total investments and other assets	19,276	16,369	207,179
Total assets	¥66,293	¥69,879	\$ 712,521

See Notes to Non-Consolidated Financial Statements.

LIABILITIES AND NET ASSETS

	Millions of yen (Note 1)		Thousands of U.S. dollars (Note 1)
	2010	2009	2010
Current liabilities:			
Accounts payable			
Trade.....	¥14,057	¥15,498	\$151,085
Other	1,174	1,280	12,618
Short-term loans (Note 5)	50	50	537
Current portion of long-term loans (Note 5)	17	66	182
Lease obligations (Note 5)	4	4	42
Accrued income taxes (Note 7).....	44	29	472
Accrued expenses	727	721	7,813
Accrued warranty (Note 2).....	970	1,794	10,425
Reserve for losses on contracts (Note 2).....	142	—	1,526
Advances received.....	2,572	2,171	27,644
Other current liabilities	2,605	5,000	27,998
Total current liabilities	22,366	26,613	240,391
Long-term liabilities:			
Long-term loans (Note 5)	—	17	—
Lease obligations (Note 5)	14	17	150
Long-term accounts payable-other (Note 2).....	1,037	—	11,145
Provision for post-employment benefits (Note 2).....	2,613	3,789	28,084
Reserve for retirement payments to officers (Note 2).....	—	235	—
Total long-term liabilities	3,665	4,058	39,391
Contingent liability (Note 8)			
Net assets:			
Shareholders' equity:			
Common stock,			
Authorized: 180 million shares in 2010 and 2009			
Issued: 45,625,800 shares in 2010 and 2009	6,646	6,647	71,431
Additional paid-in capital.....	5,485	5,486	58,953
Retained earnings	28,035	28,168	301,322
Treasury stock	(580)	(51)	(6,233)
Total shareholders' equity	39,587	40,250	425,483
Valuation and translation adjustments			
Net unrealized gains or losses on available-for-sale securities	674	(1,043)	7,244
Deferred gains or losses on hedges	(1)	1	(10)
Total valuation and translation adjustments.....	673	(1,042)	7,233
Total net assets.....	40,261	39,208	432,727
Total liabilities and net assets	¥66,293	¥69,879	\$712,521

See Notes to Non-Consolidated Financial Statements.

NON-CONSOLIDATED STATEMENTS OF INCOME

TSUKISHIMA KIKAI CO., LTD.
Years ended March 31, 2010 and 2009

	Millions of yen (Note 1)		Thousands of U.S. dollars (Note 1)
	2010	2009	2010
Net sales (Note 2)	¥39,014	¥47,581	\$419,325
Cost of sales (Note 6)	32,040	39,965	344,368
Gross profit	6,973	7,616	74,946
Selling, general and administrative expenses (Note 6)	6,578	6,917	70,700
Operating income	395	699	4,245
Other income (expenses):			
Interest and dividend income	682	1,461	7,330
Interest expenses	(1)	(3)	(10)
Gain on sales of investments in securities	0	—	0
Gain on sales of property, plant and equipment	0	1	0
Loss on sales and disposal of property, plant and equipment	(23)	(95)	(247)
Loss on valuation of inventories	—	(97)	—
Write-down of securities	—	(256)	—
Write-down of investments in securities	(1)	(110)	(10)
Loss on sales of investments in securities	—	(834)	—
Loss on construction contracts	—	(98)	—
Loss on abolishment of retirement benefit plan	(43)	—	(462)
Provision of accrued warranty	—	(500)	—
Other, net (Note 9)	17	(8)	182
Other income (expenses), net	631	(539)	6,782
Income before income taxes	1,026	160	11,027
Income taxes (Notes 2, 7):			
Current	19	78	204
Deferred	464	(287)	4,987
Total income taxes	483	(209)	5,191
Net income	¥ 543	¥ 369	\$ 5,836

Per share	Yen	U.S. dollars (Note 1)
	Net income	¥ 12.13	¥ 8.11
Cash dividends	15.00	15.00

See Notes to Non-Consolidated Financial Statements.

NON-CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

TSUKISHIMA KIKAI CO., LTD.
Years ended March 31, 2010 and 2009

	Thousands	Millions of yen (Note 1)								
	Number of shares of common stock issued	Shareholders' equity					Valuation and translation adjustments			Total net assets
		Common stock	Additional paid-in capital	Retained earnings	Treasury stock	Total shareholders' equity	Net unrealized gains or losses on available-for-sale securities	Deferred gains or losses on hedges	Total valuation and translation adjustments	
Balance as of March 31, 2008	45,626	¥6,647	¥5,486	¥28,543	¥(106)	¥40,570	¥ 1,764	¥(1)	¥ 1,763	¥42,333
Cash dividends	—	—	—	(682)	—	(682)	—	—	—	(682)
Net income for the year ended March 31, 2009	—	—	—	369	—	369	—	—	—	369
Purchase of treasury stock.....	—	—	—	—	(12)	(12)	—	—	—	(12)
Increase by merger	—	—	—	(62)	67	5	—	—	—	5
Net changes of items other than those in shareholders' equity	—	—	—	—	—	—	(2,807)	2	(2,805)	(2,805)
Balance as of March 31, 2009	45,626	¥6,647	¥5,486	¥28,168	¥ (51)	¥40,250	¥(1,043)	¥ 1	¥(1,042)	¥39,208

	Thousands	Millions of yen (Note 1)								
	Number of shares of common stock issued	Shareholders' equity					Valuation and translation adjustments			Total net assets
		Common stock	Additional paid-in capital	Retained earnings	Treasury stock	Total shareholders' equity	Net unrealized gains or losses on available-for-sale securities	Deferred gains or losses on hedges	Total valuation and translation adjustments	
Balance as of March 31, 2009	45,625	¥6,646	¥5,485	¥28,168	¥ (51)	¥40,249	¥(1,042)	¥ 0	¥(1,041)	¥39,207
Cash dividends	—	—	—	(676)	—	(676)	—	—	—	(676)
Net income for the year ended March 31, 2010.....	—	—	—	543	—	543	—	—	—	543
Purchase of treasury stock.....	—	—	—	—	(528)	(528)	—	—	—	(528)
Net changes of items other than those in shareholders' equity	—	—	—	—	—	—	1,717	(2)	1,715	1,715
Balance as of March 31, 2010	45,625	¥6,646	¥5,485	¥28,035	¥(580)	¥39,587	¥ 674	¥(1)	¥ 673	¥40,261

	Thousands	Thousands of U.S. dollars (Note 1)								
	Number of shares of common stock issued	Shareholders' equity					Valuation and translation adjustments			Total net assets
		Common stock	Additional paid-in capital	Retained earnings	Treasury stock	Total shareholders' equity	Net unrealized gains or losses on available-for-sale securities	Deferred gains or losses on hedges	Total valuation and translation adjustments	
Balance as of March 31, 2009	45,625	\$71,431	\$58,953	\$302,751	\$ (548)	\$432,598	\$(11,199)	\$ 0	\$(11,188)	\$421,399
Cash dividends	—	—	—	(7,265)	—	(7,265)	—	—	—	(7,265)
Net income for the year ended March 31, 2010.....	—	—	—	5,836	—	5,836	—	—	—	5,836
Purchase of treasury stock.....	—	—	—	—	(5,674)	(5,674)	—	—	—	(5,674)
Net changes of items other than those in shareholders' equity	—	—	—	—	—	—	18,454	(21)	18,432	18,432
Balance as of March 31, 2010	45,625	\$71,431	\$58,953	\$301,322	\$(6,233)	\$425,483	\$ 7,244	\$(10)	\$ 7,233	\$432,727

See Notes to Non-Consolidated Financial Statements.

NON-CONSOLIDATED STATEMENTS OF CASH FLOWS

TSUKISHIMA KIKAI CO., LTD.
Years ended March 31, 2010 and 2009

	Millions of yen (Note 1)		Thousands of U.S. dollars (Note 1)
	2010	2009	2010
Cash flows from operating activities:			
Income before income taxes	¥1,026	¥ 160	\$11,027
Adjustments for:			
Depreciation and amortization	1,286	1,366	13,822
Increase (decrease) in provision for post-employment benefits	(1,175)	(21)	(12,628)
Increase (decrease) in accrued bonus to employees	7	(17)	75
Increase (decrease) in reserve for retirement payments to officers	(235)	(18)	(2,525)
Increase (decrease) in allowance for doubtful accounts	170	170	1,827
Increase (decrease) in accrued warranty	(823)	(685)	(8,845)
Increase (decrease) in reserve for losses on contracts	142	(27)	1,526
Interest and dividend income	(682)	(1,461)	(7,330)
Interest expenses	1	3	10
Loss (gain) on sales and disposal of property, plant and equipment	23	91	247
Write-down of securities	—	256	—
Loss (gain) on sales of investments in securities	(0)	834	(0)
Write-down of investments in securities	1	110	10
(Increase) decrease in notes and accounts receivable	6,798	(3,909)	73,065
Increase (decrease) in advances received	401	(1,139)	4,309
(Increase) decrease in inventories	679	2,232	7,297
Increase (decrease) in accounts payable, trade	(1,440)	(2,817)	(15,477)
Other	(539)	549	(5,793)
Subtotal	5,641	(4,323)	60,629
Interest and dividend income received	683	1,458	7,340
Interest expenses paid	(1)	(2)	(10)
Income taxes (paid) refund	164	(1,371)	1,762
Net cash provided by (used in) operating activities	6,487	(4,238)	69,722
Cash flows from investing activities:			
Purchase of marketable securities	—	(2,299)	—
Proceeds from sales of marketable securities	—	2,300	—
Purchase of property, plant and equipment	(284)	(427)	(3,052)
Proceeds from sales of property, plant and equipment	3	4	32
Purchase of intangible fixed assets	(78)	(72)	(838)
Purchase of investments in securities	(1,208)	(826)	(12,983)
Proceeds from sales of investments in securities	0	92	0
Payments for loans receivable	(880)	(278)	(9,458)
Collection of loans receivable	300	272	3,224
Other	(2)	30	(21)
Net cash provided by (used in) investing activities	(2,149)	(1,204)	(23,097)
Cash flows from financing activities:			
Repayments of long-term loans	(66)	(66)	(709)
Repayments of lease obligations	(4)	(2)	(42)
Additions of treasury stock	(528)	(12)	(5,674)
Cash dividends paid	(676)	(682)	(7,265)
Net cash provided by (used in) financing activities	(1,276)	(762)	(13,714)
Net increase (decrease) in cash and cash equivalents	3,061	(6,204)	32,899
Cash and cash equivalents at beginning of period (Notes 2, 3)	5,163	11,330	55,492
Increase in cash and cash equivalents resulting from merger with unconsolidated subsidiaries	—	37	—
Cash and cash equivalents at end of period (Notes 2, 3)	¥8,224	¥ 5,163	\$88,392

See Notes to Non-Consolidated Financial Statements.

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of Presenting Non-Consolidated Financial Statements

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

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

For the convenience of the reader, the accompanying non-consolidated financial statements have been presented in U.S. dollars by translating all Japanese yen amounts at the exchange rate of ¥93.04 to \$1, the approximate rate of exchange at March 31, 2010.

Amounts less than ¥1 million and \$1 thousand had been rounded off until 2009.

Amounts less than ¥1 million have been rounded down from 2010. And U.S. dollars are translated from these amounts and have been rounded down.

The total amounts in Japanese yen and translated U.S. dollars shown in the non-consolidated financial statements and notes of March 31, 2010 do not necessarily agree with the sum of the individual amounts.

2. Summary of Significant Accounting Policies

(a) Marketable Securities and Investments in Securities

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

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

(b) Inventories

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

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

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

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

(c) Property, Plant and Equipment excluding Lease Assets

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

(d) Lease Assets

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

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

(e) Allowance for Doubtful Accounts

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

(f) Accrued Warranty

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

(g) Reserve for Losses on Contracts

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

(h) Provision for Post-employment Benefits

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

(Change in Accounting Policy)

Effective from the fiscal year ended March 31, 2010, "Partial Amendments to Accounting Standard for Retirement Benefits (Part 3)" (ASBJ Statement No. 19, issued on July 31, 2008) has been applied.

This change has no impact on operating income and income before income taxes for the fiscal year ended March 31, 2010.

(Additional Information)

Effective March 1, 2010, the Company amended its employees' retirement plans from a combination of lump-sum defined benefit plans and tax-qualified pension plans to a combination of lump-sum defined benefit plans, defined benefit plans and defined contribution plans. The Company applied the accounting treatment specified in the guidance issued by the Accounting Standards Board of Japan ("ASBJ").

The effect of this plan amendment decreased income before income taxes by ¥43 million (\$462 thousand) for the year ended March 31, 2010.

(i) Reserve for Retirement Payments to Officers

(Additional Information)

A resolution for the abolishment of a retirement benefits plan for directors and corporate auditors of the Company was approved at the annual general meeting of shareholders held on June 26, 2009.

As a result, the Company has reclassified the balance of the related accrued retirement benefits as of June 26, 2009 to "Long-term liabilities: Long-term accounts payable-other".

Such balance included in long-term accounts payable-other as of March 31, 2010 amounted to ¥221 million (\$2,375 thousand).

(j) Income Taxes

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

(k) Translation of Foreign Currencies

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

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

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

(l) Research and Development Costs

Research and development costs are charged to income as incurred.

(m) Recognition of Contract Revenue

(Change in Accounting Policy)

Until the fiscal year ended March 31, 2009, the percentage-of-completion method was applied for significant construction contracts in which total proceeds are more than ¥0.3 billion and the construction period is longer than one year. Effective for the fiscal year ended March 31, 2010, the Company adopted "Accounting Standard for Construction Contracts" (ASBJ Statement No. 15, December 27, 2007) and "Guidance on Accounting Standard for Construction Contracts" (ASBJ Guidance No. 18, December 27, 2007). The Company applies the percentage-of-completion method for the construction contracts made in the current fiscal year which fulfill the conditions that the outcome of the construction activity is deemed certain during the course of the activity. Otherwise, the Company applies the completed-contract method.

As a result of this change, net sales were ¥2,534 million (\$27,235 thousand) higher, and both operating income and income before income taxes were ¥358 million (\$3,847 thousand) higher than under the previous method of accounting.

(n) Cash Equivalents

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

(o) Derivative Financial Instruments

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

3. Cash and Cash Equivalents

Cash and cash equivalents as of March 31, 2010 and 2009 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Cash and time deposits	¥7,234	¥4,173	\$77,751
Marketable securities	1,000	1,000	10,748
Less: time deposits that mature or become due over three months after the date of acquisition.....	(10)	(10)	(107)
Cash and cash equivalents	¥8,224	¥5,163	\$88,392

4. Marketable Securities and Investments in Securities

The carrying amounts and aggregate fair values of marketable and investment securities at March 31, 2010 and 2009 were as follows:

Millions of yen				
2010				
Cost	Unrealized gains	Unrealized losses	Fair value	
Securities classified as:				
Available-for-sale:				
Equity securities.....	¥13,549	¥2,191	¥(1,056)	¥14,684
Others	1,004	1	—	1,006
	¥14,553	¥2,193	¥(1,056)	¥15,690
Held-to-maturity securities	¥ —	¥ —	¥ —	¥ —

Millions of yen				
2009				
Cost	Unrealized gains	Unrealized losses	Fair value	
Securities classified as:				
Available-for-sale:				
Equity securities.....	¥12,351	¥1,278	¥(3,036)	¥10,593
Others	5	—	—	5
	¥12,356	¥1,278	¥(3,036)	¥10,598
Held-to-maturity securities	¥ —	¥ —	¥ —	¥ —

Thousands of U.S. dollars				
2010				
Cost	Unrealized gains	Unrealized losses	Fair value	
Securities classified as:				
Available-for-sale:				
Equity securities.....	\$145,625	\$23,549	\$(11,349)	\$157,824
Others	10,791	10	—	10,812
	\$156,416	\$23,570	\$(11,349)	\$168,637
Held-to-maturity securities	\$ —	\$ —	\$ —	\$ —

5. Short-term Loans, Long-term Loans and Lease Obligations

Short-term loans are represented by 12-month notes, and the weighted average interest rates applicable to such loans as of March 31, 2010 and 2009 were approximately 0.9 percent and 1.4 percent, respectively.

Long-term loans as of March 31, 2010 and 2009 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Loans, due 2010	¥ 17	¥ 83	\$ 182
Less: portion due within one year	(17)	(66)	(182)
	¥ —	¥ 17	\$ —

Lease obligations as of March 31, 2010 and 2009 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Current	¥ 4	¥ 4	\$ 42
Non-current	14	17	150
	¥19	¥21	\$204

The following assets were pledged as collateral.

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Investments and long-term loans to subsidiaries	¥235	¥255	\$2,525
	¥235	¥255	\$2,525

Interest rates of long-term loans as of March 31, 2010 and 2009 were approximately 1.39 percent for both years.

6. Research and Development Costs

Research and development costs charged to income for the years ended March 31, 2010 and 2009 amounted to ¥936 million (\$10,060 thousand) and ¥1,229 million, respectively.

7. Income Taxes

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

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

	2010	2009
Statutory tax rate	40.7%	40.7%
Expenses not deductible for tax purposes.....	11.1	58.8
Non-taxable dividend income.....	(21.2)	(313.6)
Per capita levy of inhabitant taxes	1.9	12.2
Valuation allowance.....	4.8	56.9
Other—net.....	9.8	13.6
Effective tax rate.....	47.1%	(131.4)%

Deferred tax assets and liabilities at March 31, 2010 and 2009 were composed of the following:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Deferred tax assets:			
Accrued cost of sales	¥ 258	¥ 321	\$ 2,773
Loss on construction contracts	—	1,101	—
Reserve for losses on contracts	57	—	612
Accrued warranty.....	394	730	4,234
Provision for post-employment benefits	1,062	1,541	11,414
Accrued bonus to employees	229	227	2,461
Tax loss carryforward.....	2,272	1,356	24,419
Allowance for doubtful accounts	177	—	1,902
Long-term accounts payable-other	422	—	4,535
Net unrealized losses on available-for-sale securities	—	715	—
Others	590	617	6,341
Less: valuation allowance.....	(318)	(269)	(3,417)
Total deferred tax assets.....	¥ 5,148	¥ 6,339	\$ 55,331
Deferred tax liabilities:			
Reserve for deferred gains on sales of fixed assets for tax purposes.....	¥(1,353)	¥(1,366)	\$(14,542)
Net unrealized gains on available-for-sale securities	(462)	—	(4,965)
Others	—	(1)	—
Total deferred tax liabilities	(1,816)	(1,367)	(19,518)
Net deferred tax assets (liabilities)	¥ 3,331	¥ 4,972	\$ 35,811

8. Contingent Liability

The Company was contingently liable for the following items:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Guarantees for indebtedness of subsidiaries and others	¥1,285	¥1,475	\$13,811

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

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

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Gain on insurance	¥—	¥ 27	\$ —
Exchange gain (loss).....	(1)	(6)	(10)
Depreciation of prepaid expenses	(3)	(4)	(32)
Other, net.....	23	(25)	247
	¥17	¥ (8)	\$182

10. Subsequent Events

Appropriation of Retained Earnings

The following appropriation of retained earnings of the Company, which has not been reflected in the accompanying non-consolidated financial statements for the year ended March 31, 2010, was approved at the Board of Directors meeting held on May 26, 2010.

	Millions of yen	Thousands of U.S. dollars
Year-end cash dividends of ¥8.00 (\$0.08) per share.....	¥356	\$3,826

11. Finance Leases

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

The pro forma information of such leases existing at the transition date on an “as if capitalized” basis for the years ended March 31, 2010 and 2009 is as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Tools, furniture and fixtures.....	¥ 10	¥ 10	\$ 107
Other assets.....	18	18	193
Less: accumulated depreciation.....	(16)	(11)	(171)
	¥ 12	¥ 17	\$ 128

Obligations under finance leases as of March 31, 2010 and 2009 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Due within one year.....	¥ 4	¥ 5	\$ 42
Due after one year	7	12	75
	¥12	¥17	\$128

Total rental expenses for the above leases were ¥4 million (\$42 thousand) and ¥7 million for the years ended March 31, 2010 and 2009, respectively.

The pro forma depreciation expense computed by the straight-line method was ¥4 million (\$42 thousand) and ¥7 million for the years ended March 31, 2010 and 2009, respectively.

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

Independent Auditors' Report

INDEPENDENT AUDITORS' REPORT

INOUE AUDITING CO., INC.

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

We have audited the accompanying non-consolidated balance sheets of Tsukishima Kikai Co., Ltd. as of March 31, 2009 and 2010, and the related non-consolidated statements of income, changes in net assets and cash flows for the years then ended, all expressed in Japanese yen. These non-consolidated financial statements are the responsibility of the Company's management. Our responsibility is to independently express an opinion on these non-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 plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the non-consolidated financial statements referred to above present fairly, in all material respects, the financial position of Tsukishima Kikai Co., Ltd. as of March 31, 2009 and 2010, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

Supplemental Information:

As described in Note 2 (m) of the notes to non-consolidated financial statements, effective for the fiscal year ended March 31, 2010, the Company adopted "Accounting Standard for Construction Contracts" and "Guidance on Accounting Standard for Construction Contracts".

The amounts expressed in U.S. dollars, which are provided solely for the convenience of the readers, have been translated on the basis set forth in Note 1 of the notes to non-consolidated financial statements.

Inoue Auditing Co., Inc.

Inoue Auditing Co., Inc.

Tokyo, Japan
June 29, 2010

CORPORATE DATA (As of march 31, 2010)

Company name	TSUKISHIMA KIKAI CO., LTD
Established	August 1905
Fiscal year	From April 1 to March 31
Capital stock	¥6,646,801,824
Number of employees	624
Stock listing	Tokyo Stock Exchange and Osaka Securities Exchange
Common stock	Authorized: 180,000,000 shares Issued: 45,625,800 shares
Number of shareholders	4,544
Transfer agent	Mitsubishi UFJ Trust and Banking Corporation 4-5 Marunouchi 1-chome, Chiyoda-ku, Tokyo 100-8212, Japan

Overseas	Offices	Group Companies
	TSK Jakarta Representative Office	Tsukishima Engineering Singapore Pte. Ltd.
	TSK Hanoi Representative Office	Tsukishima Engineering Malaysia Sdn. Bhd.
	TSK Mumbai Liaison Office	TSK Engineering Taiwan Co., Ltd.
		TSK Engineering (Thailand) Co., Ltd.

CORPORATE HISTORY

1905	August	Densaku Kuroita founded Tokyo Tsukishima Kikai Seisakusho.
1917	May	Tsukishima Kikai Co., Ltd. incorporated.
1937	September	Daini Tsukishima Kikai, Co., Ltd. in Tsurumi-ku, Yokohama City, merged.
1944	March	The company merged with Tsukishima Kikai Chuko Co., Ltd.
1949	May	Stock listed on the Tokyo Stock Exchange.
1961	September	Stock listed on the Second Section of the Osaka Securities Exchange.
	October	A laboratory built within the Tsukudajima Factory to strengthen research and development.
1962	April	Tsukishima Kikai Engineer Training Center created.
1976	January	The Ichikawa Factory began its operations.
1977	July	The Ichikawa Factory acquired the ASME (American Society of Mechanical Engineers) certificate.
1991	February	TSK Engineering Malaysia Sdn. Bhd. was founded.
1993	April	TSK Engineering (Thailand) Co., Ltd. was founded.
1994	November	TSK Engineering Taiwan Co., Ltd. was founded.
1996	October	The company acquired ISO 9001.
2000	June	The company acquired ISO 14001.
	October	Environmental Technology Development Center opened.
	November	Tsukishima Techno Maintenance Service Co., Ltd., a company whose parent organization is Tsukishima Maintenance Co., Ltd., was founded.
2001	December	Tsukishima Techno Machinery Co., Ltd. was founded.
2003	June	Electron beam welding equipment, one of the biggest in Japan, installed at the Ichikawa Factory.
	December	Tsukishima Techno Solution Co., Ltd. was founded.
2004	January	Kanuma Kankyo Bika Center changed its name to Sun Eco Thermal Co., Ltd.
2005	March	The company acquired the management rights of Nittetsu Chemical Engineering Ltd.
2006	April	Nittetsu Chemical Engineering Ltd. changed its name to Tsukishima Kankyo Engineering Ltd.

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