

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-

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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.

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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.

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* 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.

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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.