

Annual Report 2005



TAKUMA

Corporate Profile

Since it was founded in 1915 after its landmark invention of the Takuma Boiler, the Takuma company has maintained a reputation as a leader in applying new technologies. In 1938, Takuma was incorporated under the name of Takuma Boiler Mfg. Co., Ltd. Visionary instincts have allowed the company to grow by great strides, and to attract widespread praise for its achievements.

Today, we have expanded our scope to include industrial machinery, general-purpose machinery, environmental control plants, and water treatment plants. By conducting our own research and development, we are able to play a leading role in each of these fields.

At a time when it is unthinkable for corporations to ignore growing environmental concerns, our emphasis on business related to improving the environment has become the focus of increasing attention and thus, has raised our company's profile.

Takuma intends to continue to make research and development our highest priority. For the good of the company and, above all, for the good of humankind and the earth, we will strive to advance the technologies needed to nurture the environment, and we will persevere in our efforts to make a positive contribution to the world.

CONTENTS

Financial Highlights	1
A Message from the President	2
Status of Business Activities	3
Company and Products	12
Industrial Machinery	14
General-Purpose Machinery	15
Environmental Control Plants	16
Water Treatment Plants	17
Operation and Maintenance Services	18
Research and Development.....	19
Financial Report	20
Corporate Facts and Data	38
Directory	40

FINANCIAL HIGHLIGHTS

Takuma Co., Ltd. and its Consolidated Subsidiaries

FINANCIAL HIGHLIGHTS

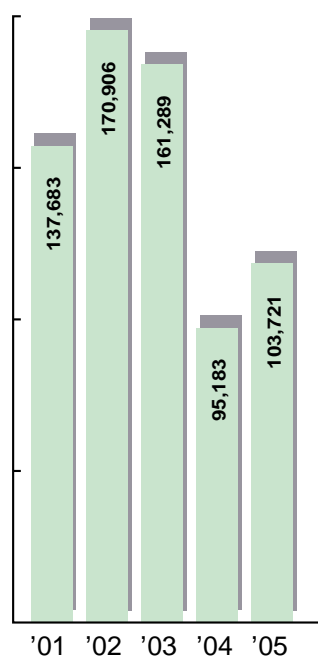
(Years Ended March 31, 2005 and 2004)

	Millions of Yen		Thousands of U.S.dollars
	2005	2004	2005
For the year:			
Net sales	¥ 103,721	¥ 95,183	\$ 965,835
Operating income (loss)	1,263	(169)	11,761
Income (loss) before income taxes and minority interests	1,014	(481)	9,442
Net income (loss)	268	(1,032)	2,496
As of year-end:			
Total assets	132,956	139,947	1,238,067
Total shareholders' equity	70,943	72,268	660,611
Per share data:			
	Yen		U.S.dollars
Net income (loss)	¥ 2.57	¥ (12.66)	\$ 0.02
Diluted net income	-	-	-
Total shareholders' equity	843.34	844.13	7.85
Cash dividends applicable to the year	10.00	10.00	0.09

Note: U.S. dollar amounts are shown solely for the convenience of readers and are translated at the rate of ¥107.39 to \$ 1, the exchange rate prevailing as of March 31, 2005.

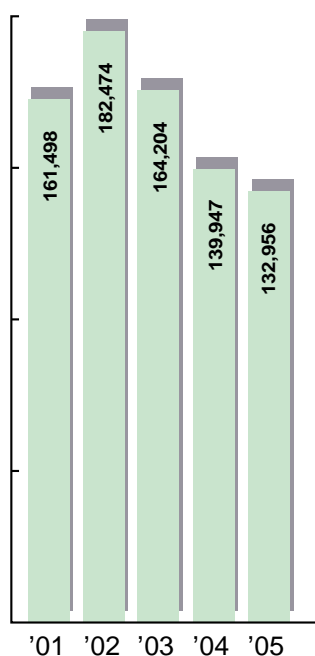
NET SALES

(In millions of Yen)



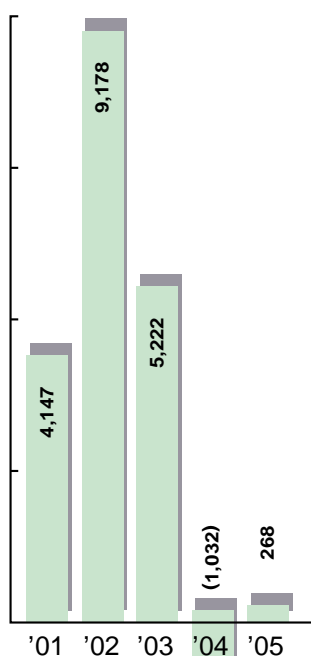
TOTAL ASSETS

(In millions of Yen)



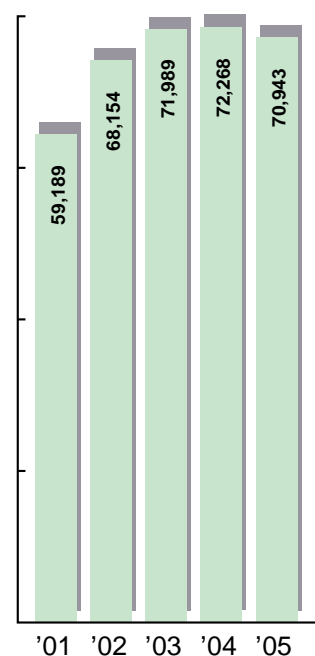
NET INCOME (LOSS)

(In millions of Yen)



SHAREHOLDERS' EQUITY

(In millions of Yen)



A MESSAGE FROM THE PRESIDENT

Takuma has been contributing to the development of Japanese industry through innovative energy technologies ever since founder Tsunekichi Takuma perfected the Takuma boiler in 1912.

In recent years the marketplace has been undergoing a sea change, as evidenced by factors such as the diversification of energy technologies and the intensification of environmental concerns. To address these challenges, Takuma is marshalling group companies in an effort to revolutionize the way we develop breakthrough technologies. At the same time, we are leveraging the broad engineering capabilities that lie at the base of our competitive advantage in an aggressive effort to become a provider of comprehensive services such as private finance initiatives and public-private partnerships. In this way we hope to both create new businesses and expand the areas in which we are active.

The Kyoto Protocol went into force in February 2005, the result of many nations working together to combat global warming. For Takuma, this international drive to reduce carbon dioxide emissions is a welcome development. We intend to make use of the technological advantages we have gained through experience in areas such as biomass power generation in both domestic and international markets as we intensify our push to offer solutions for large projects around the world.

“Energy” and “environment” are keywords that promise to tell much of humankind’s development in the twenty-first century. Takuma counts these areas among its core businesses and looks forward to building its value by bolstering its technological and problem-solving capabilities.



A stylized, handwritten signature in black ink that reads "H. Tejima". The signature is fluid and cursive, with a long horizontal stroke at the end.

Hajime Tejima
President and CEO

STATUS OF BUSINESS ACTIVITIES

1. Overview of Business Performance

(1) Business Performances

The Japanese economy during the first half of this consolidated fiscal year was basically on steady recovery trend. On the other hand, during the latter half of the term, the trend of recovery weakened, reflecting slower demands for digital related industry, worsened corporate earnings due to the drastic price hike of crude oil, and the sluggish corporate sentiment of the manufacturing industry due to a decrease in exports.

The business environments surrounding the Company Group (the Company and its consolidated subsidiaries) has become tougher than ever as the volume of projects decreased due to the Government's cut-back in public investment, as a result of which the competition has been as keen as ever.

With the foregoing environments, although the Company's Group experienced some decrease in its core business, the construction of the waste incineration plants, due to low demand, the Company's Group has positively promoted its overseas' business, the consulting and supporting business for the industrial waste processing plants projects in its plans for operation, and its business of providing solutions for public infrastructure that does not rely on only the government public investment. As a result of the foregoing business policies, the current consolidated fiscal year's total amount of order received was 89,017 million yen, an increase of 3,485 million yen (up 4.1%) over the previous consolidated fiscal year, and the total revenue was 103,721 million yen, an increase of 8,538 million yen (up 9.0%) over the previous consolidated fiscal year. Accordingly, the operating profits/losses turned to show 1,263 million yen profits from the previous term where the Company Group suffered losses, and the ordinary profit was 1,777 million yen, an increase of 1,366 million yen (up 333.2%) over the previous term. Though the Company appropriated 2,580 million yen, which was transferred from the reserve fund for losses from construction orders received, as an extraordinary loss, the current term's net income/losses turned a 268 million yen net profit after experiencing losses in the previous term.

By-Division incoming order status for the current period are as follows;

1) Machinery Division

The Machinery Division promoted its business activities focusing on the wood biomass power plants as an effective utilization of renewable energy, and the waste heat thermal plants utilizing waste. The addition of Ebara Boiler Co., Ltd., in the scope of the Company's consolidated financial statements, also contributed to a rise in the division's sales. The total amount of orders received thus came to 49,651 million yen, marking an increase of 7,898 million yen (up 18.9%) over the previous term, and the total sales was 48,907 million yen, an increase of 10,592 million yen (up 27.6%). Thus, the Company posted 76 million yen in operating income over the previous consolidated term's operating losses.

2) Environmental Control Plants Division

As for the Environmental Control Plants Division, though close networks and cooperation exist among the Group's companies, the Company received orders for solution-providing-type projects, in which the Company undertakes integrated services from construction to operation of the waste incinerators that are installed publicly and operated privately, in addition to waste incinerators for domestic use, the total amount of order received was 30,639 million yen, a decrease of 4,499 million yen (down 12.8%) from the previous consolidated term, and total sales was 46,080 million yen, down 2,196 mil-

STATUS OF BUSINESS ACTIVITIES

lion yen (down 4.5%) from the previous consolidated term. However, the operating income was 2,391 million yen, an increase of 233 million yen (up 10.8%) over the previous consolidated term.

3) Operation and Maintenance Division

Total sales was 9,390 million yen, an increase of 255 million yen (up 2.8%) over the previous consolidated term, while operating income decreased to 863 million yen, or down 29 million yen (down 3.3%) from the previous consolidated term.

4) Real Estate Division

Total sales increased by 5 million yen (up 1.2%) over the previous consolidated fiscal term to 366 million yen, while operating income decreased by 10 million yen (down 5.3%) from the previous fiscal term to 180 million yen.

Five (5) of the affiliates applying the equity method are engaged in the general waste and industrial waste-processing business, and their total sales for the current term was 7,966 million yen, an increase of 2,029 million yen (up 34.2%) over the previous consolidated term and the total net income was 772 million yen, an increase of 169 million yen (up 28.1%) over the previous consolidated term.

(2) Cash Flow Summary

Cash and cash equivalents at the end of the current consolidated fiscal year decreased by 14,563 million yen from the same period of the previous term to 41,757 million yen. Further, Ebara Boiler Co., Ltd., was newly consolidated in the current consolidated fiscal year, bringing about a 505 million yen increase of cash and cash equivalents.

[Cash Flow from Operating Activities]

Cash flow from operating activities increased by 2,241 million yen over the previous consolidated fiscal year to minus 6,052 million yen.

This increase was mainly caused by consumption and other taxes and corporate tax return, even though payments for accounts payable exceeded collection of accounts receivable.

[Cash Flow from Investing Activities]

Cash flow from investing activities increased by 65 million yen over the previous consolidated fiscal year to minus 2,480 million yen. This was mainly attributed to the disbursement for loans receivable increasing by 1,819 million yen over the previous consolidated fiscal year in addition to the purchase of investment securities having increased by 2,269 million yen over the previous consolidated fiscal year, even though the proceeds from investment marketable securities increased by 3,493 million yen over the previous consolidated fiscal year as well as net decrease in time deposits increased by 792 million yen, due to the withdrawal of time deposit.

[Cash Flow from Financing Activities]

Cash flow from financing activities dropped by 4,226 million yen over the previous consolidated fiscal year to minus 6,479 million yen.

This was mainly attributed to the net decrease in short-term bank loans having increased by 3,871 million yen over the previous consolidated fiscal year.

Further, acquisition of treasury stocks increased by 314 million yen over the previous consolidated fiscal year to 1,166 million yen.

2. Status of Manufacturing, Orders & Sales

(1) Manufacturing Results

The manufacturing results are indicated based on the Company's unconsolidated figures instead of on manufacturing results per type of business based on consolidated figures due to the following reasons: The results by the Company, which is virtually a parent company, accounts for an extremely high share of the Company Group's Manufacturing Division, and that the consolidated affiliates are comprised of operating and maintenance companies, the sales companies and other type of companies; accordingly, thus, an indication of manufacturing results based on consolidated figures is considered insignificant.

Name of Divisions concerned	Current Consolidated Fiscal Year From April 1, 2004 to March 31, 2005	Previous Consolidated Fiscal Year From April 1, 2003 to March 31, 2004
	(Millions of yen)	(Millions of yen)
Machinery	16,376	14,642
Environment Control Plants	39,181	41,125
Total	55,557	55,767

(Notes)

1. The amounts indicated are total manufacturing costs.
2. Consumption tax is not included in the above amounts.

(2) Status of Order Received

The following are status of the Company Group's order received during the current consolidated fiscal year per type of business.

Name of Divisions concerned	Current Consolidated Fiscal Year From April 1, 2004 to March 31, 2005		Previous Consolidated Fiscal Year From April 1, 2003 to March 31, 2004	
	Order received (Millions of yen)	Balance of order received (Millions of yen)	Order received (Millions of yen)	Balance of order received (Millions of yen)
Machinery	49,651	27,303	41,753	26,558
Environment Control Plants	30,639	27,029	35,138	42,469
Operation and Maintenance	9,390	0	9,135	-
Real Estate	252	-	245	-
Inter-division orders (minus)	(916)	(8)	(740)	(0)
Total	89,017	54,324	85,531	69,027

(Notes)

1. Consumption tax is not included in the above amounts.
2. The industrial machinery business operates primarily on a build-to-order manufacturing basis, however, some parts operate on a market production basis. The amounts of orders received and balance above include the market production with affirmed delivery, in addition to the build-to-order manufacturing.

(3) Sales Results

The following are status of the Company Group's sales results during the current consolidated fiscal year per type of business.

Name of Divisions concerned	Current Consolidated Fiscal Year From April 1, 2004 to March 31, 2005	Previous Consolidated Fiscal Year From April 1, 2003 to March 31, 2004
	(Millions of yen)	(Millions of yen)
Machinery	48,907	38,315
Environment Control Plants	46,080	48,277
Operation and Maintenance	9,390	9,135
Real Estate	366	361
Inter-division orders(minus)	(1,022)	(905)
Total	103,721	95,183

(Note) Consumption tax is not included in the above amounts.

STATUS OF BUSINESS ACTIVITIES

3. Future Outlook

The Company Group have been providing products and services to cope our clients' needs primarily in the field of environment and energy, and have been striving to establish the competitive position in the market of said fields. In the area of renewable energy and environmental control, which are the Company's core business, we not only have technologies for each component element of the plants but comprehensive engineering abilities to build, maintain and operate the plants, and the Company Group have delivered on numerous occasions such products and services by utilizing such technologies and abilities as a source of competitiveness. However, as a result of the government cutback in public investment continuing, especially a drastic decrease in municipal governments' new plans to build urban refuse process plants, each corporation is struggling against a low-priced competition that stakes their survival in this shrunken market.

On the other hand, the drastic price-hike of crude oil and steel materials and the price-climb of various types of materials and equipments due to them, have pressing the plant construction costs. Those factors have created extremely difficult business circumstance for the Company. Further, from the point of "business model", in addition to usual sell-out type business form in the plant construction business, new business forms in which directly involve the waste processing business, i.e. the comprehensive service providing business--typically PFI (Private Finance Initiative) and PPP (Public Private Partnership)--have increased and a change of the market structure is in progress. Though it is considered that such business environment will continue, we believe that the renewable energy and environment control business, which contribute to building a resource recycling society, are still promising business area in mid to long term prospect. The Company considers this business area as the Company's and Company Group's core business, and will continue to strive to be the leading company and an indispensable company in our country. For this purpose, the Company will; strengthen the functions of planning and implementation of competitive plant construction costs based on comprehensive engineering abilities, which the Company has built up, and the source of our superior competitiveness; and positively develop not only the usual private demand sector but also the public demand sector in the business of providing comprehensive services with the Company thus intending to expand its business in this area and secure steady revenue. Further, the Company Group, as one entity, will push forward with business capital investments, business restructuring, and others for such purposes after closely examining the requirements.

As for the area of the private thermal-energy power generation, TAKUMA MACHINERY & ENGINEERING Co., Ltd, one of the Company's subsidiaries, merged with Ebara Boiler Co., Ltd., of which the Company acquired in March of last year and became a subsidiary, and started operations as Nippon Thermoener Co., Ltd., in April this year. With this merger, the Company placed Nippon Thermoener Co., Ltd. squarely as a company responsible for its business in this area, and had it equipped with all the requirements for developing a self-concluding business by concentrating the functions to execute business, which used to be dispersed within the Company Group including the Company, and most of our managerial resources, at Nippon Thermoener Co., Ltd. By maximizing the synergy of merging and concentration of managerial resource, we are committed to expand our share to the top level in the small-sized once-through boiler market, and to expand and strengthen our share ever in the vacuum hot-water heater market, and by so doing, we aim to realize our vision of becoming the leading company in the private thermal-energy power generation field.

As for the overseas' operation, the Company, as its basic policy for its strategy to obtain superior competitiveness in each country and territory, and increase incoming orders and secure a steady revenue for the Group in whole, will establish the local subsidiary that is capable to cope each local market structure

and needs flexibly, transfer the comprehensive engineering technologies that the Company has cultivated, to those local corporation as needed and arrange them suitable to the respective market. Especially, the demands for the waste power plants and the biomass power plants in Europe are expected to increase steadily, and the Company regards it as an important market. Accordingly, the Company commits itself to invest its managerial resources actively and to accelerate business operations in the market of Europe. KAB Takuma GmbH we formed in Germany last December to be a stronghold for designing, procurement for and construction of the waste power plant in Europe, and it will serve as the Company's foundation for steady incoming orders for the waste power plants and securing revenues in Europe. Further, the said company has taken over all of its business related to the construction of biomass (mainly wood-chips) power plant from Mez Anlagentechnik GmbH, and together with Bioener Aps, we had formed before in Denmark to handle the construction of biomass (mainly wheat straw) power plant, will actively pursue securing incoming orders and revenue in the European markets as the companies responsible for the biomass power plant construction business in Europe. In the South-East Asia and China, we continue to utilize those local subsidiaries we had formed in order to provide equipments and systems, with the costs that meet their local needs and prices, and we are planning to increase incoming orders and securing revenue at these markets, too, by promoting to localize the sales, designing and procurements.

4. Business Risks

Though the Company Group prepares to take measure to cope with business and other risks systematically, the risks that have possibility to affect the business performances and financial situation of the Company Group are as follows, and we consider those as the matters that have possibility to affect investors' decisions.

*** Influences by Economic Trend**

The Company Group's business performances and financial situation have possibility to be affected by; the trend of the public investments and private capital investments; the price competition due to an increase of new comers or change of market structure; fluctuations in raw material costs; and stock quotations. Further, as we expand overseas' business actively, there are possibilities to be affected by respective country's economy or fluctuation in foreign exchange rates.

*** Influences Related to Safety and Quality**

Disasters or accidents due to human error or product defects during the manufacturing, installation, and operation and maintenance of the Company Group's products, and the operation of those products thereafter, hold the possibilities of affecting the Company Group's business performances, financial situation and social reputation. Further, there are possibilities that our business will be affected by costing more than initially anticipated due to unexpected malfunctions at the plants, especially where new technology is introduced.

*** Influences Related to Intellectual Property Rights**

There are possibilities to affect the Company Group's business activities caused by not being able to protect or unlawfully being infringed on the intellectual property right such as patent and trade name that the Company Group owns or obtained, or vice, the Company Group attempt to avoid infringement on other's intellectual property rights.

*** Influences by Litigation**

Currently, an Antimonopoly Law violation case against us is pending at the Fair Trade Commission. Depending on the development of this case, there are possibilities to affect the business performances in all sorts of manner.

STATUS OF BUSINESS ACTIVITIES

* Influences by Other Factors

As long as the Company Group's business continues to be performed, there are possibilities that their business be affected by a force majeure such as the natural disaster, war, terrorism or epidemic, or by the government restriction, the supply system of suppliers, securing human resources domestically or overseas, competition of making standard or losing key personnel. Depending on each of the said circumstances, there are possibilities that the Company Group's business performances and financial situation are affected by any of such force majeure in all sorts of manner.

5. Significant Contracts

(1) Licensed Contracts

	Licensee	Contents	Date	Licensor	Term
1	Takuma Co. Ltd.	Monotube Boiler & its accessory equipment	June 1959	Alstom Power Inc. (U.S.A.)	Either party may terminate with 2 years advance notice
2	Takuma Co. Ltd.	Liquid Membrane Water Treating Process	September 1976	Exxon Mobile Research & Engineering Co. (U.S.A.)	The Company may terminate to declare so
3	Takuma Co. Ltd.	Continuous Bed Filtration of Liquids	April 1979	Nordic Water Products AB (Sweden)	30 years
4	Takuma Co. Ltd.	Flotation Water Treatment	December 1987	KWI S.A. (Switzerland)	5 years, thereafter automatically renewed every year
5	Takuma Co. Ltd.	Precision Casting System	March 1989	Cadic Technology Service Co., Ltd. (Japan)	10 years, thereafter automatically renewed every year
6	Takuma Co. Ltd.	Ash Recycle and Activation Process	January 1993	Dr. Gernot Staudinger (Austria)	7 years, thereafter automatically renewed every year
7	Takuma Co. Ltd.	Circulating Fluidized Bed Boiler & Bubbling Fluidized Bed Boiler	May 1994	Kvaerner Power AB (Sweden)	12 years
8	Takuma Co. Ltd.	Methane de-Nox Process & Cyclonic Burner	June 1994	Gas Technology Institute (U.S.A.)	15 years
9	Takuma Co. Ltd.	Thermal Waste Recycling Process	April 1995	Siemens AG (Germany)	10 years
10	Takuma Co. Ltd.	Material Recycling & Separating System	June 1996	Result Technology AG (Switzerland)	10 years
11	Takuma Co. Ltd.	Flue Gas Cleaning System with Active Coke	July 1996	Austrian Energy & Environment GmbH (Austria)	9 years
12	Takuma Co. Ltd.	Biogas Process System from Organic Waste	September 1996	Schwarting-Uhde GmbH (Germany)	10 years
13	Takuma Co. Ltd.	Biological Anaerobic Treatment Process for Solid Waste	October 1996	W. Schmid AG (Switzerland)	13 years
14	Takuma Co. Ltd.	Water Treatment Technology Using Microorganism Carrier Stabilizer	March 1997	Hitachi Plant Engineering and Construction Co., Ltd. (Japan)	5 years, thereafter automatically renewed every year
15	Takuma Co. Ltd.	Ultra-filtration Film Method Sewage Treatment Process	August 1997	Mitsui Engineering & Shipbuilding Co., Ltd.	10 years
16	Takuma Co. Ltd.	Biomembrat System	October 1997	Wehrle-Werk AG (Germany)	10 years
17	Takuma Co. Ltd.	Regenerative Thermal Oxidizer	February 1998	Durr Environmental, Inc. (U.S.A.)	5 years, thereafter automatically renewed every year

(Notes) In consideration of the licenses listed above, the Company pays a fixed percentage fees of respective sales in addition to a one-time fee paid at the time of agreement. As to the agreements regarding expiration of the term, while the Company's decision is pending on how to treat them, the Company intends to make a decision after reviewing the technological value, degree of demand for respective product and other factors at such a time.

(2) Licensor Contracts

	Licensor	Contents	Date	Licensee	Term
1	Takuma Co. Ltd.	N-type Palm Wastes Fired Water Tube Boiler	September 1982	P.T. Super Andalas Steel (Indonesia)	15 years, thereafter automatically renewed every year
2	Takuma Co. Ltd.	Takumax (TM) Monotube Boiler	March 1990	Clayton of Belgium N.V. (Belgium)	10 years, thereafter automatically renewed every year
3	Takuma Co. Ltd.	Absorption Chiller Heater	August 1992	Kyungdong Boiler Co., Ltd. (Korea)	13 years
4	Takuma Co. Ltd.	Vacotin Heater	July 1995	Kyungdong Boiler Co., Ltd. (Korea)	10 years
5	Takuma Co. Ltd.	N-P & NPO-J Boiler	March 1997	Daekyung Machinery & Engineering Co., Ltd. (Korea)	10 years

(Notes) In consideration of the licenses listed above, the Company is receiving fixed percentage fees of respective sales in addition to one-time fee paid at the time of agreement.

6. Research & Development

The Company Group conducts research and development in a wide range of areas with efforts of mutual cooperation of the Designing and Development departments and the Company's Energy & Environmental Technology Division, as its core, while conducting joint research with the outside research institutes and universities.

The Company's Energy & Environmental Technology Division includes the Technology Planning & Administration Department, the Energy & Environmental Development Department, the Combustion and Core Technology Development Department and the Research Center, and is striving to strengthen our core technology and to speed-up developing new products.

The total amount we expended on research and development during the current consolidated fiscal year was 1,297 million yen.

The following are our major research and development activities.

1. Industrial Machinery

- 1) We developed the High Efficiency Type Micro-gas Turbine Cogeneration System.
- 2) We developed the Plasma Deodorization System that is able to respond to high density of order.

The cost for the foregoing research and development was 469 million yen.

2. Environmental Control Plant

- 1) We developed the Dehydration System with new method for service water sludge.
- 2) We developed and substantiated the technology to recycle energy from the biologically breakdown type plastic.

The cost for the foregoing research and development was 828 million yen.

STATUS OF BUSINESS ACTIVITIES

7. Financial Status and Business Performance Analysis

(1) Financial Status

The Company's financial policy is to maintain a proper mobility, to secure the fund for business activities, and maintain a healthy balance sheet.

Total assets as of the end of the current consolidated fiscal year decreased by 6,991 million yen (down 5.0%) from the end of the previous consolidated fiscal year, to 132,956 million yen. Current assets decreased by 11,495 million yen (down 11.0%) from the end of the previous consolidated fiscal year, to 92,583 million yen, and the investments and other increased by 4,732 million yen (up 17.9%) over the end of the previous consolidated fiscal year, to 31,139 million yen. Property, plant and equipment decreased by 228 million yen (down 2.4%) from the end of the previous consolidated fiscal year to 9,234 million yen.

The primary factor for the current assets decrease was that cash and time deposits decreased by 15,571 million yen (down 25.9%) from the end of the previous consolidated fiscal year, to 44,531 million yen. Notwithstanding the total sales increased, we could not collect the accounts receivable in that sales were concentrated in greater part in the end of fiscal year, and on the other hand, we settled the account payable (i.e. there is the time gap between sales and purchase), repaid short-term borrowing, and invested in and accommodated funds to the subsidiaries.

The primary factors for the increase of investments and other assets were; while the deferred tax assets decreased by 611 million yen (down 34.9%) from the end of the previous consolidated fiscal year, to 1,140 million yen, the investment securities increased by 1,696 million yen (up 10.1%) over the end of the previous consolidated fiscal year, to 18,408 million yen, and the investments in unconsolidated subsidiaries and affiliated companies also increased by 2,219 million yen (up 45.3%) over the end of the previous consolidated fiscal year, to 7,116 million yen.

The total amount of liabilities at the end of the current consolidated fiscal year decreased by 5,952 million yen (down 9.3%) from the end of the previous consolidated fiscal year, to 58,173 million yen. The current liabilities decreased by 5,857 million yen (down 10.4%) from the end of the previous consolidated fiscal year, to 50,393 million yen and the noncurrent liabilities decreased by 95 million yen (down 1.2%) from the end of the previous consolidated fiscal year, to 7,780 million yen.

The primary factors of the current liabilities decrease were; the allowance for losses on sales constructs increased by 2,035 million yen (up 310.7%) over the end of the previous consolidated fiscal year, to 2,690 million yen due to transferring it as the extraordinary losses, and on the other hand, the short-term bank loans decreased by 3,315 million yen (down 53.2%) from the end of the previous consolidated fiscal year, to 2,911 million yen due to repayment, and the advance received decreased by 4,161 million yen (down 61.1%) from the end of the previous consolidated fiscal year, to 2,652 million yen due to offsetting it by the sales.

The primary factors of the noncurrent liabilities decrease were; the deferred tax liabilities (non-current) increased by 327 million yen from the end of the previous consolidated fiscal year, to 356 million yen due to the latent profits caused by the hike in the market value of holding stocks, and on the other hand, the allowance for employees' retirement benefits decreased by 406 million yen (down 6.1%) from the end of the previous consolidated fiscal year, to 6,305 million yen due to the retirement bonus payments to the shareholder's employees who were transferred to Nippon Thermoener Co., Ltd.

The shareholder's equity at the end of the current consolidated fiscal year decreased by 1,325 million yen (down 1.8%) from the end of the previous consolidated fiscal year to 70,943 million yen. This was

caused by an increase of the treasury stocks by 1,173 million yen (up 82.4%) from the end of the previous consolidated fiscal year, to 2,596 million yen due to their acquisition (decrease of common stocks).

As a result, the capital-adequacy ratio came to 53.3% from 51.7% of the end of the previous consolidated fiscal year. The net equity per share became 843.34 yen from 844.13 yen of the end of the previous consolidated fiscal year.

(2) Business Performances

During the current consolidated fiscal year, as to the Machinery Division, the Company Group operated business in the area of effective usage of renewable energy, mainly in the wood biomass power plants and the waste thermal recycling plants. As to the Environmental Control Division, though the volume of business decreased due to cutback of public investments, which resulted in drop of its operations, we received orders for the solution type business that incorporated construction and operation of the waste incineration plants under public-private partnership system. As the result, the total sales were 103,720 million yen.

Gross profit was 19,135 million yen and selling general and administrative expenses was 17,873 million yen. Accordingly, the net operating income was 1,263 million yen.

The net amount after deducting the interest payable from the interest and dividend income was 239 million yen. A decrease in the amount of borrowing with interest as well as a continuous low interest rate lightened the burden of interest expense. Further, by application of the equity method, 432 million yen of investment profits was appropriated.

In addition, the appropriation of 2,579 million yen cost was transferred from the allowance for construction order received, while posting 1,854 million yen of proceed from sales of the investment marketable securities.

As the result of foregoing, the net income before income taxes and minority interests was 1,014 million yen, and the net income of the current term after corporate income taxes and other corporate taxes adjustments and deducting the minority shareholders' interest was 268 million yen.

The net profit per share of the current term was 2.57 yen and the capital-profit adequacy ratio was 0.4%.

As to the outline of each division's sales and operating profit, please see the Status of Business section.

COMPANY AND PRODUCTS

Technological Innovation Beneficial to People and the Earth

Takuma's history of achievement and innovation started in the years before World War II when we manufactured boilers for battleships. Since then, we have used our technological capabilities to advance and expand our business. Our boiler technology, which dates back to the company's establishment, has evolved into the leading power-generation technology for waste incineration plants. Also, as a pioneer in the field of environmental control plants and equipment, we have won notable acclaim from various organizations for our untiring efforts.

With the 21st century around the corner, many companies are beginning to realize that unless they make a sincere effort to address environmental concerns, future growth will be impossible. While those companies are finally adopting measures to ensure survival, Takuma knows very well that the environment is our business. We have established an honorable policy to "Value Technology, People, and the Earth." Further, we are concentrating our efforts in indus-



Takuma Building (completed in December 1995)

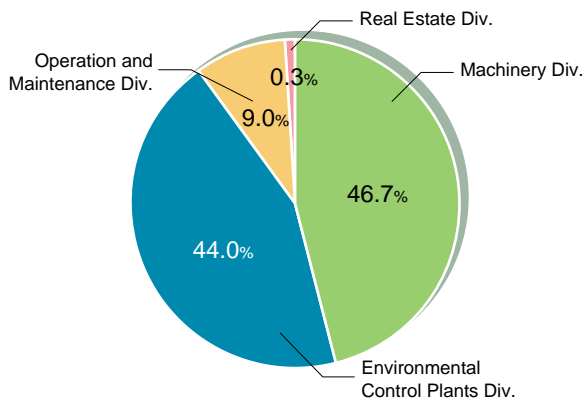
trial machinery, general-purpose machinery, environmental control plants, and water treatment plants.

In the field of industrial machinery, we develop and design total energy systems that are beneficial to local communities, such as power generation plants, industrial waste treatment plants, co-generation systems, and impregnation plants.

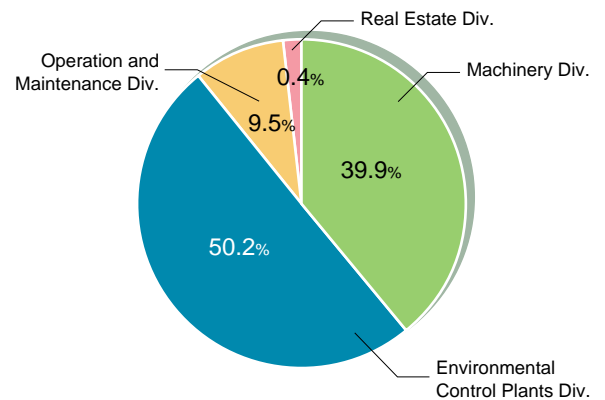
Takuma also develops a variety of general-purpose machinery, including the Vacotine vacuum hot water heater, the Takumax once-through boiler, and an absorption refrigero-

Sales Breakdown by Division

● Year Ended March 31, 2005
(On Consolidated Basis)



● Year Ended March 31, 2004
(On Consolidated Basis)





tor. Besides being friendly to the environment, these products are compact and energy-efficient.

We set new standards in environmental control plants by designing and manufacturing incineration plants, bulk waste crusher plants, and recycling plants. In addition to protecting the environment, these plants efficiently remove waste and produce remaining heat which nearby communities can use.

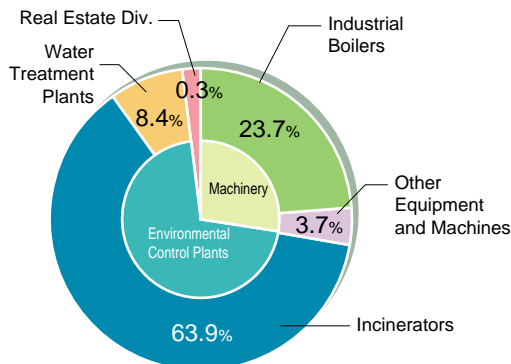
Moreover, Takuma is prominent in the field of water treatment plants, developing sewage treatment plants, waste

water treatment plants, raw sewage treatment plants, and water purification plants. We take different approaches in designing these facilities, and we address concerns such as the effective utilization of polluted water and the use of state-of-the-art technologies for developing new materials and antibacterial plastics.

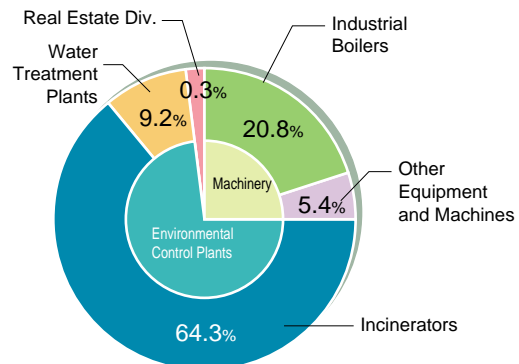
Besides in the domestic market, Takuma is establishing its technological expertise overseas, through the export of products and equipment to various countries, technology export contracts, and technical cooperation with companies in Europe, the United States, and Asia. Exports currently account for approximately 5% of total revenues, and rapidly developing Southeast Asian nations constitute the majority of our foreign clients, ordering primarily boilers and waste incineration plants. While the economic growth is welcomed, the bustling development of various Asian countries is aggravating pollution problems in that region. Takuma understands that it is an issue we cannot ignore, and we believe that our technology will prove invaluable in preserving the environment and ensuring a better future for the people of Asia.

Sales Breakdown by Product and Service

● Year Ended March 31, 2005
(On Non-consolidated Basis)



● Year Ended March 31, 2004
(On Non-consolidated Basis)



COMPANY AND PRODUCTS (Machinery Division)

INDUSTRIAL MACHINERY

Our Combustion and Thermal Technologies Contribute to a Better Life and Protect the Environment.

From years of designing and manufacturing boilers, we acquired our expertise in combustion and thermal technologies. Today, we are constantly keeping our eyes open for new ideas in producing innovative plants and equipment.

A leader in the boiler industry, Takuma manufactures steam and hot water boilers which are used in all fields of industry throughout the world. In particular, our power-generated boiler plants are not only efficient and economical, but they can use any type of fuel source, including remaining heat. We design our industrial waste treatment plants with complete treatment systems which use thermal energy to safely recycle industrial waste into pollution-free materials, and we equip our impregnation plants with dryer and curing ovens to provide high-quality prepregs for printed circuit boards which use radiant heat. Also, our cost-effective gas turbine co-generation technology has received considerable attention recently as a new energy supply system, proving that, without a doubt, Takuma has succeeded in developing effective total energy systems.



GENERAL-PURPOSE MACHINERY

Using Our Technology to Create Innovative Products

Takuma adheres to the principle of user-friendly design, thorough quality control, and advanced design with an eye towards the future, while promoting the research and development of new thermal technologies. For instance, we extensively researched vacuum technology to design the Vacotin heater, which has proven to be safe, economical, and sturdy, and the absorption refrigerator system, an advanced air-conditioning system that uses no Freon and very little energy.

Other leading products in this field are the Takumax steam generator, a water tube boiler built for both industrial and general use, and the Thermoheater, which can attain high temperatures even under normal pressure because of its high heat-carrying capacity.

The quiet, energy-efficient Smoke Tube RE Boiler emits low amounts of nitrogen oxide and has an excellent response to load fluctuation. The NPO-C Package Water Tube Boiler also saves energy and is friendly to the environment.

As you can see, Takuma is active in developing a variety of innovative products.



ENVIRONMENTAL CONTROL PLANTS

Ensuring a Better Future for the World

One of the most pressing problems facing humans in the modern era is the immense build-up of municipal refuse. Takuma manufactures efficient, environmentally friendly refuse incinerators that serve as one solution to this global issue. We also are developing, designing, and manufacturing plants that recycle refuse into useful materials.

Takuma's first venture in this field was in 1963, when we became the first Japanese manufacturer to build a mechanized incinerator plant. We were able to effectively resolve the serious problem of handling enormous amounts of daily refuse. However, we did not limit our scope to incinerators. Since then, we have been successful in developing facilities which effectively treat refuse problems in numerous ways, such as bulky refuse shearers and crushers, incinerator ash melting plants, recycling plants, and facilities to supply local communities with remaining heat from plants.



WATER TREATMENT PLANTS

Protecting All Forms of Life on Earth

The issue of water treatment is not limited only to the prevention of water pollution in oceans, rivers, and lakes, but it also concerns the preservation of the earth's limited water supply.

Takuma has given serious thought to the concept of “a dialogue with water.” After thoroughly analyzing water quality and studying evaluation and treatment technology, we were able to design, develop, and manufacture the most efficient, environmentally friendly water treatment systems. Takuma builds comprehensive water treatment plants to meet a wide variety of social needs, such as sewage water treatment plants, raw sewage treatment plants, waste water treatment plants, and sludge incineration plants. We also concentrate our efforts in plants that use treated water and recycling plants for incinerator ash, in addition to pure water systems for boilers and high-tech industries.



COMPANY AND PRODUCTS

OPERATION AND MAINTENANCE SERVICES

Due to sophisticated component equipment, large-scale environmental plants such as incinerator and sewage treatment plants require high-level expertise and procedures to adequately operate and maintain. In assisting our clients ensure efficient factory operation, Takuma provides them not only with the above types of plants but also a staff of technicians highly trained in operation and maintenance. These able field technicians possessing a comprehensive understanding of the every detail of a plant, operate and maintain the plants to the best of conditions guaranteeing the ultimate in efficiency and prolonging plant service life.



COMPANY AND PRODUCTS

RESEARCH AND DEVELOPMENT

Leading the Way in Research and Development for the Benefit of Humankind and the Earth

Amidst all the changes taking place in the world today, social change and technological innovation are progressing at a rapid pace. It is essential for companies to read the signs of the times and to respond quickly and appropriately. One way to keep abreast of the latest changes is to conduct research and development, including basic research, product development, and production technologies.

Takuma's constant goals are to produce original ideas and superior technologies and to promote development projects in all their fields.

Since the invention of the Takuma Boiler, our research and development projects have evolved with time, and we have expanded our operations to encompass energy, daily life, and the environment. Takuma has never relinquished its focus on technology, people, and the Earth, and this intent will never change.



Takuma Research Center



FINANCIAL REPORT

Consolidated Balance Sheets

Takuma Co., Ltd. and Consolidated Subsidiaries
As of March 31, 2005 and 2004

ASSETS	Millions of Yen		Thousands of U.S.dollars (Note 1)
	2005	2004	2005
Current assets:			
Cash and time deposits (Notes 3 and 6)	¥ 44,531	¥ 60,102	\$ 414,666
Marketable securities (Notes 3 and 4)	45	225	419
Notes and accounts receivable:			
Trade	33,369	27,713	310,727
Unconsolidated subsidiaries and affiliated companies	1,787	1,057	16,640
Other	396	355	3,688
Less: Allowance for doubtful accounts	(783)	(582)	(7,291)
	34,769	28,543	323,764
Inventories	7,736	8,431	72,037
Deferred tax assets (Note 13).....	4,255	2,569	39,622
Advanced money.....	755	859	7,030
Other	492	3,349	4,581
Total current assets	92,583	104,078	862,119
Investments and other assets:			
Investment securities (Note 4)	18,408	16,712	171,413
Investments in:			
Unconsolidated subsidiaries and affiliated companies	7,116	4,897	66,263
Other	2,349	2,614	21,874
Less: Allowance for doubtful accounts	(437)	(450)	(4,069)
	9,028	7,061	84,068
Deferred tax assets (Note 13).....	1,140	1,751	10,616
Other	2,563	883	23,866
	31,139	26,407	289,963
Property, plant and equipment:			
Land (Notes 6 and 7).....	3,307	3,307	30,794
Buildings and structures (Note 6)	10,130	10,215	94,329
Machinery and equipment	10,035	9,765	93,444
Construction in progress	2	18	19
	23,474	23,305	218,586
Less: Accumulated depreciation	(14,240)	(13,843)	(132,601)
	9,234	9,462	85,985
	¥132,956	¥ 139,947	\$ 1,238,067

See accompanying notes.

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of Yen		Thousands of U.S.dollars (Note 1)
	2005	2004	2005
Current liabilities:			
Short-term bank loans (Notes 6 and 8)	¥ 2,911	¥ 6,226	\$ 27,107
Current portion of long-term debt (Notes 6 and 8)	143	233	1,332
Notes and accounts payable:			
Trade	36,066	36,283	335,841
Unconsolidated subsidiaries and affiliated companies	478	1,194	4,451
Other	930	998	8,660
	37,474	38,475	348,952
Accrued income taxes (Note 13)	956	535	8,902
Consumption tax payable	187	62	1,741
Accrued expenses	2,918	2,828	27,172
Allowance for losses on sales contracts	2,690	655	25,049
Advances received	2,652	6,813	24,695
Other	462	423	4,302
Total current liabilities	50,393	56,250	469,252
Long-term debt (Notes 6 and 8)	314	348	2,924
Allowance for employees' retirement benefits (Note 9)	6,305	6,711	58,711
Allowance for directors', executive officers' and corporate auditors' retirement benefits ..	526	555	4,898
Deferred tax liabilities (Note 13).....	356	29	3,315
Deferred tax liability for revaluation reserve for land (Notes 7 and 13) ..	279	232	2,598
Total liabilities	58,173	64,125	541,698
Minority interests in consolidated subsidiaries	3,840	3,554	35,758
Contingent liabilities (Notes 5, 10 and 15)			
Shareholders' equity:			
Common stock			
Authorized: 321,840,000 shares			
Issued: 87,799,248 shares	13,367	13,367	124,472
Capital surplus (Note 11)	12,407	12,407	115,532
Retained earnings (Note 11)	43,869	44,479	408,502
Revaluation reserve for land (Note 7)	160	197	1,490
Net unrealized holding gain on available-for-sale securities	3,761	3,288	35,022
Foreign currency translation adjustments	(25)	(47)	(233)
Less: Treasury stock	(2,596)	(1,423)	(24,174)
Total shareholders' equity	70,943	72,268	660,611
	¥ 132,956	¥ 139,947	\$ 1,238,067

Consolidated Statements of Operations

Takuma Co., Ltd. and Consolidated Subsidiaries

For the years ended March 31, 2005 and 2004

	Millions of Yen		Thousands of U.S.dollars (Note 1)
	2005	2004	2005
Net sales (Note 14)	¥ 103,721	¥ 95,183	\$ 965,835
Cost of sales (Notes 12 and 14)	84,585	78,651	787,643
Gross profit	19,136	16,532	178,192
Selling, general and administrative expenses (Notes 12 and 14)	17,873	16,701	166,431
Operating income (loss) (Note 14)	1,263	(169)	11,761
Other income (expenses):			
Interest and dividend income	295	247	2,747
Interest expense	(56)	(64)	(521)
Foreign currency exchange gain (loss)	60	(88)	559
Gain on sales of investment securities	1,855	-	17,273
Write-down of investments in unconsolidated subsidiaries and affiliated companies	(11)	(51)	(102)
Gain on disposal of property, plant and equipment	53	168	493
Technical assistance fee	263	338	2,449
Equity in earnings of affiliated companies	432	227	4,023
Provision for doubtful accounts	(259)	(202)	(2,412)
Provision for losses on sales contracts	(2,580)	-	(24,025)
Write-down of Inventories	(220)	(22)	(2,049)
Additional retirement payments (Note 9)	(135)	(848)	(1,257)
Other, net	54	(17)	503
	(249)	(312)	(2,319)
Income (loss) before income taxes and minority interests	1,014	(481)	9,442
Income taxes (Note 13):			
Current	1,315	1,196	12,245
Past	-	358	-
Deferred	(935)	(1,039)	(8,707)
	380	515	3,538
Minority interests in earnings of consolidated subsidiaries	366	36	3,408
Net income (loss)	¥ 268	¥ (1,032)	\$ 2,496
		Yen	U.S.dollars (Note 1)
Per share:			
Net income (loss)	¥ 2.57	¥ (12.66)	\$ 0.02
Diluted net income	-	-	-
Cash dividends applicable to the year	10.00	10.00	0.09

See accompanying notes.

Consolidated Statements of Shareholders' Equity

Takuma Co., Ltd. and Consolidated Subsidiaries
For the years ended March 31, 2005 and 2004

	Millions of Yen							
	Number of shares issued	Common stock	Capital surplus	Retained earnings	Revaluation reserve for land	Net unrealized holding gain on available-for-sale securities	Foreign currency translation adjustments	Treasury stock
Balance as of March 31, 2003	87,799,248	¥ 13,367	¥ 12,407	¥ 46,426	¥ 197	¥ 189	¥ (25)	¥ (572)
Net loss	-	-	-	(1,032)	-	-	-	-
Net unrealized holding gain on available-for-sale securities	-	-	-	-	-	3,099	-	-
Foreign currency translation adjustments	-	-	-	-	-	-	(22)	-
Increase in treasury stock	-	-	-	-	-	-	-	(851)
Increase due to increase in number of affiliates accounted for by the equity method	-	-	-	67	-	-	-	-
Cash dividends (¥10.00 per share)	-	-	-	(855)	-	-	-	-
Bonuses to directors and corporate auditors	-	-	-	(127)	-	-	-	-
Balance as of March 31, 2004	87,799,248	¥ 13,367	¥ 12,407	¥ 44,479	¥ 197	¥ 3,288	¥ (47)	¥ (1,423)
Net income	-	-	-	268	-	-	-	-
Revaluation reserve for land	-	-	-	-	(37)	-	-	-
Net unrealized holding gain on available-for-sale securities	-	-	-	-	-	473	-	-
Foreign currency translation adjustments	-	-	-	-	-	-	22	-
Increase in treasury stock	-	-	-	-	-	-	-	(1,173)
Increase due to increase in number of affiliates accounted for by the equity method	-	-	-	3	-	-	-	-
Cash dividends (¥10.00 per share)	-	-	-	(842)	-	-	-	-
Bonuses to directors and corporate auditors	-	-	-	(39)	-	-	-	-
Balance as of March 31, 2005	87,799,248	¥ 13,367	¥ 12,407	¥ 43,869	¥ 160	¥ 3,761	¥ (25)	¥ (2,596)

	Thousands of U.S.dollars (Note 1)						
Balance as of March 31, 2004	\$ 124,472	\$ 115,532	\$ 414,182	\$ 1,834	\$ 30,617	\$ (438)	\$(13,251)
Net income	-	-	2,496	-	-	-	-
Revaluation reserve for land	-	-	-	(344)	-	-	-
Net unrealized holding gain on available-for-sale securities	-	-	-	-	4,405	-	-
Foreign currency translation adjustments	-	-	-	-	-	205	-
Increase in treasury stock	-	-	-	-	-	-	(10,923)
Increase due to increase in number of affiliates accounted for by the equity method	-	-	28	-	-	-	-
Cash dividends (\$0.09 per share)	-	-	(7,841)	-	-	-	-
Bonuses to directors and corporate auditors	-	-	(363)	-	-	-	-
Balance as of March 31, 2005	\$ 124,472	\$ 115,532	\$ 408,502	\$ 1,490	\$ 35,022	\$ (233)	\$(24,174)

See accompanying notes.

Consolidated Statements of Cash Flows

Takuma Co., Ltd. and Consolidated Subsidiaries
For the years ended March 31, 2005 and 2004

	Millions of Yen		Thousands of U.S.dollars (Note 1)
	2005	2004	2005
Cash flows from operating activities:			
Income (loss) before income taxes and minority interests	¥ 1,014	¥ (481)	\$ 9,442
Adjustments to reconcile income (loss) before income taxes and minority interests to net cash used in operating activities:			
Depreciation	990	1,101	9,219
Amortization of consolidation difference	229	-	2,132
Write-down of investments in unconsolidated subsidiaries and affiliated companies ..	11	51	102
Gain on disposal of property, plant and equipment	(53)	(168)	(493)
Gain on sales of investment securities	(1,855)	-	(17,273)
Additional retirement payments	135	848	1,257
Increase in allowance for doubtful accounts	167	237	1,555
Decrease in allowance for losses on sales contracts	2,035	(126)	18,950
Decrease in pension benefit obligation	(498)	(967)	(4,637)
Interest and dividend income	(295)	(247)	(2,747)
Interest expense	56	64	521
Equity in earnings of affiliated companies.....	(432)	(227)	(4,023)
Net decrease (increase) in notes and accounts receivable and advance received	(8,236)	15,010	(76,692)
Decrease in inventories	1,265	425	11,779
Decrease (Increase) in consumption tax receivable	1,360	(1,430)	12,664
Increase in other current assets	(93)	(16)	(866)
Net decrease in notes and accounts payable and advance money	(2,446)	(14,478)	(22,777)
Increase (Decrease) in consumption tax payable	111	(3,677)	1,034
Decrease in other current liabilities	(188)	(150)	(1,751)
Payment of bonuses to directors and corporate auditors.....	(56)	(144)	(521)
Other	24	(859)	223
Subtotal	(6,755)	(5,234)	(62,902)
Interest and dividend received	345	268	3,213
Interest paid	(55)	(64)	(512)
Income taxes paid	548	(2,415)	5,103
Additional retirement payments	(135)	(848)	(1,257)
Net cash used in operating activities	(6,052)	(8,293)	(56,355)
Cash flows from investing activities:			
Net decrease in time deposits	1,031	239	9,601
Purchase of property, plant and equipment	(482)	(400)	(4,488)
Sales of property, plant and equipment	140	454	1,304
Purchase of intangible fixed assets	(159)	(69)	(1,481)
Purchase of investment securities	(3,081)	(812)	(28,690)
Sales of investment securities	3,992	499	37,173
Investments in unconsolidated subsidiaries and affiliated companies	(1,959)	(2,136)	(18,242)
Disbursement for loans receivable	(2,479)	(660)	(23,084)
Collection of loans receivable	411	286	3,827
Other	106	54	987
Net cash used in investing activities	(2,480)	(2,545)	(23,093)
Cash flows from financing activities:			
Net decrease in short-term bank loans	(4,315)	(444)	(40,181)
Proceeds from long-term debt	125	240	1,164
Payment of long-term debt	(249)	(308)	(2,319)
Purchase of treasury stock	(1,166)	(852)	(10,858)
Payment of cash dividends to the Company's shareholders	(842)	(855)	(7,841)
Payment of cash dividends to minority interests	(32)	(34)	(298)
Net cash used in financing activities	(6,479)	(2,253)	(60,333)
Effect of exchange rate changes on cash and cash equivalents	(58)	(83)	(540)
Net decrease in cash and cash equivalents	(15,069)	(13,174)	(140,321)
Cash and cash equivalents at beginning of year (Note 3)	56,320	69,494	524,444
Cash and cash equivalents of newly consolidated subsidiary	506	-	4,712
Cash and cash equivalents at end of year (Note 3)	¥ 41,757	¥ 56,320	\$ 388,835

See accompanying notes.

Notes to Consolidated Financial Statements

Takuma Co., Ltd. and Consolidated Subsidiaries

1. Basis of presenting financial statements

The accompanying consolidated financial statements have been prepared in accordance with the provisions set forth in the Japanese Securities and Exchange Law and its related accounting regulations, and in conformity with accounting principles generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards.

The accounts of overseas subsidiaries are based on their accounting records maintained in conformity with generally accepted accounting principles prevailing in the respective countries of domicile. The accompanying consolidated financial statements have been restructured and translated into English (with some expanded descriptions and the inclusion of consolidated statements of shareholders' equity) from the consolidated financial statements of the Company prepared in accordance with Japanese GAAP and filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Securities and Exchange Law. Some supplementary information included in the statutory Japanese language consolidated financial statements, but not required for fair presentation, is not presented in the accompanying consolidated financial statements.

In the year ended March 31, 2005, the Company did not adopt early the new accounting standard for impairment of fixed Assets ("Opinion Concerning Establishment of Accounting Standard for Impairment of Fixed Assets" issued by the Business Accounting Deliberation Council on August 9, 2002) and the implementation guidance for the accounting standard for impairment of fixed assets (the Financial Accounting Standard Implementation Guidance No. 6 issued by the Accounting Standards Board of Japan on October 31, 2003). The new accounting standard is required to be adopted effective April 1, 2005.

The Company has begun its analysis of possible impairment of fixed assets. The Company cannot currently estimate the effect of adopting the new accounting standard, because the Company has not yet completed its analysis.

The translation of the Japanese yen amounts into U.S. dollars are included solely for the convenience of readers outside Japan, using the prevailing exchange rate at March 31, 2005, which was

¥107.39 to U.S. \$1. The convenience translations should not be construed as representations that the Japanese yen amounts have been, could have been, or could in the future be, converted into U.S. dollars at this or any other rate of exchange.

2. Summary of significant accounting policies

(a) Principles of consolidation

The consolidated financial statements include the accounts of the Company and its 13 significant subsidiaries (the "Companies"). All significant inter-company transactions and unrealized profits among the Companies have been eliminated in consolidation. Investments in certain significant affiliates, which the Company and its subsidiaries are able to influence, in a material degree, their financial and operating decision-making, other than consolidated subsidiaries, are accounted for by the equity method after the elimination of unrealized inter-company profits. The consolidation difference between acquisition cost and net assets at the date of acquisition is amortized over 8 years with minor exception. Investments in the remaining unconsolidated subsidiaries and affiliated companies are not accounted for by the equity method because of the immaterial effect on the consolidated financial statements. Therefore, such investments are carried at cost, adjusted for any substantial and non-recoverable decline in value, and income from those unconsolidated subsidiaries and affiliated companies is recognized only when the Companies receive dividends therefrom.

(b) Foreign currency translation

Revenue and expense are translated at the rates of exchange prevailing when transactions are made. Assets and liabilities denominated in foreign currencies are generally translated into each reporting currency at the rate of foreign exchange prevailing at the balance sheet dates and the resulting translation gains or losses are included in earnings.

Financial statements of a consolidated overseas subsidiary are translated into Japanese yen at the year-end rate, except that shareholders' equity accounts are translated at historical rates and income statement items resulting from transactions with the Company at the rates used by the Company. The resulting transla-

tion adjustments are shown as “Foreign currency translation adjustments”, a separate component of shareholders' equity.

(c) Cash and cash equivalents

In preparing the consolidated statements of cash flows, cash and cash equivalents include cash on hand, readily-available deposits and short-term investments with maturities of not exceeding three months from the date of acquisition which have high liquidity and low risk of price fluctuation.

(d) Securities

Equity securities issued by subsidiaries and affiliated companies which are not consolidated or accounted for using the equity method are stated at moving-average cost. Available-for-sale securities with available fair market value are stated at fair market value, and unrealized gains and losses on these securities are reported, net of applicable income taxes, as a separate component of shareholders' equity. Realized gains and losses on sale of such securities are computed using moving-average cost. Other securities with no available fair market value are stated at moving-average cost.

If the market value of equity securities issued by unconsolidated subsidiaries and affiliated companies, and available-for-sale securities declines significantly, such securities are stated at fair market value and the difference between fair market value and the carrying amount is recognized as loss in the period of the decline. If the fair market value of securities is not readily available, such securities should be written down to net asset value with a corresponding charge in the income statement in the event net asset value declines significantly. In these cases, such fair market value or the net asset value will be the carrying amount of the securities at the beginning of the next year.

(e) Allowance for doubtful accounts

The Company and its domestic subsidiaries adopt the policy of providing the allowance for doubtful accounts by estimating individually uncollectible amounts and by applying percentage based on collection experience to the remaining.

(f) Inventories

Work in process is stated at cost as determined by the identified cost method. Materials and supplies are stated at cost by the average method.

(g) Property, plant and equipment

Property, plant and equipment are depreciated using the declining-balance method over the estimated useful lives of the assets. However, buildings acquired after March 31, 1998, are depreciated using the straight-line method.

The range of useful lives is principally from 3 to 60 years for buildings and structures and from 2 to 20 years for machinery, equipment and other. Maintenance and repairs, including minor renewals and improvements, are charged to income as incurred.

(h) Accounting for leases

Finance lease which do not transfer ownership of the leased assets to the lessee, are accounted for in the same manner as operating leases.

(i) Allowance for losses on sales contracts

Among sales orders of the Company on hand at balance sheet date, for projects in which the estimated cost is expected to exceed the amount of the sales order by a wide margin, allowance for losses on sales contracts is recognized at the estimated aggregate amount of such losses.

(j) Allowance for employees' retirement benefits

The Companies provide two types of post-employment benefit plans, unfunded lump-sum payment plans and funded non-contributory pension plans. Under which all eligible employees are entitled to benefits based on the level of wages and salaries at the time of retirement or termination, length of service and certain other factors.

The Companies provided allowance for employees' severance and retirement benefits as of March 31, 2005 and 2004 based on the estimated amounts of projected benefit obligation and the fair value of the plan assets at the balance sheet date.

Actuarial gains or losses are recognized in expense using straight-line method over 10 years commencing with the following period. Prior service costs are recognized in expense using straight-line method over 10 years from when incurred.

(k) Allowance for directors', executive officers' and corporate auditors' retirement benefits

Directors, executive officers and corporate auditors are generally entitled to receive retirement benefits based on the Companies'

internal rules. The Companies provided allowance for directors', executive officers' and corporate auditors' retirement benefits computed on the assumption that all directors, executive officers and corporate auditors retired at the balance sheet date.

(l) Revenue recognition

Net sales from contracts are recognized at the time the contracts are completed, except that net sales for projects with construction lasting more than one year and contract amount over ¥1,000 million are recognized using the percentage-of-completion method. Net sales and gross profit recognized on the percentage-of-completion method for the years ended March 31, 2005 and 2004 were as follows:

	Millions of Yen		Thousands of U.S.dollars
	2005	2004	2005
Net sales	¥ 30,363	¥ 29,264	\$ 282,736
Gross profit	4,385	4,218	40,832

(m) Income taxes

The Companies are subject to corporation tax, inhabitants tax and enterprise tax, which are based on taxable income. The Companies recognize the tax effects of the temporary differences between the carrying amounts of assets and liabilities for tax and financial reporting. The provision for income taxes is computed based on the pretax income of each of the Companies, with certain adjustments required for consolidation and tax purposes. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences.

With the promulgation of the "Revision of the Local Tax Law" (Legislation No.9, 2003) on March 31, 2003, the tax bases for assessing enterprise taxes comprise "amount of income", "amount of added value" and "amount of capital" commencing April 1, 2004.

Enterprise taxes based on "amount of added value" and "amount of capital" are included in "Selling, general and administrative expenses" commencing this fiscal year pursuant to "Practical Solutions on Presentation for Size-Based Components of Corporate Enterprise Tax on the Income Statement" (Accounting Standards Board, Practical Solution Report No.12 issued on

February 13, 2004). As a result of this change, in the year ended March 31, 2005, selling, general and administrative expenses increased by ¥129 million (\$1,201 thousand), and operating income and income before income taxes and minority interests each decreased by the same amount.

(n) Net income and cash dividends per share

Net income per share is computed based on the weighted average number of common stock outstanding during each period. Diluted net income per share is computed by the assumption that all convertible bonds were converted into common stock at the beginning of each period.

Cash dividends per share represent interim dividends declared by the Board of Directors in each year and year-end dividends approved by the shareholders at the annual meeting held subsequent to the end of the fiscal year.

(o) Derivatives and hedge accounting

The Companies generally state derivative financial instruments at fair value and recognize changes in the fair value as gains or losses unless derivative financial instruments are used for hedging purposes.

If derivative financial instruments are used as hedges and meet certain hedging criteria, the Companies generally defer recognition of gains or losses resulting from changes in fair value of derivative financial instruments until the related gains or losses on the hedged items are recognized.

The Company uses currency forward contract to hedge its accounts receivable and accounts payable denominated in foreign currencies against foreign exchange risk that comes from foreign currency transactions (mainly U.S.dollars).

(p) Valuation of assets and liabilities of consolidated subsidiaries

In the elimination of investments in subsidiaries, the assets and liabilities of the subsidiaries, including the portion attributable to minority shareholders, are evaluated using the fair value at the time the Company acquired control of the respective subsidiaries.

(q) Reclassifications

Certain prior year amounts have been reclassified to conform to 2005 presentation. These changes had no impact on previously reported results of operations or shareholders' equity.

3. Amounts of cash and cash equivalents

Amounts of cash and cash equivalents as of March 31, 2005 and 2004 were reconciled with cash and time deposits as follows:

	Millions of Yen		Thousands of U.S.dollars
	2005	2004	2005
Cash and time deposits.....	¥ 44,531	¥ 60,102	\$ 414,666
Time deposits with maturities exceeding three months from the date of acquisition.....	(2,805)	(3,812)	(26,120)
Short-term highly liquid investments with maturities not exceeding three months.....	31	30	289
Total : Cash and cash equivalents.....	¥ 41,757	¥ 56,320	\$ 388,835

4. Securities

(a) Acquisition costs, book values of available-for-sale securities with available fair values as of March 31, 2005 and 2004 were as follows:

As of March 31, 2005	Millions of Yen		
	Acquisition cost	Book value	Difference
Securities with book values exceeding acquisition costs:			
Equity securities	¥ 7,689	¥ 14,025	¥ 6,336
Debt securities	38	41	3
Others	800	850	50
Subtotal	8,527	14,916	6,389
Others:			
Equity securities	1,244	1,230	(14)
Others	61	50	(11)
Subtotal	1,305	1,280	(25)
Total	¥ 9,832	¥ 16,196	¥ 6,364

As of March 31, 2004	Millions of Yen		
	Acquisition cost	Book value	Difference
Securities with book values exceeding acquisition costs:			
Equity securities	¥ 7,676	¥ 13,235	¥ 5,559
Debt securities	57	64	7
Others	905	963	58
Subtotal	8,638	14,262	5,624
Others:			
Equity securities	257	243	(14)
Others	122	106	(16)
Subtotal	379	349	(30)
Total	¥ 9,017	¥ 14,611	¥ 5,594

As of March 31, 2005	Thousands of U.S.dollars		
	Acquisition cost	Book value	Difference
Securities with book values exceeding acquisition costs:			
Equity securities	\$ 71,599	\$ 130,599	\$ 59,000
Debt securities	354	382	28
Others	7,449	7,915	466
Subtotal	79,402	138,896	59,494
Others:			
Equity securities	11,584	11,453	(131)
Others	568	466	(102)
Subtotal	12,152	11,919	(233)
Total	\$ 91,554	\$ 150,815	\$ 59,261

(b) Book values of available-for-sale securities with no fair values as of March 31, 2005 and 2004 were as follows:

	Millions of Yen		Thousands of U.S.dollars
	2005	2004	2005
Non-listed equity securities	¥ 2,226	¥ 2,296	\$ 20,728
Debt security investment trust which equivalent to cash	31	30	289

(c) Available-for-sale securities sold for the years ended March 31, 2005 and 2004 were as follows:

	Millions of Yen		Thousands of U.S.dollars
	2005	2004	2005
Total sales amount	¥ 3,992	¥ 499	\$ 37,173
Gains	1,855	3	17,273
Losses	1	2	9

(d) Maturities of available-for-sale securities as of March 31, 2005 and 2004 were as follows:

As of March 31, 2005	Millions of Yen			
	Within 1 year	Over 1 year but within 5 years	Over 5 years but within 10 years	Over 10 years
Debt securities	¥ 13	¥ -	¥ 27	¥ -
Others	-	-	-	-
Total	¥ 13	¥ -	¥ 27	¥ -

As of March 31, 2004	Millions of Yen			
	Within 1 year	Over 1 year but within 5 years	Over 5 years but within 10 years	Over 10 years
Debt securities	¥ 23	¥ 13	¥ 27	¥ -
Others	188	-	-	-
Total	¥ 211	¥ 13	¥ 27	¥ -

As of March 31, 2005	Thousands of U.S.dollars			
	Within 1 year	Over 1 year but within 5 years	Over 5 years but within 10 years	Over 10 years
Debt securities	\$ 121	\$ -	\$ 251	\$ -
Others	-	-	-	-
Total	\$ 121	\$ -	\$ 251	\$ -

5. Lease

(a) Finance lease

The Companies are obligated under several non-cancelable finance leases without transfer of ownership. Total expenses for non-capitalized finance leases, which are accounted for in the same manner as operating leases, for the years ended March 31, 2005 and 2004 were ¥185 million (\$1,723 thousand) and ¥175 million, respectively.

If such finance leases were capitalized including interest as of March 31, 2005 and 2004, they would be recorded in the consolidated balance sheets as follows:

	Millions of Yen					
	2005			2004		
	Acquisition cost	Accumulated depreciation	Book value	Acquisition cost	Accumulated depreciation	Book value
Machinery and equipment	¥ 871	¥ 361	¥ 510	¥ 681	¥ 354	¥ 327
Other assets	132	45	87	85	39	46
Total.....	¥ 1,003	¥ 406	¥ 597	¥ 766	¥ 393	¥ 373

	Thousands of U.S.dollars		
	2005		
	Acquisition cost	Accumulated depreciation	Book value
Machinery and equipment	\$ 8,111	\$ 3,362	\$ 4,749
Other assets	1,229	419	810
Total.....	\$ 9,340	\$ 3,781	\$ 5,559

If depreciation expense on such finance leases was incurred for the years ended March 31, 2005 and 2004, the amounts would be ¥185 million (\$1,723 thousand) and ¥175 million, respectively.

The scheduled future payments of such lease obligations, including interest, as of March 31, 2005 and 2004, were as follows:

	Millions of Yen		Thousands of U.S.dollars
	2005	2004	2005
	Due within one year	¥ 170	¥ 128
Due after one year	427	245	3,976
Total	¥ 597	¥ 373	\$ 5,559

(b) Operating lease

The scheduled future payments of operating lease, including interest, as of March 31, 2005 and 2004, were as follows:

	Millions of Yen		Thousands of U.S.dollars
	2005	2004	2005
Due within one year	¥ 5	¥ 6	\$ 47
Due after one year	-	6	-
Total	¥ 5	¥ 12	\$ 47

6. Pledged assets

The following assets were pledged to secure short-term bank loans, long-term debt, notes discounted and fulfillment of a contract as of March 31, 2005 and 2004:

	Millions of Yen		Thousands of U.S.dollars
	2005	2004	2005
Land	¥ 1,087	¥ 1,087	\$ 10,122
Buildings and structures	408	435	3,799
Time deposits	182	73	1,695
Total	¥ 1,677	¥ 1,595	\$ 15,616

7. Revaluation reserve for land

Pursuant to “Law concerning Revaluation Reserve for Land” (the Law), enacted March 31, 1998, and partial revision to the Law on March 31, 2001, land held by one of the consolidated subsidiaries has been revalued. As the result, the applicable income tax portion of related unrealized gain was reported “Deferred tax liability for revaluation reserve for land” in liabilities section, and the related unrealized gain (net of applicable income tax) was recognized in minority interests in consolidated subsidiaries section and “Revaluation reserve for land” in shareholders' equity section.

	Millions of Yen
Book value of land before revaluation	¥ 259
Book value of land after revaluation	826
Date of revaluation March 31, 2002	

As of March 31, 2005, the fair market value of land was below the book value of land after revaluation by ¥76 million (\$708 thousand).

8. Short-term bank loans and long-term debt

Short-term bank loans outstanding were generally represented by bank over drafts bearing interest at average rates of 0.9% and 1.0% per annum as of March 31, 2005 and 2004, respectively.

Long-term debt as of March 31, 2005 and 2004 were as follows:

	Millions of Yen		Thousands of U.S.dollars
	2005	2004	2005
Loans from banks and other financial institutions due 2005 to 2009 interest at rates of 1.7% to 5.2% per annum in 2005 and 2004:			
Secured	¥ 437	¥ 552	\$ 4,070
Unsecured	20	29	186
	457	581	4,256
Less: Current portion.....	(143)	(233)	(1,332)
	¥ 314	¥ 348	\$ 2,924

The aggregate annual maturities of long-term debt as of March 31, 2005 were summarized below:

Years ending March 31,	Millions of Yen	Thousands of U.S.dollars
2006	¥ 143	\$ 1,332
2007	214	1,993
2008	82	763
2009	18	168
2010	-	-
2011 and thereafter	-	-

9. Allowance for employees' retirement benefits

The liabilities for severance and retirement benefits included in the liabilities section of the consolidated balance sheets as of March 31, 2005 and 2004 consist of the following:

	Millions of Yen		Thousands of U.S.dollars
	2005	2004	2005
Projected benefit obligation.....	¥ 13,739	¥ 14,707	\$ 127,935
Fair value of plan assets	(7,293)	(6,939)	(67,911)
Unfunded projected benefit obligation	6,446	7,768	60,024
Unrecognized prior service cost	1,250	398	11,640
Less: unrecognized actuarial differences	(1,391)	(1,455)	(12,953)
Allowance for employees' retirement benefits	¥ 6,305	¥ 6,711	\$ 58,711

Included in the consolidated statement of income for the years ended March 31, 2005 and 2004 were severance and retirement benefit expenses comprised of the following:

	Millions of Yen		Thousands of U.S.dollars
	2005	2004	2005
Service costs – benefits earned during the year.....	¥ 790	¥ 785	\$ 7,356
Interest cost on projected benefit obligation	243	260	2,263
Expected return on plan assets	(60)	(53)	(559)
Amortization of actuarial differences	195	268	1,816
Amortization of prior service cost	(50)	(53)	(465)
Additional retirement payments and others	-	985	-
Employees' retirement benefit expenses	¥ 1,118	¥ 2,192	\$ 10,411

Additional retirement payments and others for the year ended March 31, 2004 consisted of premium severance payments of the Company of ¥848 million and a charge for the amount of unrecognized prior service cost and actuarial differences of the Company of ¥137 million relating to the voluntary retirement plans.

The discount rate and the rate of expected return on plan assets used by the Companies for the years ended March 31, 2005 and 2004 are mainly 2.0% and 1.0%, respectively. The estimated amount of all retirement benefits to be paid at the future retirement date is allocated equally to each service year using the estimated number of total service years. Prior service costs are recognized in expense using the straight-line method over 10 years from when incurred. Actuarial gains or losses are recognized in expense using the straight-line method over 10 years commencing with the succeeding period.

10. Contingent liabilities

The Companies were contingently liable under guarantees for bank loans of affiliated companies and other companies as of March 31, 2005 and 2004 amounting to ¥4,309 million (\$40,125 thousand) and ¥5,439 million, respectively.

Also, the Companies were contingently liable for notes discounted and endorsed as of March 31, 2005 and 2004 amounting to ¥621 million (\$5,783 thousand) and ¥827 million, respectively.

11. Shareholders' equity

Under the Japanese Commercial Code (the "Code"), the entire amount of the issue price of shares is required to be accounted for as capital, although a company may, by resolution of its Board of Directors, account for an amount not exceeding one-half of the issue price of the new shares as additional paid-in capital, which is included in capital surplus.

Effective October 1, 2001, the Code provides that an amount equal to at least 10% of cash dividends and other cash appropriations shall be appropriated and set aside as a legal earnings reserve until the total amount of legal earnings reserve and additional paid-in capital equals 25% of common stock. (The total amount of legal earnings reserve and additional paid-in capital of the Company has been reached to 25% of common stock, and therefore the Company is not required to provide legal earnings reserve any more.) The legal earnings reserve and additional paid-in capital may be used to eliminate or reduce a deficit by resolution of the shareholders' meeting or may be capitalized by resolution of the Board of Directors. On condition that the total amount of legal earnings reserve and additional paid-in capital remains being equal to or exceeding 25% of common stock, they are available for distribution by the resolution of shareholders' meeting. Legal earnings reserve is included in retained earnings in the accompanying financial statements.

Under the Code, The maximum amount that the Company can distribute as dividends is calculated based on the non-consolidated financial statements of the Company. The appropriation of retained earnings with respect to a given financial year is made by resolution of the shareholders at a general meeting held subsequent to the close of such financial year. The accounts for that year do not, therefore, reflect such appropriations. See Note 16.

12. Research and development expenses

Research and development expense is charged to income as incurred. Such amount included in cost of sales, and selling, general and administrative expenses for the years ended March 31, 2005 and 2004 were ¥1,297 million (\$12,077 thousand) and ¥1,263 million, respectively.

13. Income taxes

The Companies are subject to a number of taxes based on income, which, in the aggregate, indicate statutory rates in Japan of approximately 40.6% and 42.0% for the years ended March 31, 2005 and 2004, respectively.

The following table summarizes the significant differences between the statutory tax rate and the Companies' effective tax rate for financial statement purposes for the years ended March 31, 2005.

	2005
Statutory tax rate	40.6%
(Adjustment)	
Non-deductible item	39.3
Non-taxable item	(12.1)
Per capita inhabitants taxes	6.4
Undistributed earnings of consolidated subsidiaries	(10.4)
Effect of elimination of intercompany dividends received.....	9.3
Amortization of consolidation difference	9.2
Decrease in valuation allowance.....	(25.9)
Equity in earnings of affiliated companies.....	(15.0)
Other	(3.9)
Effective tax rate	<u>37.5%</u>

The above information is not provided for the year ended March 31, 2004 because of the net loss for the year.

Components of the Companies' deferred tax assets and liabilities as of March 31, 2005 and 2004 were as follows:

	Millions of Yen		Thousands of U.S.dollars
	2005	2004	2005
Deferred tax assets:			
Allowance for employees' retirement benefits	¥ 2,386	¥ 2,457	\$ 22,218
Allowance for losses on sales contracts	1,093	266	10,178
Accrued cost of sales	1,052	1,182	9,796
Unrealized profits	747	507	6,956
Accrued bonuses to employees	740	739	6,891
Loss recognized on a percentage-of-completion method	713	-	6,639
Operating loss carryforward for tax purposes	500	1,662	4,656
Other	1,925	1,847	17,925
Total deferred tax assets	<u>9,156</u>	8,660	<u>85,259</u>
Valuation allowance	(806)	(1,152)	(7,505)
Net deferred tax assets	<u>¥ 8,350</u>	<u>¥ 7,508</u>	<u>\$ 77,754</u>
Deferred tax liabilities:			
Net unrealized holding gains on available-for-sale securities	(2,670)	(2,317)	(24,862)
Valuation difference in land of consolidated subsidiary	(160)	(161)	(1,490)
Net unrealized gains on revaluated land	(279)	(232)	(2,598)
Other	(481)	(739)	(4,479)
Total deferred tax liabilities	<u>(3,590)</u>	(3,449)	<u>(33,429)</u>
Net deferred tax assets	<u>¥ 4,760</u>	<u>¥ 4,059</u>	<u>\$ 44,325</u>

The aggregate statutory income tax rate was reduced for the year commencing on April 1, 2004.

At March 31, 2004, the Company and consolidated domestic subsidiaries applied the reduced aggregate statutory income tax rate of 40.6% for calculating all deferred tax assets and liabilities. As a result, deferred tax assets decreased by ¥75 million and provision for deferred income taxes increased by ¥75 million compared with what would have been reported under the way of the prior fiscal year, respectively.

14. Segment information

Business segment information for the years ended March 31, 2005 and 2004 were as follows:

Millions of Yen							
Year ended March 31, 2005	Machinery division	Environmental control plants division	Operation and maintenance division	Real estate division	Total	Elimination or corporate	Consolidated
Sales:							
Outside customers	¥ 48,591	¥ 45,807	¥ 9,240	¥ 83	¥ 103,721	¥ -	¥ 103,721
Intersegment	316	273	150	283	1,022	(1,022)	-
Total	48,907	46,080	9,390	366	104,743	(1,022)	103,721
Operating expenses	48,831	43,689	8,527	186	101,233	1,225	102,458
Operating income (loss)	¥ 76	¥ 2,391	¥ 863	¥ 180	¥ 3,510	¥ (2,247)	¥ 1,263
Identifiable assets, depreciation expense and capital expenditure:							
Assets	¥ 34,697	¥ 33,545	¥ 8,703	¥ 289	¥ 77,234	¥ 55,722	¥ 132,956
Depreciation	346	606	18	22	992	(2)	990
Capital expenditure	260	400	10	-	670	(1)	669

Millions of Yen							
Year ended March 31, 2004	Machinery division	Environmental control plants division	Operation and maintenance division	Real estate division	Total	Elimination or corporate	Consolidated
Sales:							
Outside customers	¥ 38,005	¥ 48,058	¥ 9,037	¥ 83	¥ 95,183	¥ -	¥ 95,183
Intersegment	310	219	98	278	905	(905)	-
Total	38,315	48,277	9,135	361	96,088	(905)	95,183
Operating expenses	39,418	46,118	8,243	171	93,950	1,402	95,352
Operating income (loss)	¥ (1,103)	¥ 2,159	¥ 892	¥ 190	¥ 2,138	¥ (2,307)	¥ (169)
Identifiable assets, depreciation expense and capital expenditure:							
Assets	¥ 30,408	¥ 30,091	¥ 8,390	¥ 301	¥ 69,190	¥ 70,757	¥ 139,947
Depreciation	375	677	27	24	1,103	(2)	1,101
Capital expenditure	149	176	4	-	329	(5)	324

Thousands of U.S.Dollars

Year ended March 31, 2005	Machinery division	Environmental control plants division	Operation and maintenance division	Real estate division	Total	Elimination or corporate	Consolidated
Sales:							
Outside customers	\$ 452,472	\$ 426,548	\$ 86,042	\$ 773	\$ 965,835	\$ -	\$ 965,835
Intersegment	2,943	2,542	1,397	2,635	9,517	(9,517)	-
Total	455,415	429,090	87,439	3,408	975,352	(9,517)	965,835
Operating expenses	454,707	406,826	79,402	1,732	942,667	11,407	954,074
Operating income (loss)	\$ 708	\$ 22,264	\$ 8,037	\$ 1,676	\$ 32,685	\$(20,924)	\$ 11,761
Identifiable assets, depreciation expense and capital expenditure:							
Assets	\$ 323,094	\$ 312,366	\$ 81,041	\$ 2,691	\$ 719,192	\$518,875	\$1,238,067
Depreciation	3,222	5,643	168	205	9,238	(19)	9,219
Capital expenditure	2,421	3,725	93	-	6,239	(9)	6,230

Corporate expenses included in operating expenses and not allocated to segment in 2005 and 2004 were general affairs department expenses of the Company amounting to ¥2,473 million (\$23,028 thousand) and ¥2,731 million, respectively.

Assets under the elimination or corporate in 2005 and 2004 were ¥60,863 million (\$566,747 thousand) and ¥74,291 million, include principally cash and time deposits, marketable securities (current) and investment securities (non-current) of the Company.

Geographic segment information is not shown, due to net sales by overseas consolidated subsidiaries being not material compared to consolidated sales.

Information for overseas sales is not disclosed due to overseas sales being not material compared to consolidated sales.

15. Related party transactions

The Company owns 50 per cent of voting rights of Campo Recycle Plaza Co., Ltd. The Company guarantees for bank loans of Campo Recycle Plaza Co., Ltd.

The transactions amounts were as follows:

	Millions of Yen		Thousands of U.S.dollars
	2005	2004	2005
Guarantee of bank loans	¥ 1,617	¥ 1,884	\$ 15,057

Terms of transactions are determined under general market condition.

16. Subsequent event

On June 29, 2005, the shareholders of the Company approved the following appropriations:

	Millions of Yen		Thousands of U.S.dollars
	¥	423	\$ 3,939
Cash dividends			

Independent Auditors' Report

To the Shareholders and Board of Directors of Takuma Co., Ltd.:

We have audited the accompanying consolidated balance sheets of Takuma Co., Ltd. and its consolidated subsidiaries as of March 31, 2005 and 2004, and the related consolidated statements of operations, shareholders' equity and cash flows for the years then ended, 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 Takuma Co., Ltd. and its consolidated subsidiaries as of March 31, 2005 and 2004, 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.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2005 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.

KPMG AZSA & Co.

Tokyo, Japan
June 29, 2005

CORPORATE FACTS AND DATA

GENERAL

Corporate Name	: TAKUMA CO., LTD.
Head Office	: 2-2-33 Kinrakuji-cho, Amagasaki, Hyogo 660-0806, Japan
Headquarters	: Aqua Dojima West., 1-4-16 Dojimahama, Kita-ku, Osaka 530-0004, Japan
Capitalization	: 13,367,457,968yen
Common Stock	: Listed on the First Section of the Tokyo Stock Exchange
Business Lines	: Design and manufacture of boilers, industrial machinery, anti-pollution plants, environmental control plants, air-conditioning and sanitary equipment; execution and management of site works of plants

EXECUTIVE OFFICERS, DIRECTORS AND AUDITORS

Tsuneo Nishida, Director and Chairman Executive Officer	Hiroyuki Takahashi, Executive Officer
Hajime Tejima, President and CEO	Shigehiro Shibakawa, Executive Officer
Toshiro Nomura, Director and Senior Managing Executive Officer	Kohei Ikeda, Executive Officer
Nobuyoshi Yamahara, Director and Senior Managing Executive Officer	Masahide Nishigaki, Executive Officer
Yutaka Takeuchi, Managing Executive Officer	Yuson Wakimoto, Executive Officer
Tatsuo Iuchi, Managing Executive Officer	Wataru Yoshida, Executive Officer
Tsutomu Tanaka, Director and Managing Executive Officer	Yasuaki Kataoka, Executive Officer
Shizuo Kataoka, Director and Managing Executive Officer	Yasuyuki Moriura, Executive Officer
Takao Kajiyama, Managing Executive Officer	Jyoji Hashimoto, Executive Officer
Norio Endo, Executive Officer	Shozo Iwanaga, Auditor
Izoh Nakagawa, Executive Officer	Risaburo Kobayashi, Auditor
Sadanori Kikuchi, Director and Executive Officer	Isamu Tanaka, Auditor

PERMITS, LICENSES, AND CERTIFICATIONS

Head office, branches, and offices :

- Licensed to perform construction work (Special 12, No. 6129: issued by the Office of the Minister of Land, Infrastructure, and Transport)
- Registered as a Class I architect (No. 201793: issued by the Office of the Governor of Hyogo Prefecture)
- Quality management system certified in compliance with ISO 9001 (November 1997)

Harima Factory :

Welding process equipment manufacture based on the Electric Utility Law.

Special high-pressure equipment manufacture based on the High Pressure Gas Safety Institute of Japan.

Certified for manufacture of boilers, pressure vessels and cranes by the Japanese Ministry of Labor in March 1949 and September 1968.

Approved for manufacture of boilers and pressure vessels

by Nippon Kaiji Kyokai in July 1981.

Acquired ISO 9001 certification in 1997 and ISO 14001 certification in 1999.

Kyoto Factory :

Certified for manufacture of boilers and Class 1 pressure vessels by the Japanese Ministry of Labor in December 1961.

Approved for manufacture of boilers and Class 1 pressure vessels by Nippon Kaiji Kyokai in November 1981.

Certified for manufacture and construction of refrigeration plants by the High Pressure Gas Safety Institute of Japan (KHK) in June 1985.

Acquired ISO 9001 certification and ISO 14001 certification in 1998.

Certified for safety quality license for import boiler and pressure vessels by the People's Republic of China in November 1998.

TECHNICAL LICENSE AGREEMENTS

Licensors:

Alstom Power Inc. (U.S.A.)

Monotube Boiler

ExxonMobile Research and Engineering Company (U.S.A.)

Liquid Membrane Water Treating Process

Nordic Water Products AB (Sweden)

Continuous Bed Filtration of Liquids

KWI S.A. (Switzerland)

Flotation Water Treatment

Dr. Gernot Staudinger (Austria)

Ash Recycle and Activation Process

Kvaerner Power AB (Sweden)

Fluidized Bed Boiler

Gas Technology Institute (U.S.A.)

Methane de-NOx Process

Cyclonic Burner

Siemens AG (Germany)

Thermal Waste Recycling Process

Result Technology AG (Switzerland)

Material Recycling and Separating System

Austrian Energy & Environment AG (Austria)

Flue Gas Cleaning System with Active Coke

Schwarting - Uhde GmbH (Germany)

Biogas Plants

W.Schmid AG (Switzerland)

Biological Anaerobic Treatment Plants for Solid Waste

Wehrle-Werk AG (Germany)

Biomembrat System

Dürr Environmental, Inc. (U.S.A.)

Regenerative Thermal Oxidizer

Licensees:

P.T. Super Andalas Steel (Indonesia)

N-Type Palm Wastes Fired Water Tube Boiler

Clayton of Belgium N.V. (Belgium)

Takumax (TM) Monotube Boiler

Kyungdong Boiler Co., Ltd. (Korea)

Absorption Chiller Heater

Vacotin Heater

Daekyung Machinery & Engineering Co., Ltd. (Korea)

Takuma N-P & NPO-J Boilers

DIRECTORY

Head Office:

2-2-33 Kinrakuji-cho, Amagasaki, Hyogo 660-0806, Japan
TEL (06) 6483-2609 FAX (06) 6483-2751

Headquarters:

Aqua Dojima West. Bldg., 1-4-16 Dojimahama, Kita-ku,
Osaka 530-0004, Japan
TEL (06) 6347-9115 FAX (06) 6347-9150

Tokyo Branch:

Eitaro Bldg., 1-2-5 Nihonbashi, Chuo-ku, Tokyo 103-0027,
Japan
TEL (03) 3276-7211 FAX (03) 3276-7207

Chubu Branch:

Daisho Bldg., 4-26-25 Meieki, Nakamura-ku, Nagoya 450-
0002, Japan
TEL (052) 571-5211 FAX (052) 581-3005

Kyushu Branch:

Fukuoka Bldg., 1-11-17 Tenjin, Chuo-ku, Fukuoka 810-
0001, Japan
TEL (092) 721-7651 FAX (092) 712-8708

Hokkaido Branch:

Daigo Bldg., 5-11 Ohdori Nishi, Chuo-ku, Sapporo 060-
0042, Japan
TEL (011) 221-4106 FAX (011) 241-0523

Hokuriku Branch:

Asahi Seimei Kanazawa Daini Bldg., 1-2-20 Kohrinboh,
Kanazawa 920-0961, Japan
TEL (076) 262-5380 FAX (076) 263-2394

Hiroshima Office:

Kyobashi Union Bldg., 5-5 Hashimoto-cho, Naka-ku,
Hiroshima 730-0015, Japan
TEL (082) 228-0338 FAX (082) 221-1799

Sendai Office:

Daiichi Hirose Bldg., 2-1-8 Honcho, Aoba-ku, Sendai 980-
0014, Japan
TEL (022) 222-3042 FAX (022) 225-6759

Yokohama Office:

Nittochi Yokohama Bldg., 3-33 Honmachi, Naka-ku,
Yokohama 231-0005, Japan
TEL (045) 201-1045

Okinawa Office:

403 Furonteji Nakanishi, 1-3-25 Nakanishi, Urazoe,
Okinawa 901-2125, Japan
TEL (098) 876-2930 FAX (098) 876-2931

Wakayama Office:

ISC EIWA Bldg., 18 Nishimigiwa-cho, Wakayama 640-
8227, Japan
TEL (073) 402-6560 FAX (073) 402-6561

Harima Factory:

1-2-1 Shinhama, Arai-cho, Takasago, Hyogo 676-8540,
Japan
TEL (0794) 43-6511 FAX (0794) 43-6599

Research Center:

1-2-1 Shinhama, Arai-cho, Takasago, Hyogo 676-8540,
Japan
TEL (0794) 43-6507 FAX (0794) 43-6509

Kyoto Factory:

600-1 Kuzetonoshiro-cho, Minami-ku, Kyoto 601-8205,
Japan
TEL (075) 935-2500 FAX (075) 935-2526

Takuma Co., Ltd. Taipei Branch:

Shen Hsiang Tang Bldg., 4F, No.148, Sung Chiang Road,
Taipei, Taiwan
TEL 886-2-2571-3718 FAX 886-2-2511-0584

Nippon Thermoener Co., Ltd.

Shibahosoda Bldg., 1-3-2 Shibadaimon, Minato-ku, Tokyo
103-0023, Japan
TEL (03) 5777-3400 FAX (03) 5777-3444

Sun Plant Co., Ltd.

Itopia Nihonbashi SA Bldg., 1-2-10 Horidome-cho,
Nihonbashi, Chuo-ku, Tokyo 103-0012, Japan
TEL (03) 3663-3521 FAX (03) 3663-7056

Takuma Plant Co., Ltd.

Takuma Bldg., 2-2-33 Kinrakuji-cho, Amagasaki, Hyogo
660-0806, Japan
TEL (06) 6482-2801 FAX (06) 6482-7812

Central Conveyor Co., Ltd.

3-2 Yotsuzuka, Noba, Koda-cho, Nukata-gun, Aichi 444-
0128, Japan
TEL (0564) 62-1511 FAX (0564) 62-1522

Takuma Engineering Co., Ltd.

Takuma Bldg., 2-2-33 Kinrakuji-cho, Amagasaki, Hyogo
660-0806, Japan
TEL (06) 6487-4820 FAX (06) 6487-4829

Takuma Technos Co., Ltd.

10th. Chuo Bldg., 1-5-6 Nihonbashi, Chuo-ku, Tokyo 103-
0023, Japan
TEL (03) 3231-2911 FAX (03) 3231-2917

Takuma Technos Hokkaido Co., Ltd.

Daigo Bldg., 5-11 Ohdori Nishi, Chuo-ku, Sapporo 060-0042, Japan
TEL (011) 221-4128 FAX (011) 221-1030

Hokkaido Sanitary Maintenance Co., Ltd.

Daigo Bldg., 5-11, Ohdori Nishi, Chuo-ku, Sapporo 060-0042, Japan
TEL (011) 221-8398 FAX (011) 221-8542

Tochigi High Trust Co., Ltd.

18-3, Kinugaoka, Mouka, Tochigi 321-4367, Japan
TEL (0285) 83-3966 FAX (0285) 83-6500

Shimonoseki Sanwa Engineering Co., Ltd.

7-41, Chofu-Ougimachi, Shimonoseki, Yamaguchi 752-0927, Japan
TEL (0832) 48-4511 FAX (0832) 48-4485

Takuma System Control Co., Ltd.

Takuma Bldg., 2-2-33 Kinrakuji-cho, Amagasaki, Hyogo 660-0806, Japan
TEL (06) 6487-4830 FAX (06) 6487-4839

Kankyo Sol-Tech Co., Ltd.

1-2-1 Shinhama, Arai-cho, Takasago, Hyogo 676-8540, Japan
TEL (0794) 43-6508 FAX (0794) 43-6510

Campo Recycle Plaza Co., Ltd.

1 Takayanishitani, Sonobe-cho, Funai-gun, Kyoto 622-0032, Japan
TEL (0771) 68-3636 FAX (0771) 68-3639

R.B.N. Co., Ltd.

3059-20 Nakajima, Shikama-ku, Himeji, Hyogo 672-8035, Japan
TEL (0792) 43-1200 FAX (0792) 43-1202

Dan Takuma Co., Ltd.

3-12-16 Iwatokita, Komae, Tokyo 201-0004, Japan
TEL (03) 3488-1111 FAX (03) 3488-1118

Taiden Environtech Co., Ltd.

Shen Hsiang Tang Bldg., 4F, No. 148, Sung Chiang Road, Taipei, Taiwan
TEL (886) 2-2571-7137 FAX (886) 2-2511-0584

Chieng Syhong Machinery Co., Ltd.

No. 16 Yumin Street, Ta Fa Industrial District, Ta Lian Shiang, Kaohsiung Hsien, Taiwan
TEL (886) 7-787-2601 FAX (886) 7-787-3282

Shanghai Takuma Machinery Co., Ltd.

1099 JiHu Road, Jinqiao Export Processing Zone, Pudong, Shanghai, China
TEL 86-21-5031-5500 FAX 86-21-5031-3311

New Environmental Energy Co., Ltd.

Eitaro Bldg., 1-2-5, Nihonbashi, Chuo-ku, Tokyo 103-0027, Japan
TEL (03) 3278-5971 FAX (03) 3278-5972

Katsuta Co., Ltd.

1968-2 Koya, Hitachinaka, Ibaragi 312-0002, Japan
TEL (029) 270-3711 FAX (029) 270-3712

Energy Mate Co., Ltd.

Honmachi Bldg., 2-2-7 Honmachi, Chuo-ku, Osaka 541-0053, Japan
TEL (06) 6125-2001 FAX (06) 6125-2002

Midac Fujinomiya Co., Ltd.

3507-20 Yamamiya, Fujinomiya, Shizuoka 418-0111, Japan
TEL (0544) 58-9100 FAX (0544) 58-9103

Siam Takuma Co., Ltd.

18th Floor, Sinn Sathorn Tower, 77/69 Krungdhonburi Rd., Klongtongsai, Klongsarn, Bangkok 10600, Thailand
TEL 66-2-4385616 FAX 66-2-4400114

Bioener ApS

Ramsingsvej 30, DK-2500 Valby Copenhagen, Denmark
TEL 45-3618-1200 FAX 45-3618-3497

Biopower Katsuta Co., Ltd.

1974-1 Koya, Hitachinaka, Ibaragi 312-0002, Japan
TEL (029) 270-3341 FAX (029) 270-3343

Nagaizumi High Trust Co., Ltd.

374-12 Higashino, Nagaizumi-cho, Sunntou-gun, Shizuoka 411-0931, Japan
TEL (055) 989-2268 FAX (055) 987-9935

Shanghai Golden State Takuma Environmental Engineering & Technology Co., Ltd.

Rm 1002, No.167 Jiangning Road, Shanghai 200041, China
TEL 86-21-6255-9321 FAX 86-21-6255-8942

Fujisawa High Trust Co., Ltd.

6-18-48 Ishikawa, Fujisawa, Kanagawa 252-0815, Japan

KAB Takuma GmbH

Möllendorffstraße 52 D-10367 Berlin, Germany
TEL 49-30-5465-0 FAX 49-30-5465-2113

Shizuoka Zero-emi Collabo Co., Ltd.

Nisseki-suzuyo Bldg., 1-3 sakaemachi, Aoi-ku, Shizuoka 420-0859, Japan
TEL (054) 253-3081 FAX (054) 653-3086

